Options for Addressing the State's Fiscal Problem

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Introduction

Introduction

Last July, the Legislature and the administration acted to resolve a $14.3 billion budget gap in adopting the 1991-92 budget. That budget, however, was based on the assumption that the recession had ended and that economic growth would enable the state to end 1991-92 with a reserve of $1.2 billion. Instead, the state's economy has not yet begun to recover from the recession, and this economic situation has resulted in a significant revenue shortfall and a simultaneous increase in the demand for state services. In December, we issued a policy brief entitled *The State's Fiscal Problem*, which examined California's budget outlook for the current year and through 1995-96. Based on information available at that time, we estimated that California faces a $2.2 billion deficit in the current year, which will grow to a $6.6 billion budget gap for 1992-93 if no corrective action is taken. Moreover, the gap between projected spending to maintain existing programs and the state's revenues under current law will grow larger in subsequent years, even with a return of moderate economic growth.

In order to bring revenues and spending into balance on a permanent basis, the Legislature will need to make significant reductions in spending on major programs, as well as reexamine the coverage and structure of the state's tax system. An early start is needed to lay the groundwork for these difficult decisions. The purpose of this document is to provide the Legislature with a variety of spending and revenue ***options*** that can begin this process. In developing these options, we have not attempted to meet a particular dollar target or craft one "solution" to the state's budget problem.

The options presented in this document are just that — options. They illustrate the approaches that the Legislature could use to carry out its priorities and focus the state's fiscal resources on its most important programs. None of the options are without negative consequences. Furthermore, this document was prepared *prior* to the release of the *1992-93 Governor's Budget* and, consequently, it reflects neither the extent to which any of the options may be included in the Governor's budget proposals nor updated estimates of the fiscal effects of these options.

We have focused our efforts primarily on the General Fund, as that is the area where the state's budget is out of balance. We have also included special fund options, however, because of the additional efficiencies which could be achieved in these areas. Many of the options we have identified will require statutory changes. In some cases, implementation would require a constitutional change or approval by the federal government.

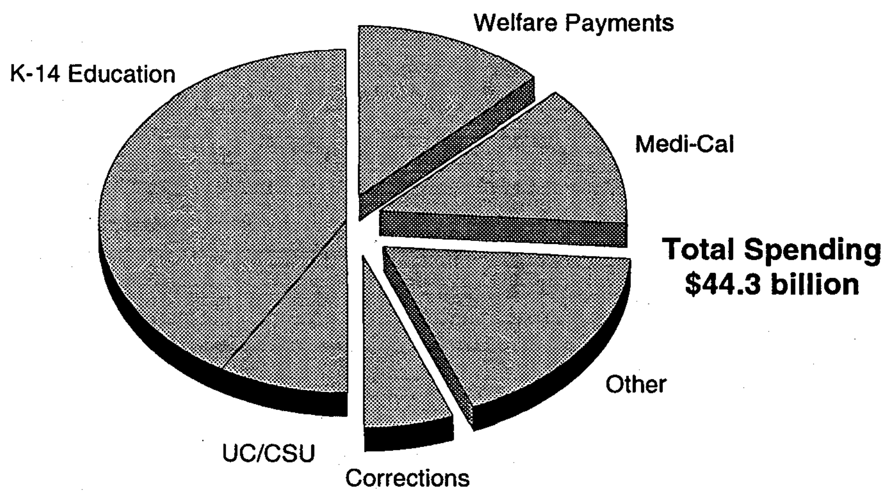
Where Does the State's Money Go?

The state's total spending plan for the current year consists of roughly 76 percent of expenditures from the General Fund, 21 percent from special funds, and 3 percent from selected bond funds.

General Fund. We estimate that the state will spend about $44.3 billion from the General Fund in the current year. As Figure 1 shows, one-half of this amount is for public education, including higher education (the University of California and the California State University). About one-fourth of the total is for Medi-Cal and welfare benefits — both AFDC (Aid to Families with Dependent Children) and SSP (State Supplementary Program — assistance to the aged, blind, and disabled). Together with spending on corrections, these programs account for more than 80 percent of total General Fund spending. Funding for the courts, debt service on state bonds, the tax collection agencies, and various health and social services programs are among the expenditures included in the remaining 20 percent of the General Fund budget. Because most expenditures are concentrated in four program areas, achieving major savings will require significant reductions to at least some of these programs. The magnitude of the state's potential budget gap cannot be bridged simply by deleting "administrative overhead" or reducing the size of the state bureaucracy. That is not where the bulk of state expenditures occurs.

Figure 1

General Fund Expenditures 1991-92

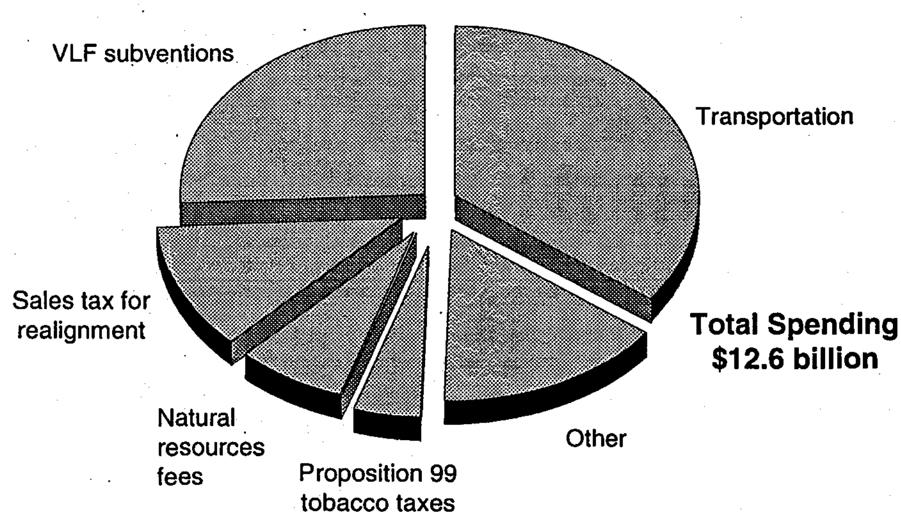


Source: Legislative Analyst's Office, 12/91.

Special Funds. The state also will spend an estimated $12.6 billion from special funds in 1991-92, as shown in Figure 2. The largest portion (35 percent) consists of gasoline taxes and other revenues dedicated for transportation purposes. Vehicle license fees (which are levied in lieu of property tax) account for $3.1 billion (26 percent) and must be allocated to cities and counties under the State Constitution. This amount includes $769 million from 1991 fee increases to help finance costs shifted to counties by the realignment of health and welfare programs. An additional $1.4 billion for realignment is provided by a statutorily dedicated, half-cent increase in the state sales tax. Other major sources of special fund spending are natural resources fees, such as those imposed for beverage container recycling, and cigarette and tobacco taxes dedicated to health programs and certain other uses by Proposition 99.

Figure 2

Special Fund Expenditures
1991-92



Expenditure Options

For a discussion of suggested principles that should guide budget decisions under the current circumstances, please see our recent policy brief, *The State's Fiscal Problem*, pages 7-8. Three of those principles, in particular, warrant reiteration here:

- Make priority choices, rather than across-the-board cuts, in order to provide adequate funding to those programs with the highest priority.
- Avoid short-term savings that increase long-term costs, because the budget imbalance is a long-term problem.
- Use one-time savings appropriately to cover temporary costs, such as paying off a carryover deficit.

Figure 3 lists some of the major strategies for reducing spending. For a fuller discussion of these strategies, please see *The State's Fiscal Problem*, pages 8-11, and our examination of budget balancing strategies in *The 1991-92 Budget: Perspectives and Issues*, Part III. In addition, we have identified several options for improving the state's business climate.

Figure 3

Major Types of Spending Options

- Reduce or eliminate programs.
- Consolidate programs.
- Restructure programs.
- Reallocate intergovernmental responsibilities for programs.
- Invest in programs to reduce future costs.
- Improve the efficiency of programs.
- Shift funding for programs to fees, another level of government, or the private sector.

Proposition 98. Savings in most K-14 education programs cannot be used to finance programs outside of K-14 education, unless the Legislature suspends the minimum state funding guarantee that Proposition 98 provides. However, savings within individual education programs can be shifted to target more funds to those education programs with the highest priority.

Revenue Options

Other than general tax increases, there are two major types of revenue options that the Legislature may wish to consider:

- Expanding the tax base to include additional types of economic activity.
- Eliminating or modifying tax expenditures (special credits, deductions, and so forth).

Our May 1991 report entitled *Analysis of the 1991-92 Tax Expenditure Budget* discusses the structure of the state's major taxes and provides a compendium of the tax expenditures in existence at that time. In addition, a framework for considering revenue options was included in *The 1991-92 Budget: Perspectives and Issues*, Part III.

How This Book is Organized

Options in this document are organized by major program (for example, resources, education, health and welfare, etc.) and by department within each program area. An index is included at the back of this document that provides a cross reference (by page number) by type of option.

State Administration

Office of California-Mexico Affairs

Option: **Eliminate the Office.**

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of $261,000.

Comments: The office's primary functions are to promote economic, cultural, and educational relations with Mexico, and provide staff support for the U.S.-Mexico Border Governor's Conference. These functions can be performed by the Department of Commerce and the Governor's Office.

Department of Commerce

Option: **Business Loan Guarantees.**
Transfer part of the trust fund money used for business loan guarantees back to the General Fund.

Type of Option: Funding Transfer.

General Fund Impact (1992-93): A partial transfer would result in increased revenues to the General Fund of $10.9 million.

Comments: The existing eight Regional Development Corporations (RDC) provide loan guarantees for small businesses. They are funded by trust funds which were originally provided from the General Fund. Over the last two years, the eight RDCs have encumbered only 60 percent to 66 percent of their funds (that is, up to 66 percent of their trust fund money is committed for loan guarantees at any given time.) Therefore, 34 percent, or about $10.9 million, is not being used and could go back to the General Fund.

Department of Commerce

Option:	**Competitive Technology Grants.** Revert funds that were appropriated for technology grants, but which have not yet been encumbered in the current year.
Type of Option:	Program Reduction.
General Fund Impact (1992-93):	Up to $7.9 million savings.
Comments:	Because the Competitive Technology Grants Program is being reorganized in the current year, a Request for Proposal process to give out the grants has not even been started. As a result, it appears that $7.9 million available in the current year will not be spent.

Department of Commerce

Option: **Exempt Positions.**
Eliminate 10 exempt positions and replace another 10 exempt positions with Career Executive Assignments (CEA).

Type of Option: Program Reduction.

General Fund Impact (1992-93): $1 million savings.

Comments: The department has 25 exempt positions, or 18 percent, of its staff. By contrast, most other state departments have 1 percent to 4 percent exempt positions. Allowing the department to keep five exempt positions is a 3.6 percent ratio. Ten positions could be eliminated by consolidating some management functions, and another 10 could be replaced with CEA I positions.

Department of Commerce

Option: **Office of Foreign Investment.**
Eliminate the Office of Foreign Investment.

Type of Option: Program Elimination.

General Fund Impact (1992-93): $365,000 savings.

Comments: This office could be eliminated because it duplicates the functions of the World Trade Commission.

Department of Commerce

Option: **Tourism Program.**
Eliminate or reduce the tourism program.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Up to $4.5 million savings.

Comments: The department has been unable to show results of tourism marketing. In 1988-89, the program's funding was reduced by $2.2 million. Yet, despite the reduction in funding, the number of tourism inquiries continued to *increase.*

Department of Consumer Affairs

Option: **State Athletic Commission.**
Eliminate the General Fund subsidy of the commission's operating costs by establishing a special fund for the operation of the commission.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Savings of $22,000. Actual savings may be more, if fee revenues fall short of projections and expenditures remain unchanged.

Comments: Currently, the commission's operating costs are funded from the General Fund, which is reimbursed from regulatory fees collected during the fiscal year. This funding mechanism, however, will result in a General Fund subsidy when annual fee revenues fall short of annual operating expenditures. During the last five years, the annual General Fund subsidy ranged from $17,000 in 1987-88 to $169,000 in 1989-90. For 1992-93, the General Fund subsidy is estimated at $22,000.

Department of Consumer Affairs

Option: **Boards and Bureaus.**
Eliminate all 39 boards, bureaus, and commissions, and replace them with advisory committees to the department (with no separate staffs).

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Potentially multimillion-dollar savings, mainly to special funds.

Comments: This option would result in the elimination of the boards, bureaus, and commissions, and their managerial staff. Instead, the functions of licensing and regulating various occupations and professions would be consolidated within the Department of Consumer Affairs, thereby resulting in major savings.

Department of Consumer Affairs

Option: **Division of Consumer Services.**
Replace General Fund support of the Division of Consumer Services with pro rata support from the special funds of the various boards and bureaus under the Department of Consumer Affairs.

Type of Option: Funding Shift.

General Fund Impact (1992-93): $1.5 million savings.

Comments: The Division of Consumer Services provides consumer protection activities, including research and advertising compliance, representation, and intervention and consumer education and information. Because these functions further the activities of the various boards and bureaus, they could be supported by pro rata charges to the boards and bureaus.

Commission for Economic Development

Option:	**Commission Elimination.** Eliminate the commission.
Type of Option:	Program Elimination.
General Fund Impact (1992-93):	$606,000 savings.
Comments:	The commission duplicates the Department of Commerce, which recommends economic development policy for the state.

Board of Equalization

Option: **Board Member Staff.**
Reduce each board member's personal staff.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Approximately $1 million savings.

Comments: The personal professional staff of each board member could be reduced from roughly three professionals to one, because each division of the agency has expert staff who can provide detailed analyses of all issues facing the board.

Board of Equalization

Option: **Insurance Tax Program.**
Fund the Insurance Tax Program from the Insurance Fund, rather than the General Fund.

Type of Option: Funding Shift.

General Fund Impact (1992-93): $160,000 savings.

Comments: Although this program serves an insurance regulatory function, it is currently funded by the General Fund. Given the purpose of the program, a more appropriate funding source would be the Insurance Fund.

Board of Equalization

Option: **Property Tax Technical Advisory Services Program.** Redirect Cigarette Tax Fund money from cities and counties to fund this program.

Type of Option: Funding Shift.

General Fund Impact (1992-93): $1.4 million.

Comments: The Board of Equalization provides a variety of advisory and technical services to county assessors on property tax administration issues. The objective of these services is to ensure uniform application of property tax laws. Since 1990-91, Cigarette Tax Fund money has been redirected from cities and counties to pay for a portion of these services. Counties and cities could pay for a greater share of these services by fully funding the Board of Equalization's Technical Advisory Services Program with the locals' share of cigarette tax money. In the current year, locals receive $63 million from this fund.

Department of Finance

Option: **Review of State Facilities Leases.**
Revise the current lease review process to require the Department of Finance (DOF) to approve all major leases and to show the increased costs of the leases in the Governor's Budget.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Potential savings in the millions of dollars.

Comments: Currently, the DOF does *not* review proposed leases, even though these arrangements tie up substantial amounts of General Fund monies for long periods of time. The state enters into about 150 new leases per year. The review of leases by the DOF could reduce the rate of increase of state leasing costs. Estimated 1991-92 costs for state leases are about $230 million.

Department of General Services

Option:	**Office of Real Estate Services.** Charge market rates to employees for parking in the lots of state-leased buildings.
Type of Option:	Fees.
General Fund Impact (1992-93):	Potential revenue increase in the millions of dollars.
Comments:	An estimated 33,000 parking spaces are leased by the state. However, fees are not charged on a significant number of these spaces. The cost of the parking spaces is included in the state's lease payments.

Business, Transportation and Housing

Departments of State Banking, Savings and Loan, Corporations, and Real Estate

Option: **Financial Regulatory Programs.**
Consolidate the State Banking Department, the Department of Savings and Loan, the Lender-Fiduciary Program of the Department of Corporations, and the Mortgage Banker Program of the Department of Real Estate into a new Department of Financial Services.

Type of Option: Consolidation.

General Fund Impact (1992-93): Potential savings in excess of $1 million to various special funds due to reduced expenditures for administrative and regulatory overhead.

Comments: Currently, state-licensed lender-depository entities are regulated by four different departments, despite the fact that the structure, operation, and type of services offered by these entities have become increasingly similar. Consolidating the regulation of these entities into one department would improve regulatory coordination, reduce administrative overhead, and would, thus, result in a more effective and efficient regulation of these entities.

Option: **Radar.**
Authorize the California Highway Patrol (CHP) to use radar on freeways and use electronic photographic equipment, which photographs vehicles exceeding the speed limit, on highways and freeways.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Cost Savings: Unknown one-time equipment purchase costs to the Motor Vehicle Account (MVA). Potential ongoing savings or cost avoidance to the MVA from efficiencies.

Revenue: Unknown increased annual revenue (potentially multimillion dollars) to the General Fund from fines and penalty assessments.

Comments: Allowing the CHP to use radar and electronic photographic equipment would result in a more efficient use of resources.

Department of Housing and Community Development

Option: **California Disaster Assistance Program.**
Establish a means test for receipt of a low-interest loan and set a limit on the amount of the low-interest loan.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Potential savings ranging from $10 million to $50 million, depending on the limits established and demand for assistance.

Comments: This program provides low-interest deferred payment loans to homeowners and owners of rental property whose property has been damaged or destroyed by a natural disaster. Program costs were $94 million in 1990-91 and about $50 million (estimated) this year. The program is not means-tested and provides loans to replace whatever value of the home was destroyed. (A $30,000 limit is set, but it can be waived.) The loans are deferred-payment, 20-year to 30-year loans, at 3 percent simple interest.

Department of Housing and Community Development

Option: **Statewide Housing Standards.**
Fund the development of statewide housing standards with reimbursements from the consumer boards of contractors, architects, etc.

Type of Option: Funding Shift.

General Fund Impact (1992-93): $1.3 million savings.

Comments: The various consumer boards related to home building and repair could be charged for the state's cost of issuing uniform statewide housing standards because (1) establishing such standards is part of regulating the building and repair industry and (2) the contractors, architects, etc., benefit by having uniform standards set statewide.

New Motor Vehicle Board

Option: **Need for Board.**
Eliminate the New Motor Vehicle Board.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of up to $1.3 million (New Motor Vehicle Board Account). No direct savings to the state because the board is financed by fees assessed to new vehicle dealers.

Comments: The board performs two functions: (1) it licenses vehicle dealers and (2) it investigates consumer complaints against dishonest or unqualified motor vehicle dealers. The board's investigation function can be carried out more efficiently by the Department of Motor Vehicles because it has occupational licensing and investigative services.

Department of Motor Vehicles

Option: **First-Time Drivers Licenses.**
Increase fees for commercial and noncommercial *first-time* drivers licenses.

Type of Option: Fees.

General Fund Impact (1992-93): Increased revenue of about $47.8 million annually to the Motor Vehicle Account.

No General Fund savings.

Comments: In order to fully cover the costs of administering these licensing programs, fees could be raised from $12 to $56 for noncommercial first-time driver licenses and from $55 to $131 for commercial first-time licenses.

Department of Real Estate

Option: **Local Housing Needs Information.**
Substitute the Real Estate Fund for the General Fund when reimbursing cities and counties for providing information on local housing needs.

Type of Option: Funding Shift.

General Fund Impact (1992-93): $1.2 million savings.

Comments: The Real Estate Fund is supported by license fees charged to real estate agents and brokers. Because these individuals benefit in part from the information provided by cities and counties on local housing needs, it is appropriate to use monies from the Real Estate Fund to support these information collection activities.

Department of Transportation

Option: **Environmental Review Process.**
Streamline the department's handling of state and federal environmental review process to ensure more timely construction of state projects.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Unknown, potentially millions of dollars in savings to the State Highway Account; no General Fund savings.

Comments: Discussions with the Department of Transportation indicate that it can take four to five years, on average, to complete the environmental assessment of highway capital outlay projects. Shortening this time-line could lead to major savings in inflation costs. Potential opportunities for streamlining include more up-front assessment of the environmental impacts at the time new transportation corridors are first considered.

Department of Transportation

Option: **Local Sales Tax Measures.**
Require counties that have passed transportation sales tax measures to fully reimburse the Department of Transportation (Caltrans) for all of the state's related costs.

Type of Option: Funding Shift.

General Fund Impact (1992-93): $120 million savings to the State Highway Account and other transportation accounts; no General Fund savings.

Comments: Under current law, Caltrans is required to pay for the cost of project study reports and environmental assessments for projects funded through local sales tax measures. The rationale for having Caltrans currently pay these costs is that the projects are on the state highway system and constitute improvements to that system. However, because these projects are actually local and not necessarily state priorities, local funds could be used to pay the full project costs.

Department of Transportation

Option: **Roadside Rest Areas.**
Privatize construction, maintenance, and operation of roadside rest areas.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Probably no savings in 1992-93 due to time needed to negotiate leases. Once fully implemented: Savings to the State Highway Account (SHA) of about $7 million in maintenance costs, and probably up to $1.5 million in material and equipment costs.

Lease revenues could range between $3 million and $12 million annually to the SHA.

No General Fund impact.

Comments: Current law authorizes Caltrans to *construct* up to six new rest areas that could be operated as a joint economic development demonstration project. The department is studying a number of sites that can be commercialized, but, so far, none are operational. This option would require that the department enter into leases for *existing* rest areas as soon as feasible at locations where such business enterprises would be viable. Federal approval may be required.

Various Departments (primarily Transportation and General Services)

Option: **State Passenger Vehicles.**
Phase out the use of state passenger automobiles (except for vans used for carpooling) for official use.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Potential net multimillion-dollar savings to both the General Fund and special funds.

Comments: Instead of using state automobiles, state employees could be required to use their own vehicles on state business and be reimbursed at the state rate, or use private rental vehicles under a contract with the state.

This option would eliminate the need for the state to purchase passenger vehicles. In 1990-91, for example, Caltrans purchased 299 passenger vehicles, for a cost of $3.4 million. The Department of General Services purchases an average of 700 passenger vehicles per year. Assuming an average cost of $10,000 per car, the average annual cost is about $7 million. There would be additional savings in maintenance and repair costs.

Resources

Department of Boating and Waterways

Option: **Loans and Grants.**
Eliminate funding for the private marina loan program and reduce funding for loans and grants for public marinas.

Type of Option: Program Reduction/Elimination.

General Fund Impact (1992-93): Total savings to the Harbors and Watercraft Revolving Fund of $32 million or more, probably declining in future years. Savings could be transferred to the General Fund.

Comments: In 1991-92, subsidized state loans for the private marina loan program totaled $8 million, and funding for loans and grants for public marinas totaled $24 million. These loan and grant programs primarily benefit the private sector (privately owned marinas) or local jurisdictions (public marinas). As a result, state funding for these programs could be reduced or eliminated.

California Conservation Corps

Option: **Work Projects.**
Require the California Conservation Corps (CCC) to charge agencies for the full cost of work projects (for example, planting trees, fire fighting, rebuilding trails, etc.).

Type of Option: Funding Shift.

General Fund Impact (1992-93): Up to approximately $40 million savings, depending on whether "full cost" includes education, training, etc., of corps members.

Comments: This option would result in the CCC competing for projects on an equal footing with other service providers, thereby requiring efficiency. Currently, (1) some projects are partially or wholly covered by the General Fund and (2) most of its up-front education/training costs are funded from the General Fund.

California Energy Commission

Option: **Energy Planning.**
Eliminate the California Energy Commission's (CEC) energy planning functions and consolidate statewide energy planning, regulation, and ratemaking with the Public Utilities Commission (PUC).

Type of Option: Consolidation.

General Fund Impact (1992-93): Approximately $8 million savings to the Energy Resources Program Account.

Comments: Currently, there is significant redundancy between the CEC's and PUC's energy planning processes. It would be more efficient and less disruptive to consolidate these functions within the PUC because (1) the PUC currently has significant experience with (and devotes significant resources to) all aspects of the energy regulatory process and (2) the CEC has relatively little experience with utility regulation and ratemaking.

California Energy Commission

Option: **Energy Audits.**
Increase funding for energy audits and loans to improve the energy efficiency of public schools.

Type of Option: Program Investment.

General Fund Impact (1992-93): Increased costs for energy audits and loans. Potential long-term net annual savings to schools in the tens of millions of dollars.

Comments: In general, the existing California Energy Commission school energy conservation and efficiency programs have proven cost-effective (these projects have paybacks of two to five years). Savings from such programs could be used to fund other expenses of local school districts.

California Energy Commission

Option: **Power Plant Siting.**
Eliminate the California Energy Commission's (CEC) power plant siting functions.

Type of Option: Program Elimination.

General Fund Impact (1992-93): $10.6 million savings, primarily to the Energy Resources Program Account.

Comments: The primary reason that the CEC was given this authority was based on concerns over siting large nuclear and coal-fired power plants. However, changes in technology and the electric generation market make it unlikely that any large power plants will be built in California in the foreseeable future. In addition, local governments can adequately site the power plants that are likely to be built. (If local governments can adequately site oil refineries, steel mills, and power plants under 50 megawatts, they can site larger power plants (50 to 500 megawatts) as well.)

California Energy Commission

Option: **Commission Structure.**
Eliminate the commission structure and transform the California Energy Commission (CEC) into the California Department of Energy.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings in excess of $1 million to a variety of special funds.

Comments: The primary justification for a commission structure is the deliberative nature of the commission's power plant siting process. If the CEC's power plant siting functions are eliminated, there is little justification for the added costs of a commission structure.

California Department of Forestry and Fire Protection

Option: **"Fire Safe" Regulations.**
Authorize the California Department of Forestry/Board of Forestry to adopt enforceable "fire safe" regulations for homeowners in State Responsibility Areas.

Type of Option: Reallocation of Responsibilities.

General Fund Impact (1992-93): Unknown, possibly savings of millions of dollars by (1) reducing the risk of fires and (2) lessening the need to divert resources from fighting wildfires to protection of structures.

Comments: Under this policy, the state would be able to require homeowners to maintain their property in a fashion that reduces the risk of catastrophic fires (for example, clear away any vegetation near structures and build drives wide enough for fire truck entry).

Option: **Fire Suppression.**
Recover General Fund cost of fire suppression efforts that benefit private property owners in State Responsibility Areas (SRAs).

Type of Option: Funding Shift.

General Fund Impact (1992-93): Increased General Fund revenues of $24 million (if 10 percent of costs are recovered).

Comments: Costs of fire suppression activities could be recovered by (1) enactment of a "catastrophic coverage" surcharge on homeowner's fire insurance premiums in SRAs (this would require mandated homeowner's fire insurance) and/or (2) assessment of forest and grazing land fire protection fees on an acreage basis (with a surcharge on improved lots and parcels if (1) is not enacted).

Option: **Inmate Fire Crews.**
Use existing inmate fire crews for initial attack of forest fires.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Up to $2 million savings.

Comments: Inmate fire crews generally arrive at a fire at the same time as regular fire crews, but wait to perform duties, such as digging trenches, until after the California Department of Forestry's regular crews complete the initial attack. With proper training, the inmate fire crews could perform initial attack functions and reduce the need to employ seasonal firefighters.

California Department of Forestry and Fire Protection, State Water Resources Control Board, Department of Fish and Game, and Department of Conservation

Option:	**Timber Harvest Plans.** Consolidate timber harvest plan review into one system.
Type of Option:	Improved Business Climate/Consolidation.
General Fund Impact (1992-93):	Unknown, possibly $2 million, savings to the General Fund and special funds. Also, potential business climate impact from consolidated review.
Comments:	Currently, staff from each of four departments conduct separate reviews of timber harvest plans. While it may make good policy sense to have staff of varying disciplinary backgrounds review plans, it would be more efficient to consolidate this staff into one forestry regulatory unit, either within the California Department of Forestry or at the agency level.

California Department of Forestry and Fire Protection

Option: **Forest Practice Regulation.**
Place the cost of forest practice regulation on the industry, rather than the General Fund and special funds.

Type of Option: Fees.

General Fund Impact (1992-93): $8 million savings (additionally, $2.2 million in special fund savings).

Comments: This could be achieved either by charging a fee for each timber harvest plan or by placing a surcharge on the timber yield tax. (The costs of the Department of Fish and Game and the State Water Resources Control Board to participate in timber harvest plan reviews would be included.) This option would result in the state recovering the costs of its forest practice regulation activities from those businesses who benefit from these activities.

Department of General Services

Option: **Leases on State Office Space.**
Place a moratorium on new leases for state office space (excluding extensions of leases for the same space) until the state's budget situation improves. In addition, require any exceptions to the moratorium to be submitted for review and approval by the Legislature through the annual budget process.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Potential annual savings in the millions of dollars, to the extent the state does not enter into new leases for additional state office space.

Comments: The state enters into about 150 new leases per year. These leases are not reviewed by the Department of Finance or approved by the Legislature. As a result, leases signed during the year can commit the state to unnecessary facilities operations costs for long periods of time. Estimated 1991-92 expenditures for state leases are about $230 million.

Department of General Services

Option: **State Parking Facilities.**
Charge market rates at all state facility parking lots.

Type of Option: Fees.

General Fund Impact (1992-93): $2.5 million to $4 million increased revenue (based on a $20-$40/month increase at the Department of General Services' (DGS) 10,000 spaces).

Comments: The DGS operates parking lots with over 10,000 spaces. The department charges employees less than market fees for most of the spaces. The increase in parking revenues could be used to finance the construction of new parking lots and would supplant General Fund-like (SAFCO) costs of such facilities. Implementing this option would require legislation to remove parking rates from collective bargaining.

Department of General Services

Option: **State Police.**
Reduce the State Police force by limiting responsibility to protection of constitutional officers and patrol of State Capitol.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings, potentially in excess of $10 million (all funds), depending on the extent of cutbacks.

Comments: The State Police currently provide 24-hour patrols throughout the state. It is unclear what additional benefit the state receives from many of these services (beyond what it would otherwise get from local police and sheriff services). State agencies could contract with private security firms for needed services no longer performed by the State Police and not provided by the local police or sheriff.

Department of General Services

Option: **Office of State Printing.**
Authorize competitive bidding of printing services; allow the Office of State Printing (OSP) to compete with outside vendors for state printing contracts.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Potential savings in the millions of dollars.

Comments: Currently, state agencies generally must go to the Office of State Printing for printing jobs. (At the office's discretion, jobs can be contracted out to private vendors.) Surveys show that several OSP jobs could be performed by outside vendors at considerable savings. (It may be in the state's interest to *require* that some documents continue to be printed by the DGS — the budget, bills, etc.)

Department of Industrial Relations

Option: **Division of Labor Statistics and Research.**
Eliminate the Division of Labor Statistics and Research (DLSR), and shift its functions to the Division of Workers Compensation and Cal-OSHA.

Type of Option: Consolidation.

General Fund Impact (1992-93): Up to $100,000 savings.

Comments: The DLSR collects data that is used primarily by the Division of Workers compensation and Cal-OSHA. Consolidating DLSR with the Division of Workers Compensation and Cal-OSHA would reduce administrative overhead, thereby resulting in state savings.

Department of Industrial Relations

Option: **Pressure Vessel and Apprenticeship Programs.** Increase the fees for pressure vessel inspection to charge the private sector beneficiaries for the full costs of services they receive; in addition, establish a fee to cover the department's costs to monitor and enforce the apprenticeship program.

Type of Option: Fees.

General Fund Impact (1992-93): Up to $2.6 million savings.

Comments: *Pressure Vessel Inspections.* The department is responsible for regulating the safe construction and operation of pressurized boilers and tanks. Although the department is authorized to charge fees for pressure vessel inspections, it has chosen not to do so for certain inspection activities (for example, reinspections when there is no violation found upon reinspection). Charging fees is appropriate because the principal beneficiaries of the inspection activities are the pressure vessel operators.

Apprenticeship Program. The department currently reviews and registers all apprentice training programs in the state, as well as registering all apprentices. The Legislature could authorize the department to collect fees from industry and/or trade unions to cover the costs of monitoring and enforcement of apprentice programs and regulations because they benefit from these activities.

Contribution to the Judges' Retirement System

Option: **State Contributions.**
Limit the state's contribution to the Judges' Retirement System to a level consistent with the state's contributions to other public employee retirement systems.

Type of Option: Program restructuring.

General Fund Impact (1992-93): Annual savings in future years of tens of millions of dollars.

Comments: The state should take steps to fund the Judges' Retirement System (JRS) on an actuarially sound basis. Given the current benefit structure of the JRS, the state's annual contribution (33.5 percent of system payroll in 1992-93) to the system far exceeds the contribution made to other state retirement systems. The state's contributions for its other contributory retirement programs range from 13.4 percent to 21.7 percent of payroll. In order to reduce its contribution to the JRS, the state could (1) increase the member contribution rates and (2) reduce retirement benefits for members of the JRS. The state's ability to capture such savings would depend on whether the changes would apply to current or new members of the JRS.

Department of Justice

Option: **Criminalistic Laboratory.**
Eliminate funding for support of the criminalistic laboratory work performed for local governments.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Up to $13.6 million savings, if local governments reimburse the state for all costs.

Comments: Almost all of the department's forensic crime work is performed on behalf of county and city law enforcement agencies. The benefits from this work are almost exclusively limited to the local governments. Local governments could be required to reimburse the state for all or a portion of these costs. As an alternative to eliminating all state funding, the Legislature could reduce the funding and target the remaining funds to local governments with less ability to pay for laboratory services.

Option: **Legal Work Performed for Counties.**
Require counties to reimburse the state for legal work performed by the Attorney General on behalf of district attorneys who are disqualified from handling local cases due to conflicts of interest.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Probably at least $1 million savings.

Comments: The legal work in question (prosecuting persons accused of crimes) is clearly the responsibility of the counties, not the state. In addition, the current arrangement is inconsistent with regard to other types of legal work where the state is reimbursed by the counties.

Reference: 1988-89 *Analysis*, page 53.

Option: **State-Reimbursed Mandates.**
Repeal or make optional two existing state-reimbursed mandates.

Type of Option: Program Elimination.

General Fund Impact (1992-93): $3.4 million savings.

Comments: The Legislature could repeal or make optional the following two existing state-reimbursed mandated programs:

- *Permanent Absentee Voters,* which allows anyone to request an absentee voter ballot and vote by mail.
- *Handicapped Voter Access,* which requires county elections officials to send each voter a notice indicating whether their polling place is handicapped-accessible.

In the first case, there is no analytical reason for allowing persons to increase county election costs (absentee voting costs more) to satisfy their personal desire for *convenience* — that is, to vote absentee for reasons *other* than physical absence from their county of residence or lack of mobility.) Persons who will be absent from their county or otherwise incapacitated would continue to be able to receive an absentee ballot. In the second case, the law now requires that all polling places be handicapped-accessible, so there is no need to provide these notices.

Museum of Science and Industry

Option: **Transfer Funding.**
Transfer museum funding and operations to the local level.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Savings of up to $8.8 million for support of the museum, and an additional $40 million in bond funds (appropriated — but not yet spent — for seismic work at the museum).

Comments: The museum is almost entirely of benefit to people in the Los Angeles area. There is no overriding *state* interest in the state funding such a facility. The state could negotiate with the City of Los Angeles, the County of Los Angeles, or a nonprofit entity to take over operations (either immediately or over time) of the facility.

State Personnel Board and Department of Personnel Administration

Option: **Personnel Functions.**
Transfer most of the State Personnel Board's (SPB) functions and personnel to the Department of Personnel Administration (DPA).

Type of Option: Consolidation.

General Fund Impact (1992-93): Savings of about $2 million to $3 million.

Comments: Most personnel functions have already been shifted from the SPB to the DPA. It would, however, take an amendment to the state constitution to transfer the remaining functions and eliminate the board. There may also be a need to maintain an appeals unit independent of the DPA to hear employee complaints. (This unit could be placed in one of several existing state agencies.)

Public Utilities Commission

Option: **Trucking Regulation.**
Eliminate the Public Utilities Commission's (PUC) transportation-related activities (with the exception of rail safety activities).

Type of Option: Program Elimination.

General Fund Impact (1992-93): At least $9.7 million savings to special funds (regulatory fees).

Comments: As discussed in the *1987-88 Perspectives and Issues* (in "State Regulation of the Trucking Industry"), there is little justification for statewide economic regulation of the trucking industry. Accordingly, these activities could be ended. Other transportation activities (with the exception of the rail safety activities) performed by the PUC could be better performed elsewhere. Specifically, (1) the Department of Motor Vehicles could more efficiently register trucking companies, (2) the California Highway Patrol could more effectively enforce truck safety laws, and (3) the Department of Consumer Affairs could better provide consumer information and protection.

Reference: *The 1987-88 Budget: Perspectives and Issues,* pages 221-230.

State Teachers' Retirement System

Option: **General Fund Contributions.**
Remove the state's subsidy of the State Teachers' Retirement System (STRS) by reducing the state's contribution to the system so as to cover only the existing actuarial unfunded obligation, and shift funding of normal cost deficit and COLAs for all *new* teachers to employers/ employees.

Type of Option: Funding Shift/Program Restructuring.

General Fund Impact (1992-93): Annual future savings in the hundreds of millions of dollars.

Comments: The STRS benefit program should be fully funded as benefits accrue, and these costs could be covered by its participant members and employers. The state has committed to pay for the system's *existing* unfunded obligation. It's unclear, however, why the annual cost of benefits earned by *new* teachers should be subsidized by the state.

Tort Liability Claims

Option: **Tort Liability.**
Reduce the state and local exposure to tort costs.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): No significant direct savings in 1992-93. Potential multimillion-dollar savings to state and local governments in future years, depending on the specific option adopted to curb tort costs.

Comments: Proposition 51, approved by voters in June 1986, limited noneconomic damages to the percent of fault of the defendant. However, state and local governments are still spending multimillion dollars annually to pay and defend tort claims seeking other damages. For example, the Department of Transportation will spend an estimated $50.6 million in 1991-92. Liability costs are likely to increase in future years because of government's ongoing exposure to claims.

There are several options to limit the state's liability. Two examples are:

- Amend the joint and several liability rule to limit the liability of defendants where their percentage of fault is relatively minor.
- Place limits on the amounts recoverable.

Reference: *The 1986-87 Budget: Perspectives and Issues,* pages 224-231.

Option: **Local Bail Collections.**
Allow counties to collect a percentage of fixed bails for persons arrested and booked on misdemeanor charges.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Probably several million dollars of savings.

Comments: Any revenues collected by counties as a result of this option could be used to offset state funding of trial courts under the Trial Court Funding Program. Until December 31, 1985, counties were allowed to collect 10 percent of the amount of fixed bails for the release of persons. Since that time, counties have not been authorized to collect any of these funds.

Option: **Confiscated Assets.**
Require local law enforcement agencies to share confiscated assets from narcotics cases with the trial courts.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Potentially several millions of dollars in savings.

Comments: Under current law, funds generated from forfeited assets from narcotics cases are generally used to augment the budgets of local law enforcement agencies. The law was enacted to help law enforcement agencies defray the costs of narcotics enforcement activities. Because significant court resources are also used in the prosecution of narcotics cases, it would be appropriate to use a portion of the confiscated assets to defray court costs. Any additional revenues made available to the courts could be used to offset state funding of trial courts under the Trial Court Funding Program.

Trial Court Funding Program

Option: **Filing Fees.**
Increase court filing fees.

Type of Option: Fees.

General Fund Impact (1992-93): Potentially tens of millions of dollars in savings.

Comments: Filing fees are governed by statute and have not been adjusted since 1971. Any additional revenues made available to courts or counties from this option could be used to offset state funding of trial courts under the Trial Court Funding Program.

Trial Court Funding Program

Option: **Electronic Recording of Trials.**
Allow trial courts to use electronic recording for the official record of court proceedings for all noncapital offense cases.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Potentially several millions of dollars of savings in 1992-93, increasing annually thereafter.

Comments: Recording of court proceedings by court reporters is the second highest cost (after judicial salaries and benefits) among trial court categories of expense. Currently, a few trial courts are authorized to use electronic recording equipment, but only on a pilot basis. Permitting all trial courts to use electronic recording equipment could reduce trial court personnel costs. Any savings could be used to offset state funding of trial courts under the Trial Court Funding Program.

Option: **Risk Management.**
Allow all state trial courts to enter into a risk pool and contract with the state or a private insurer for liability coverage.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Potentially millions of dollars in savings.

Comments: Trial courts are now required to pay the risk management rates established by their respective counties. Allowing all state trial courts to pool their risk within a larger pool and eliminate the county-specific risks (for example, sheriffs) could reduce the overall costs of trial court funding. Such savings could be used to offset state funding of the trial courts under the Trial Court Funding Program.

Department of Parks and Recreation

Option: **Operation of State Parks.**
Transfer ownership and/or operation of selected state parks to the federal or local governments, where appropriate.

Type of Option: Reallocation of Responsibilities.

General Fund Impact (1992-93): Potentially several million dollars net savings to the General Fund; amount of savings depends on which parks are transferred.

Comments: The final choice of which parks to transfer should be left to the Legislature, based on objective criteria and recommendations from the Department of Parks and Recreation. Local governments currently operate about 40 state parks.

Department of Parks and Recreation

Option: **Level of Service at State Parks.**
Close selected "marginal" state parks and/or reduce the level of services provided in state parks, where feasible.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Potentially several million dollars savings.

Comments: The final choice of affected parks should be left to the Legislature, based on objective criteria and recommendations from the Department of Parks and Recreation. Affected parks could be those which have relatively little visitation, but which are relatively expensive to operate.

Santa Monica Mountains Conservancy

Option: **Bond Funding.**
Reduce state bond funding for the Santa Monica Mountains Conservancy (SMMC).

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings totaling $83 million (over a 20-year period) from not paying bond interest ($35 million) on assumed $48 million principal.

Comments: The state could reduce bond funding for the SMMC if a Los Angeles County ballot measure passes in June 1992 (the proposed local measure provides about $80 million for SMMC programs).

Sea Grant Program

Option: **State Funding Match.**
Shift funding for the Sea Grant Program from specific General Fund and/or SAFCO appropriations to the general research funds of universities.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Savings of approximately $525,000.

Comments: Under the national Sea Grant College Program Act of 1966, one-third of project costs must be provided from nonfederal sources in order to receive federal grants for marine resources research programs. The Sea Grant Program represents the state's contribution to nonfederal funding. Chapter 1617, Statutes of 1988 (AB 3223, Mojonnier), extended the Sea Grant Program through 1993-94 and specified that the program should receive $525,000 annually in state support. If these projects, primarily at the University of California campuses and the University of Southern California, are of sufficiently high priority, the universities should be able to fund them from their general research monies. Under this option, marine resources research programs normally funded through the Sea Grant Program would compete with other research programs for university funding. Alternatively, the Legislature could fund projects from the Oil Spill Prevention and Administration Fund and require that the funds be used for research related to cleaning up oil spills or assessing the impact of oil spills on the marine environment.

Seismic Safety Commission

Option: **Staff Responsibilities.**
Reduce commission staff from current 12 PYs to 5 PYs — its original level (1975-76) — and evaluate transferring duties to the State Geologist or University of California.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings of $570,000, with similar savings annually thereafter.

Comments: The 1974 legislation establishing the commission included a 1976 sunset date. This was extended twice by the Legislature and finally repealed in 1984. The commission is essentially an advisory body. Its staff has grown incrementally over the years with little, if any, programmatic justification. The commission could be placed under the wing of the University of California or the State Geologist, with potentially further savings to the state.

Department of Toxic Substances Control, Department of Pesticide Regulation, and Office of Environmental Health Hazard Assessment/Risk Assessment

Option: **Risk Assessment Functions.**
Consolidate risk assessment functions of the Department of Toxic Substances Control (DTSC), Department of Pesticide Regulation (DPR), and the Office of Environmental Health Hazard Assessment (OEHHA) into one central risk assessment entity.

Type of Option: Improved Business Climate/Consolidation.

General Fund Impact (1992-93): Probably no significant direct savings; could result in better business climate due to more efficient and better coordinated regulatory activities.

Comments: Consolidating risk assessments into one central department (such as OEHHA) will result in (1) some efficiencies because OEHHA will not need to review risk assessments developed by other departments and (2) more consistent policies related to developing risk assessments and more consistent risk assessments. This could provide a better business climate and potentially greater public health protection.

Department of Water Resources

Option: **Local Flood Control Projects.**
Reduce the state's share of nonfederal funding for local flood control projects from 70 percent to 30 percent.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Amount of savings depends on the number of projects. In 1991-92, the state would have saved approximately $17 million in SAFCO funds. (The state would have paid $12.8 million instead of $29.8 million.)

Comments: Under current state law, the state pays 70 percent of the non-federal share of local flood control projects. Local agencies in the areas served by these projects pay the remaining 30 percent. This funding formula could be revised so that local agencies pay 70 percent and the state pays 30 percent of the costs of these projects because (1) these projects provide primarily local benefits and (2) local agencies have a number of financing options to cover these costs, including bonds and fees.

State Water Resources Control Board and Department of Toxic Substances Control

Option: **Clean-up of Toxic Substance Releases.**
Require the State Water Resources Control Board (SWRCB) and the Department of Toxic Substances Control (DTSC) to jointly develop and adopt regulations for cleaning up toxic substance release sites and revise existing laws that result in unnecessary inconsistencies in clean-up approaches and standards.

Type of Option: Improved Business Climate.

General Fund Impact (1992-93): Probably no direct savings. Could result in better business climate due to more efficient and better coordinated regulatory activities.

Comments: Currently, both the DTSC and the SWRCB clean up or oversee the clean-up of toxic substance release sites. However, the DTSC and SWRCB use different approaches in overseeing the clean-up of sites. The difference in approach ultimately may result in different clean-up levels. Requiring these departments to develop consistent approaches to clean-up and clean-up levels could improve the efficiency and coordination of regulatory activities, thereby providing a better business climate.

State Water Resources Control Board, Air Resources Board, Integrated Waste Management Board, Local Governments, and Department of Toxic Substances Control

Option: **Pollution Inspections.**
Require the State Water Resources Control Board, Air Resources Board, Integrated Waste Management Board, Local Governments, and Department of Toxic Substances Control to coordinate inspections of facilities that are under common jurisdiction.

Type of Option: Improved Business Climate.

General Fund Impact (1992-93): Probably no direct savings; could result in better business climate due to more efficient and better coordinated regulatory activities.

Comments: Currently, facilities that produce more than one type of pollution may be inspected several times a year by different state and local departments (for large facilities). Requiring these departments to coordinate their routine inspections, to the extent feasible, could help to minimize the disruption of business operations and increase the effectiveness of these programs.

Health and Welfare

Option: **Ombudsman Program.**
Fund the Long-Term Care Ombudsman Program with federal funds (Medicaid funds).

Type of Option: Funding Shift.

General Fund Impact (1992-93): Up to $2 million savings.

Comments: Medicaid funds could be used instead of General Fund monies to cover federally authorized state administrative costs of the Long-Term Care Ombudsman Program. The State of New Jersey recently received Medicaid funds for federally authorized administrative expenses for its Office of the Ombudsman for the Institutionalized Elderly.

Option: **Medi-Cal Fraud Investigations.**
Increase the number of investigators in the Investigations Branch.

Type of Option: Program Investment.

General Fund Impact (1992-93): Increased costs to add additional investigators, more than fully offset by recoveries (potentially several hundred thousand dollars).

Comments: Investigations focus on preventing Medi-Cal fraud and making recoveries on overpayments. The amount of savings would depend on the types of cases targeted and on how much money recovered is the state's versus the federal government's.

Option: **Optional Medi-Cal Eligibility Categories.**
Eliminate various optional Medi-Cal eligibility categories.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Up to $1.3 billion savings.

Comments: Federal law requires California, through its Medi-Cal Program, to provide full-scope benefits to the following groups of people:

- Cash grant recipients (AFDC and SSI/SSP).
- Pregnant women and their children to age one in families with incomes up to 185 percent of the federal poverty level.
- Children age one through age five in families with incomes up to 133 percent of the federal poverty level.
- Children age six through age eight in families with incomes up to 100 percent of the federal poverty level.

Federal law also requires California to provide benefits to newly legalized and undocumented persons in these categories.

The state also provides Medi-Cal benefits to groups of individuals not required to be covered under federal law. These are:

- "Medically needy" beneficiaries — persons in families with dependent children and aged, blind, or disabled persons who are ineligible for cash assistance because their income exceeds cash grant standards. These individuals can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133-1/3 percent of the AFDC payment level for their family size. Medically needy beneficiaries who reside in long-term care facilities are required to pay all but $35 of their monthly income toward the cost of their care.

- "Medically indigent" beneficiaries — persons who are not categorically linked (that is, they do not belong to families with dependent children and are not aged, blind, or disabled) but who meet income and share-of-cost criteria that apply to the medically needy category. Optional coverage under this program is limited to (1) persons under the age of 21, (2) pregnant women in families with incomes above 185 percent of the federal poverty level, and (3) persons residing in long-term care facilities.

- Newly legalized and undocumented persons who meet the criteria for the "medically needy" or "medically indigent" categories.

Table 1 shows the optional eligibility categories served by the Medi-Cal Program. If the Legislature eliminated *both* some optional eligibility categories *and* some optional benefit categories, the savings identified in Table 1 would decrease.

Table 1

Medi-Cal Program
Optional Eligibility Categories
Potential General Fund Savings

(in millions)

Category	Savings
Long-term care	$841.1
Medically needy:	
Aged	8.8
Blind	1.2
Disabled	29.2
Families with dependent children	127.7
Medically indigent children	41.2
Medically indigent adults	12.8
Other (see note 2)	184.6
Total	**$1,246.6**

Notes:

1. The medically needy category does not include individuals who qualify for AFDC and SSI/SSP grants but have refused these grants. If the medically needy category is eliminated, these "refused grant" participants would most likely take the AFDC and SSI/SSP grants to qualify for Medi-Cal as mandatory eligibles. These savings estimates do not reflect the increased AFDC and SSI/SSP grant costs.
2. Primarily newly legalized and undocumented persons.

Long-term Care. While federal law would permit Medi-Cal to eliminate coverage for people in long-term care facilities who do not receive cash grants, this would have serious effects for the 64,300 average monthly eligibles in this eligibility category. It is not clear how these people would get long-term care services. Any coverage available through Medicare or other third-party payors is exhausted before Medi-Cal coverage begins. Most counties do not provide long-term care coverage, but those which do most likely would be unable to absorb the additional caseload into their county health programs. To the extent that people who need skilled nursing care are released into the community without the care, it is likely that their medical needs would increase to the acute level, resulting in more expensive acute hospital treatment. This would, in turn, increase the uncompensated care burden on hospitals.

Medically Needy. Eliminating the medically needy categories would leave persons who are aged, blind, disabled, or in families with dependent children without medical coverage. Many of these individuals would probably seek services at county health programs. Some of these individuals might wait until medical conditions become an emergency before seeking care, resulting in a need for emergency room and inpatient hospital costs that are more expensive than physician and other outpatient services. This would increase the uncompensated care burden on hospitals.

Option: **Optional Medi-Cal Benefit Categories.**
Eliminate various optional Medi-Cal benefit categories.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Up to $836 million savings.

Comments: Federal law requires Medi-Cal to provide certain benefits, including inpatient care, physician services, and skilled nursing care. Medi-Cal also provides many optional services that are permitted, but not required, by federal law. Table 2 shows the optional services provided under Medi-Cal and the *potential* savings if these benefits were eliminated.

If the Legislature eliminated *both* some optional eligibility categories *and* some optional benefit categories, the savings identified would decrease.

Actual savings from eliminating optional services would depend on behavioral changes on the part of Medi-Cal beneficiaries. In some cases, elimination of optional services may result in savings. In other cases, the savings may be offset because beneficiaries may substitute other Medi-Cal services for the service being eliminated, or may delay receiving treatment and ultimately require more acute care. In still other cases, the beneficiary may be unable to substitute services, but may become more dependent on other state-funded programs. The extent to which such cost shifts would occur for each category of service is unknown.

- *Substitution of Services.* Examples of where substitution of services could occur include psychology, podiatry, acupuncture, chiropractic, and outpatient clinic services. Beneficiaries who currently receive these services might instead

(1) seek physician services or increase the use of prescription drugs, thereby resulting in the substitution of one service for another, or (2) go without services altogether.

- *Increased Use of Acute Care.* Substitution of services could also occur if prescription drugs or hemodialysis services are eliminated. Beneficiaries who cannot afford to pay for these services themselves are likely to develop more acute problems and require inpatient hospital care.

  Because rates for physician and hospital services are higher than those for some of these optional benefits, substitution of services or increased use of acute care could actually *increase* Medi-Cal costs. In addition, counties, which are the provider of last resort for health services, may experience increased demand for services they provide.

- *Dependence on Other Programs.* In other cases, there may not be another Medi-Cal service that beneficiaries could substitute. For example, beneficiaries who receive hearing aids or prosthetic devices would not be able to substitute another Medi-Cal service. However, it is possible that losing the Medi-Cal benefits could make some beneficiaries more dependent on other state programs, including special education, or in-home supportive services.

Table 2

Medi-Cal Program
Optional Benefit Categories
Potential General Fund Savings

(in thousands)

Category	Savings
Drugs	$481,860
Adult dental	77,930
Medical transportation	38,770
Miscellaneous non-fee-for-service	48,557
Other professional services:	
Psychology	9,897
Chiropractic	306
Optometry/optician	32,019
Podiatry	2,402
Prosthetics	2,259
Orthotics	2,969
Outpatient clinic	32,227
Surgicenters	2,457
Heroin detoxification	1,225
Independent rehabilitation center	131
Nurse anesthetist	646
Occupational therapy	134
Speech/audiology	5,884
Physical therapy	151
Hemodialysis center	28,299
Acupuncture	3,358
Other services:	
Durable medical equipment	23,369
Hearing aids	3,535
Blood bank	620
Hospice services	1,695
In-home medical care	9,271
All other providers	36,169
Total	**$836,140**

Department of Health Services

Option: **Laboratory Operations.**
Require departments that need various laboratory services to acquire those services through competitive bid, instead of budgeting for the services within the Department of Health Services' (DHS) appropriation for the Division of Laboratories.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Unknown potential long-run savings through more efficient laboratory operations.

Comments: Currently, the DHS operates 10 laboratories in support of its public and environmental health operations, as well as in support of the regulatory functions of the Department of Toxic Substances Control (DTSC), the Department of Industrial Relations (DIR), and the Air Resources Board (ARB). Requiring these departments and programs to acquire these services through competitive bid would mean that they would contract with the laboratories (DHS or private labs) that provide the best service at a reasonable cost.

Departments of Health, Social Services, Corrections, Youth Authority, Education, Drug and Alcohol Programs, Employment Development, and Mental Health

Option: **Consolidate Various Local Assistance Programs.** Consolidate funding for various local assistance programs into a single pot, which would be allocated to counties or groups of counties to provide services to individuals and families who require a variety of services. Counties would also be given a fiscal stake in the success of those programs.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): General Fund (and county) savings could reasonably be in the hundreds of millions of dollars annually (or more), to the extent that better case management and targeting of services helps recipients leave public assistance sooner, avoid incarceration or other institutional placements, or develop better job skills.

Comments: The purpose of this option is to foster a more coordinated service delivery system that targets appropriate services to populations, emphasizes intensive case management of recipients, and gives counties a fiscal stake in the success of "preventative" services (that is, services that are intended to avert more costly, generally state-funded services).

This system would have the following characteristics:

- The state would enter into performance-based contracts with counties or groups of counties, at its discretion.
- It would be phased in over a multi-year period.

- County performance would be measured according to county success in reducing Youth Authority, state prison, AFDC, and AFDC-Foster Care utilization, and in reducing school drop-out rates.

- Counties would face, in some measure, the cost for each of these programs (including prison beds). Basically, the state would allocate to counties up front the General Fund share that, over the course of the year, is projected to be required. Counties would retain a share of whatever funds are not "spent" in these state programs.

- Counties would use funds to provide whatever mix of services they believe makes the most sense from a treatment perspective (and in terms of cost-effectiveness).

- The state would retain the right to contract directly with nonprofit organizations (or other organizations) in lieu of contracts with counties if specified outcomes were not achieved.

- Counties would be required to submit proposals that would:

  — Organize service delivery into relatively small regions (such as those with populations of 25,000 to 50,000).

  — Identify clear target populations.

  — Provide for interagency agreements to achieve better coordination among various departments within the county (for example, Colston Youth Center in Ventura County, which provides jointly staffed probation, mental health, and substance abuse services).

  — Provide combined service delivery in school- and community-based sites.

  — Have a strong case management component.

  — Stress both prevention and remedial interventions.

The various local assistance programs that could be included are:

Health

- Indigent Health
- Family Planning
- Mental Health
- Alcohol and Drug Programs
- Medi-Cal Eligibility Determination

Social Services

- Child Welfare Services
- AFDC
- Foster Care
- Job Training and Employment Services

Corrections and Youth Authority

- Institutions
- Parole

Education

- Special Education Pupils
- Child Care
- Adult Education

Option: **Copayments for Various Health and Welfare Services.**

- At a certain income threshold, establish copayments (potentially up to 100 percent of service costs) for various health and social services programs.

- Minimize the disparity across programs for existing means tests and copayments.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Unknown savings, but potentially in the tens of millions of dollars annually, depending on eligibility and copayment levels that are established.

Comments: *Establishing Copayments.* The purpose for establishing means tests is to target services toward persons with lower incomes. In general, the purposes for copayments are twofold. First, they provide incentives for the better utilization of services. Second, they require direct beneficiaries of services to pay a portion of costs, rather than all taxpayers.

In deciding whether to establish copayments, the following should be considered:

- There should be a clear relationship between the copayment and the service for which it is charged.

- It must be practical to identify those who should pay the copayment and to collect it in a cost-effective manner.

- Those who are charged copayments must have the ability to pay.

Minimizing Disparity in Copayments. Currently, eligibility and copayment requirements vary widely across health and welfare programs that provide direct services. In some cases, these variations may be analytically justified. For example, the Medi-Cal Program imposes eligibility and copayment requirements that are generally less stringent for pregnant women than for other Medi-Cal beneficiaries, in order to provide expanded access to prenatal care. This approach (1) is generally considered to result in savings to the state over the long term by reducing expenditures for neonatal intensive care and other medical costs and (2) minimizes short-term costs by expanding access to a limited number of beneficiaries.

In other cases, however, variation in eligibility or copayment requirements may not be justified on a programmatic basis, and may exist simply because no comparison across programs has occurred. In such cases, establishing means tests or copayments where they do not currently exist, or modifying them where they do exist may produce significant savings without compromising the program's "core" objectives.

For some programs, including Medi-Cal, federal requirements place restrictions on both eligibility standards and copayments.

Department of Health Services, California Department of Food and Agriculture, and Air Resources Board

Option: **Statewide Laboratory Operations.**
Consolidate the administration of state laboratories (such as those operated by the Department of Health Services (DHS), California Department of Food and Agriculture (CDFA), and Air Resources Board (ARB)) under one single administrative structure.

Type of Option: Consolidation.

General Fund Impact (1992-93): Initial consolidation costs; unknown potential long-term savings (General Fund and special funds) through greater efficiency in administering laboratory operations, and more efficient purchases of equipment and supplies.

Comments: Currently, there are a large number of laboratories that are operated by different departments in the state. For instance, the DHS operates 10 laboratories, the ARB has two laboratories, and the CDFA has at least one laboratory. Many of these laboratories appear to use the same types of equipment, supplies, and personnel. Consolidating the administration of these laboratories under a single administrative structure may result in more effective management of the laboratories, consistency in analytical approach, and more efficient purchases of equipment and supplies.

Department of Health Services, Department of Pesticide Regulation, State Water Resources Control Board, and Air Resources Board

Option: **Proposition 65 — "Discretionary Activities."**
Eliminate funding for "discretionary" activities related to the implementation of Proposition 65; or, at a minimum, eliminate funding for "technical assistance" for the implementation of Proposition 65.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of up to $1.3 million to the General Fund for technical assistance or up to $6.2 million for all activities (of which $5.4 million is General Fund and $800,000 is special fund).

Comments: Proposition 65 prohibits certain businesses from knowingly discharging a chemical known to the state to cause cancer or reproductive toxicity into water or onto land where it could reach a source of drinking water. Proposition 65 places the burden of proof on *businesses*, not the state, to show that discharges of a listed chemical are acceptable under the initiative. Therefore, many of the current activities related to the state's implementation of this proposition (such as issuing and/or revising permits to limit discharges consistent with Proposition 65, monitoring and enforcement, and technical assistance) are discretionary, and could be eliminated. At a minimum, the Legislature could eliminate funding to provide "technical assistance" to the public and industry regarding the implementation of Proposition 65. This is because the state has been providing technical assistance for several years and, consequently, the need for such assistance has diminished.

Departments of Mental Health, Alcohol and Drug Programs, Developmental Services, and Rehabilitation

Option: **Programs for the Mentally and Physically Disabled.** Consolidate the following four departments into one department: the Department of Mental Health (DMH), the Department of Alcohol and Drug Programs (DADP), the Department of Developmental Services (DDS), and the Department of Rehabilitation (DOR).

Type of Option: Consolidation.

General Fund Impact (1992-93): Initial consolidation costs; up to $7 million in savings in 1992-93 (the extent of potential savings that could be realized in the budget year would depend on how soon consolidation occurred); savings of about $10 million annually after 1992-93.

Comments: Consolidating these four departments makes sense programmatically for the following reasons:

- The departments serve similar target populations. For example, the DDS and DOR provide a continuum of services to individuals with a variety of developmental and physical disabilities. In addition, the DMH and the DADP provide services to target populations that, in many cases, are identical. For example, it has been estimated that perhaps 50 percent of homeless mentally ill persons have substance abuse problems.

- Two of the four departments operate similar types of facilities. Specifically, the DMH and the DDS operate state hospitals for the mentally disabled and state developmental centers for the developmentally disabled, respectively. Both types of facilities must: maintain accreditation by independent reviewing bodies and comply with federal requirements to receive funding under the Medicaid and Medicare

Programs, recruit and retain qualified staff, and ensure patients' rights.

- Two of the departments — the DMH and DADP — oversee locally administered programs through a state-county partnership. (This is still true under realignment.) In both cases, the Legislature has required the departments to develop outcome measures, emphasize performance contracts, provide technical assistance, and assure compliance with federal regulations under the Short-Doyle/Medi-Cal Program.

Given these similarities, consolidation of these four departments could improve the services provided to the populations now served separately by the departments. These four departments have a total of about 850 administrative positions. We estimate that at least 200 positions could be eliminated as part of such a consolidation, with annual savings of $10 million. About three-quarters of these savings ($7 million) could be realized in the budget year.

Alternatively, the Legislature could choose to consolidate the four departments into two — the DMH and DADP, and the DDS and DOR. In this case, savings would be lower.

Departments of Mental Health, Alcohol and Drug Programs, and Corrections

Option: **Mental Health and Substance Abuse Services for Parolees.** Consolidate the Conditional Release Program (CONREP) and Parole Outpatient Clinic (POC) Program, and, potentially, substance abuse treatment projects for parolees.

Type of Option: Consolidation.

General Fund Impact (1992-93): Up to $300,000 annually in administrative cost savings. Unknown additional savings if a coordinated service delivery system resulted in reduced parolee recidivism.

Comments: The CONREP and the POC Program, administered by the Department of Mental Health (DMH) and the California Department of Corrections (CDC), respectively, provide mental health services to persons released from the state prison system. For both programs, participation is a condition of a client's release from institutionalization.

The CONREP serves clients whose mental illness was formally recognized by the courts *prior* to institutionalization. The POC Program serves clients whose mental illness was recognized by the CDC *after* their entrance into the prison system. The POC Program is operated directly by the state, in contrast to the CONREP, which generally operates through contracts with county mental health departments.

The Parole Division of the CDC also administers a program jointly with the Department of Alcohol and Drug Programs that provides substance abuse treatment to parolees through contracts with counties.

Consolidating the POC Program and the CONREP, and potentially the substance abuse treatment projects, would result in administrative savings and better coordination of services, and could reduce parolee recidivism.

Option: **Time-Limited AFDC Grants.**
Seek a federal waiver in order to implement time-limited AFDC grants.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Potential major increased costs in the first couple of years of the program in order to provide additional services to families; major savings would not occur until recipients begin to leave the program due to loss of eligibility.

Comments: Under current law, a family is eligible for AFDC for as long as they meet the income, asset, and other requirements of the program. The state could seek a waiver from the federal government to establish a time-limited AFDC grant that would provide a fixed lifetime benefit to families. The amount of the time limit could be set at any level of months (for example, 36 months, 48 months, etc.). A family could use the benefit all at once or in increments; however, once the time limit was reached, the family would no longer be eligible for AFDC.

There are various alternative ways of structuring a time-limited grant program:

- Only the adult members of the family would be removed from the assistance unit (AU) once the time limit was reached — leaving the children on assistance. This would reduce — but not eliminate — the grant since the AU would now be smaller.

- The grant could be phased out in stages over some time period so the family would not lose the entire grant all at once.

- Those recipients who are unable to find employment by the time their eligibility ended could be offered a job with a private nonprofit organization or public sector agency and continue to receive a grant. Thus, the recipient could "earn" a grant by working.

- A family could earn back eligibility if an adult remained employed for some period of time.

In order to assure that recipients have a reasonable prospect of achieving independence when their eligibility ends, the state could combine time-limited grants with specified services, such as basic education, skill training, drug and alcohol treatment, mental health, and other counseling services.

This option could also result in an unknown fiscal effect on the Medi-Cal Program, because AFDC grant levels affect Medi-Cal eligibility.

Option: **AFDC — Regional Grant Levels.**
Create regional AFDC grant levels reflecting the varying costs of housing within the state.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Up to $64 million savings (assumes that one-half of the caseload has no grant change and the remainder experience a grant reduction to the federal maintenance-of-effort level). Also could result in additional costs, depending on the level at which grants are set.

Comments: Federal law permits states to vary the AFDC grant within a state to reflect the differences in housing costs. Under this option, the grants would more nearly reflect the variation in housing costs.

Option: **IHSS — Domestic and Related Services.**
Eliminate payment for domestic and related services (cleaning, meal preparation and clean up, laundry, shopping, errands) if "able and available" relatives are living with IHSS recipients.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Approximately $3 million savings.

Comments: This option would extend to all relatives a policy that currently applies only to spouses of IHSS recipients. Under current law, "able and available" spouse providers (about 30 percent of spouses) are not paid for domestic and related services under the rationale that they normally provide most of these services and would continue to do so in the program's absence. Under this option, the relative providers would continue to be eligible for payments for nonmedical personal services and paramedical services.

Option: **IHSS — Pilot Tests.**
Allow counties to pilot test ways of reducing IHSS costs.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Initial increased costs; potential unknown state savings.

Comments: The pilot tests could focus on reducing costs by allowing counties to provide (1) one-time capital expenses — for example, equipment, special modifications to client's homes, etc. — that would accomplish the goals of the IHSS Program in a less costly manner than human assistance, and (2) case management (oversight of providers) that could reduce program costs by reducing hours authorized for unnecessary/overestimated services.

Option: **IHSS — "Verbal Assistance."**
Eliminate payment for services characterized as "verbal assistance" — such as reminding, guidance, or encouragement — when these services are provided in *conjunction* with other services that are required for daily living under the In-Home Supportive Services (IHSS) Program.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Approximately $400,000 savings.

Comments: Clients receiving verbal assistance services generally receive other IHSS Program services for more serious functional problems. As a result, the time required to provide verbal assistance probably does not result in any significant marginal effort to the IHSS provider or costs. As a practical matter, any necessary "verbal assistance" would continue to be provided under this option as an extension of other services.

Option: **Independent Adoptions Program.**
Authorize the state's district adoption offices to charge a fee, based on income, for all independent adoption cases in which a petition is filed (rather than limiting fees to cases with favorable petitions); increase the independent adoption fee from $500 to approximately $2,400; adjust the fee on a periodic basis.

Type of Option: Fees.

General Fund Impact (1992-93): Approximately $4.5 million savings.

Comments: Under current law, a $500 fee is charged to the prospective adoptive parents in independent adoption cases only when a *favorable* adoption report is filed in superior court. The current fee covers only about 20 percent of the costs of providing independent adoption services. The Legislature could authorize the department to charge a fee, based on income, for *all* cases on which an adoption petition is filed and a significant amount of work is provided. This is because even those cases that ultimately receive an unfavorable report result in costs to the program. In addition, the Legislature could authorize the department to charge a fee that more fully reflects the service costs of this program. We note that the median gross annual household income of adoptive parents in this program is approximately $57,000, and about 30 percent have incomes of at least $80,000.

Reference: *Analysis of the 1991-92 Budget Bill,* page 751.

Department of Social Services

Option: **SSI/SSP — Federal COLA.**
Eliminate the "pass-through" of the federal SSI COLA to recipients.

Type of Option: Program Reduction.

General Fund Impact (1992-93): About $60 million savings (half-year effect, beginning January 1, 1993).

Comments: Federal law permits states to retain the federal funds provided for the COLA on the SSI grant and not to pass on these funds to the recipients, as long as the state-funded SSP portion of the grant remains above the federal maintenance-of-effort requirements (July 1, 1983 levels). Current *state* law eliminates the state COLA (which is applied to the entire SSI/SSP grant) through 1996, but requires that the SSI COLA be passed on to recipients. Under this option, the *total* SSI/SSP grant would remain at the current level.

Option: **SSI/SSP — "Cash-Out."**
Reduce the SSP grant by $10 per month and, instead, permit SSI/SSP recipients to receive food stamps.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Net savings of about $75 million; this savings consists of grant savings of about $90 million, partially offset by increased food stamp administrative costs of about $15 million.

Comments: Under current federal law, California is allowed to provide cash in lieu of food stamps to eligible SSI/SSP recipients. (This is referred to as food stamp "cash-out.") The cash is included as part of the SSI/SSP grant. In lieu of providing cash, the state could reduce the SSI/SSP grant and permit SSI/SSP recipients to receive food stamps. This would result in grant savings to the state and increased costs to the federal government because it pays 100 percent of the value of the food stamps.

If the grant were reduced by $10, the SSI/SSP recipient would receive $10 in food stamps. If, however, the SSI/SSP recipient is a member of a household that also has an AFDC assistance unit (for example, the mother is on SSI/SSP disability and her children are on AFDC), the combined family could experience a net loss of food stamps. This could range from about $20 to more than $100 for families in this situation. We do not have data that would allow an estimate of the fiscal effect of this interaction.

Option: **SSI/SSP Blind Recipients.**
Eliminate the grant amount differential between blind recipients and aged and disabled recipients (the differential is $74 per month for individuals and $205 per month for couples).

Type of Option: Program Reduction.

General Fund Impact (1992-93): About $20 million savings.

Comments: Table 3 compares the monthly SSI/SSP grants for aged/disabled individuals and couples with the grants for blind individuals and couples. The table shows that the maximum monthly grant for a blind individual is $74 more than that for an aged or disabled recipient. The grant for a blind couple is $205 more a month than that for an aged or disabled couple. Despite the higher grant level, it has not been demonstrated that the needs for a blind individual or couple are greater than those of an aged or disabled individual or couple. The state could reduce the grants for blind individuals and couples to the level of those for aged/disabled individuals and couples. To the extent that blind individuals and couples do have special needs, they would continue to be eligible for services through the In-Home Supportive Services Program and the Special Adult Program, which provides a monthly allowance for guide and assistance dogs to blind SSI/SSP recipients.

This option could result in minor Medi-Cal savings by requiring some people who currently receive Medi-Cal services without paying a share of cost to begin paying a share of their medical costs. This would occur if some recipients have sufficient income to lose their eligibility for the SSI/SSP program if the grants are reduced.

Table 3

SSI/SSP Monthly Grants 1992

	Aged or Disabled	Blind	Differential
Individual	$645	$719	$74
Couple	1,190	1,395	205

Option: **AFDC — Maintenance of Effort.**
Reduce AFDC grants to the federal maintenance-of-effort level.

Type of Option: Program Reduction.

General Fund Impact (1992-93): $128 million savings.

Comments: This option would result in the grants being reduced by about 4.5 percent ($30 for a family of three). This grant reduction would be partially offset by an increase in the food stamp allotment (about $9 for the same family). The effect of the grant reduction would be to create a gap between the need standard and the grant ($61 for a family of three), thereby increasing the financial incentive to work. This would allow recipients who work to keep more of their earnings. This option could result in a fiscal effect on the Medi-Cal Program, because AFDC grant levels affect Medi-Cal eligibility.

This option results in General Fund savings, which could be used to increase the work orientation in the program by:

- Increasing the need standard for recipients who have been on assistance for more than six months. This would further increase the gap for current recipients (increasing the financial incentive to work) while not increasing the caseload, by making eligible those who are not currently on assistance. This would require a federal waiver.

- Providing additional support to the GAIN Program in order to serve more recipients.

Youth and Adult Correctional

Board of Corrections and Commission on Peace Officer Standards and Training

Option: **Training of Local Law Enforcement Personnel.** Eliminate state funding for training of local law enforcement personnel, probation officers, and correctional officers.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Up to about $60 million savings in special funds, which can be transferred to the General Fund ($14 million from the Board of Corrections and $46 million from Commission on POST).

Comments: These programs primarily benefit local governments. In many cases, local governments would probably continue the training programs without state funding (especially given liability issues). As an alternative to eliminating state funding, the Legislature could reduce funding and target the remaining funds to local governments with less ability to pay for training.

Department of Corrections

Option: **Work Credit Program.**
Restore budget reductions in order to reestablish work credit assignments for inmates.

Type of Option: Program Investment.

General Fund Impact (1992-93): Net savings (after program investments to reestablish positions) of millions of dollars.

Comments: As a result of unallocated and "trigger"-related reductions, the Department of Corrections has made substantial reductions in positions overseeing inmates in work assignments, resulting in about 2,500 fewer full-time work assignments for inmates. Thus, inmates who desire to work, but who cannot do so due to lack of assignments, will spend longer time in prison, resulting in higher costs to the state. Reestablishing these positions could result in substantial reductions in the inmate population and, thus, savings to the General Fund as well as increased inmate job skills.

Option: **Joint Venture Program.**
Modify the Joint Venture Program in order to expand the number of inmates who participate.

Type of Option: Program Investment.

General Fund Impact (1992-93): Additional program investment costs of several hundreds of thousands of dollars. To the extent that more inmates participate in the Joint Venture Program, the options could generate savings in the millions of dollars from (1) recovery of a portion of the state's costs of an inmate's room and board from the inmate's wages and (2) shorter prison stays resulting from additional work/training assignments. These savings will partially be offset by revenue losses from the tax credits provided to businesses participating in the program.

Comments: The Prison Inmate Labor Initiative of 1990 (Proposition 139) required the California Department of Corrections (CDC) to implement the Joint Venture Program, the purpose of which is to allow private employers to employ inmates within prisons. Goods and services produced by the inmates would be available for sale to the public, and the inmates would be paid a comparable wage to workers outside the prison. A portion of an inmate's wages could be withheld to reimburse the state for the cost of the inmate's room and board, as well as for taxes, victim restitution, family support, and savings for the inmate. Businesses that participate are eligible to receive a tax credit for each job created by the Joint Venture Program.

The Legislature could take steps to facilitate program implementation, such as:

- Adopt legislation exempting inmates/employers from paying workers' compensation and unemployment insurance.

- Invest additional resources (particularly staff) in the program to accelerate its implementation.

Option: **Early Release of Inmates.**
Permit the Department of Corrections to release inmates from prison one to three months prior to the end of their sentences.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Potential net savings in the millions to tens of millions of dollars annually, depending on the number of inmates eligible for early release.

Comments: In order to minimize the public safety risk, legislation could be crafted to permit the release, at the discretion of the Director of Corrections, of only those inmates imprisoned for nonviolent offenses, or inmates who are terminally ill with less than a year to live. Inmates released early could receive increased supervision while on parole (given the relative costs of parole compared to incarceration, savings could still be generated).

Department of Corrections

Option: **Undocumented Immigrants.**
Require the Department of Corrections to identify inmates who are undocumented immigrants subject to deportation and to transport them to the U.S. Immigration and Naturalization Service (USINS) at the time of their release from prison.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Potentially millions of dollars in net savings due to reductions in the parole population.

Comments: We estimate that there are about 18,000 parolees who are undocumented. If they were returned to USINS and deported upon release from prison, there would be major reductions in parole supervision costs.

Option: **Use of Parole.**
Revise the parole program to reduce the number of parole violators returned to prison.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Potentially tens to hundreds of millions of dollars of savings, depending on the extent to which parole is limited when releasing individuals from prison.

Comments: This option could be accomplished by eliminating parole for a select group of offenders when they are released from prison (such as nonviolent offenders) and by reducing the number of requirements placed on parolees (noncriminal acts, such as failure to report to the parole office). More than 30 percent of the state's prison population consists of parole violators. Savings would result from reduced costs of parole supervision and reduced costs of prison operations.

Option: **"Shock Incarceration" Program.**
Establish a "shock incarceration" program on a pilot basis for young offenders convicted of nonviolent offenses, who have not been imprisoned before.

Type of Option: Program Investment.

General Fund Impact (1992-93): Probably costs of several million dollars for initial program investment; these costs offset by potential annual savings in the tens of millions of dollars.

Comments: This program would provide a demanding regimen of discipline along with education and rehabilitative services. The goal of the program would be to reduce the rate of recidivism among the participants. Savings would accrue to the extent that (1) offenders serve a shorter time in the program than they would otherwise serve in a prison or Youth Authority facility and (2) recidivism is reduced. The National Council on Crime and Delinquency (NCCD) reports that the Los Angeles County Sheriff's Department (LACSD) is currently operating a similar program with success. Specifically, the NCCD found that graduates from the LACSD program have (1) improved their educational levels, (2) significantly improved their employment status, and (3) an overall success rate (no arrest or absconding supervision) that is significantly higher than that for similar offenders in the general jail population.

Option: **Drug Treatment Program.**
Establish/expand drug treatment programs for parolees with a history of substance abuse.

Type of Option: Program Investment.

General Fund Impact (1992-93): Increased annual costs — probably more than $1 million — to establish or expand pilot drug treatment programs ($1.7 million in unallocated federal anti-drug abuse funds is currently available for this purpose). To the extent that the drug treatment programs reduce the number of parolees returning to prison, there would be savings in the millions of dollars annually.

Comments: Substance abuse-related violations are a significant factor contributing to the prison population, particularly for parole violators. Data suggest that "community corrections" programs that provide drug treatment services may reduce criminal activity. The state could establish additional drug treatment programs or expand existing programs by using federal anti-drug funds.

Board of Prison Terms

Option: **Parole Revocation Hearings.**
Reduce the number of persons required to conduct parole revocation hearings.

Type of Option: Program Reduction.

General Fund Impact (1992-93): $1.2 million savings.

Comments: Under current law, the Board of Prison Terms (BPT) must conduct a parole revocation hearing with panels of at least two persons (in most cases, two deputy commissioners serve on the panel). These hearings could be conducted by one person because:

- Most revocation decisions are made outside of the hearing process because of a form of plea bargaining that occurs between the parolee and the board.
- Deputy commissioners have limited discretion in the parole revocation process (referral of a parolee to the BPT by the Department of Corrections is the critical decision in the process).
- Most administrative hearings conducted by other state agencies use only one hearing officer.

Reference: 1991-92 *Analysis*, page 876.

Board of Prison Terms and Youthful Offender Parole Board

Option: **Parole Board Consolidation.**
Consolidate the parole board functions of the Board of Prison Terms (BPT) with the Department of Corrections (CDC) and consolidate the Youthful Offender Parole Board with the Department of the Youth Authority.

Type of Option: Consolidation.

General Fund Impact (1992-93): Probably more than $1 million in savings.

Comments: The parole boards rely heavily on the respective departments for recommendations on parole decisions and for support. In fact, the BPT accepts the recommendations of the CDC's parole staff in about 98 percent of its parole revocation actions. The boards were at one time part of the departments.

Option: **Parental Support for Youth Authority Wards.**
Require parents to pay a portion of the costs of supporting minors committed to the Youth Authority.

Type of Option: Funding Shift.

General Fund Impact (1992-93): $5.1 million savings.

Comments: Under this option, only those parents with the ability to pay could be charged for support, and support costs would only include expenses for food, clothing, personal supplies, and medical expenses. Parental liability could be capped. State law currently requires parents to pay similar costs for minors committed to county facilities. There is no analytical reason why parents of youth detained in *state* juvenile facilities should not be charged for support of their children as well, provided they have the ability to pay.

Reference: 1986-87 *Analysis*, page 1068.

Education

Option: **Student Fees.**
Require that students who have already earned more than 90 credits in a community college, or other four-year institution, pay up to the full cost for additional community college credit courses.

Type of Option: Fees.

General Fund Impact (1992-93): Savings in the $20 million range (Proposition 98).

Comments: This option would help address the unfunded workload issue facing many community colleges and provide an additional source of revenue to help offset General Fund outlays for community college apportionments. It would not adversely affect students who are attending a community college for purposes of obtaining an A.A. degree or transferring to a four-year institution, because these students would complete their community college work before reaching 90 credits.

Option: **Community College Reserves.**
Require that unrestricted community college reserves that exceed 5 percent of a district's state apportionment be counted towards the district's 1992-93 apportionment.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings of up to $30 million (Proposition 98).

Comments: This option would represent a one-time reduction in the state's General Fund commitment to the general apportionment for some districts. This action would prevent districts from committing these reserve funds to noninstructional priorities (such as parking structures or maintenance) that could be deferred in the current budget crisis.

Option: **Enrollment Age for Kindergarten.**
Raise the minimum enrollment age for kindergarten by three months.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings of about $274 million assuming a 20 percent reduction in kindergarten ADA (Proposition 98); also reduces the Proposition 98 guarantee and leads to savings in other categorical programs.

Comments: Current law provides (with some exceptions) that children must be 5 years old by December 2 to enroll in kindergarten. Many school districts indicate, however, that children are not sufficiently mature to benefit from kindergarten at age 5. This view is consistent with a number of research studies which advocate delaying the kindergarten enrollment age because children are not ready to benefit from kindergarten programs.

Option: **School Choice.**
Implement statewide system of school choice and grant ability to qualified persons/organizations to charter new, state-funded schools.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Unknown fiscal impact. Depends on how it is implemented and the level of state funding.

Comments: Under school choice, parents and students can choose which school the student will attend. If the school fails to meet the goals of individual students and parents, the student is free to transfer elsewhere.

This option would realign fundamental incentives in the K-12 system by making schools more accountable to parents, teachers, and administrators. Carefully designed school choice and school chartering legislation could make schools more responsive to (1) concerns of parents, because they could choose the school their children attend, and (2) teachers and administrators, because they could establish their own schools.

Option: **Basic Aid.**
Eliminate basic aid payments to and recapture "excess" property taxes from high-revenue districts.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of about $90 million (Proposition 98).

Comments: All school districts receive revenue limit aid from the state. For most districts, the amount of aid is equal to the difference between the revenue limits established to comply with the *Serrano* ruling and local property tax revenues. In some districts, the amount of aid is set at a minimum amount — $120 per ADA unit ("basic aid") — because the amount of property tax revenues actually exceeds the district's revenue limit.

This option would affect districts where property tax collections plus basic aid exceed the revenue limit. The effect of the option would be to further equalize funding for districts. It could be phased in over several years to allow affected districts to adjust to revised funding levels.

Option: **Declining Enrollment Aid.**
Eliminate aid to declining enrollment districts.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of approximately $4 million (Proposition 98).

Comments: Current law provides that districts may claim the greater of current- or prior-year average daily attendance for apportionment purposes — in effect providing a one-year fiscal "cushion" for districts with declining enrollment. This program could be eliminated because the funds are not needed to fund projected enrollment.

Option: **School District Revenue Backfill.**
Eliminate the backfilling of school district revenues which are lost to redevelopment agencies, on *future* redevelopment projects.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Potentially several millions of dollars in savings initially, growing rapidly thereafter.

Comments: Currently, the state backfills school district revenue which is lost to redevelopment areas. School districts lost up to $350 million in revenue to redevelopment areas in 1989-90. A large portion of that revenue is the result of formerly established redevelopment projects, and would not be affected by this option. However, we estimate that the revenue loss is growing by about $60 million annually. Some or all of this revenue growth may be attributable to new project areas. If the state eliminated the backfilling of school revenue losses on *new* projects, it would give the school districts an incentive to negotiate for this revenue from redevelopment agencies.

Department of Education

Option: **Environmental Education Program.**
Eliminate the Environmental Education Program.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Approximately $500,000 savings to the Environmental License Plate Fund (non-Proposition 98). No General Fund savings.

Comments: This program provides grants to districts for environmental education activities (such as establishing nature areas, conducting field trips to the ocean, or preparing nature handbooks). These are competitive grants that, in general, serve as "seed money," and are not intended to support ongoing programs. Elimination of the program would save money without disrupting *ongoing* programs. Students could still receive instruction on the environment in their regular classes (in science, for example). Also, the investment the state has made to date in this area (in the form of materials developed and nature areas established) would remain intact.

Option: **Class Size Reduction.**
Eliminate the Class Size Reduction Program.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of $31 million (Proposition 98).

Comments: Discussions with districts and consultants to school districts indicate that class sizes are going up and that this program is so small as to make little, if any, difference.

Option: **Desegregation and Compensatory Education.** Coordinate or combine the funding for the Desegregation and Compensatory Education (primarily Economic Impact Aid) Programs.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Savings, potentially in the tens of millions of dollars (Proposition 98).

Comments: The focus of school desegregation programs has been shifting from moving students among schools to providing additional educational resources to overcome the harmful effects of racial and cultural isolation. As a result, the ways in which many school districts are using state desegregation aid are not very different from the uses of funding provided under the state compensatory education program (also known as Economic Impact Aid — EIA). EIA provides funds to enhance programs for districts with high proportions of disadvantaged students. By requiring school districts to give first priority for the use of EIA funds to desegregation programs, and by limiting state desegregation aid only to allowable desegregation costs in excess of EIA funds, the Legislature could slow the rapidly growing costs of desegregation aid. Coordinating the two programs in this way also would provide a more equitable distribution of state aid among *all* school districts with high concentrations of students of color.

Option: **Supplemental Grants.**
Reduce or eliminate the Supplemental Grant Program.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings of $20 million to $185.4 million (Proposition 98).

Comments: The Supplemental Grants Program provides aid to school districts that would otherwise receive below-average per-pupil funding from 27 specified categorical programs. Because the allocation of funds for many of the categorical programs is based on measures of "need," the Supplemental Grants Program, in essence, provides funds to districts with lower levels of need.

Chapters 82 and 83, Statutes of 1989 (SB 98, Hart, and AB 198, O'Connell), established the Supplemental Grants Program for three years only. The program is statutorily scheduled to terminate at the close of the 1991-92 fiscal year.

The lower savings amount (shown above) assumes elimination from the funding formula of eight specific programs with significant variation in per-pupil needs across districts. The higher amount assumes elimination of the entire program.

Reference: 1990-91 *Analysis*, page 904.

Department of Education

Option: **Year-Round Schools.**
Eliminate Year-Round School Incentive Payment Program.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of at least $50 million (Proposition 98).

Comments: Our review of this program found that it did not achieve its primary goal, which is to reduce the state's cost of building new schools through increasing the number of pupils attending year-round schools. Although year-round school enrollments have increased, this occurred not because of the incentive payments but because the state has not had enough money to reduce the increasing application backlog for state-financed school construction.

Reference: 1991-92 *Analysis*, page 965.

Option: **Early Intervention for School Success.**
Reduce funding for the Early Intervention for School Success Program by $1 million.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings of $1 million (Proposition 98).

Comments: The Legislature could keep funding for this program at the prior-year level of $620,000 until it can show that it can attract more schools into the program with additional funds.

Reference: 1991-92 *Analysis*, page 941.

Department of Education

Option: **Early Childhood Intervention Programs.**
Consolidate the various early intervention programs.

Type of Option: Consolidation.

General Fund Impact (1992-93): Unknown savings, potentially several million dollars (Proposition 98).

Comments: Currently, both the federal and state governments fund similar early childhood intervention programs. In the current year, at the state level, there is $20 million for Healthy Start, $1.6 million for Early Intervention for School Success, and $10 million for Early Mental Health. In addition, some school districts have been providing funds on their own for similar types of programs. Consolidating some of these programs could result in savings.

Department of Education

Option: **Child Development.**
Consolidate child development programs.

Type of Option: Consolidation.

General Fund Impact (1992-93): Potential increased level of service with the same amount of money due to increased administrative efficiency at both the state and local provider levels.

Comments: The Department of Education administers a wide variety of subsidized child care and development programs which provide services directly to children from low-income families, and to those with special needs. Consolidating these programs could result in an increased level of service to the extent that consolidation furthers administrative efficiency.

Department of Education

Option:	**Staff:Child Ratios in Child Care Programs.** Change staff:child ratios for preschool-aged children served through subsidized child care programs from 1:8 to 1:10.
Type of Option:	Management Efficiencies.
General Fund Impact (1992-93):	Savings of $20 million to $30 million (50 percent to 70 percent are Proposition 98 funds, depending on the portion that goes to local education agencies versus private providers).
Comments:	The state subsidizes a number of child development programs that provide child care for children from needy families or with special needs. Studies indicate that the ratio of staff to children for these preschool children could be changed from the current 1:8 to 1:10, with no significant detrimental effect on the behavior or development of the children.
Reference:	1989-90 *Analysis*, page 761.

Department of Education

Option: **Diagnostic Schools.**
Eliminate diagnostic schools.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of $11 million (non-Proposition 98).

Comments: The diagnostic schools provide assessment and educational planning services for seriously handicapped children referred by Special Education Local Planning Areas (SELPAs). These types of assessments can be performed at a number of different medical and university facilities at school district expense.

Option: **Regional Resource Centers.**
Fund the regional resource centers on a reimbursement basis from school districts.

Type of Option: Funding Shift.

General Fund Impact (1992-93): Savings of $3.6 million (Proposition 98).

Comments: The regional resource centers provide schools with technical assistance in the delivery of staff development services. There are 12 such centers in the state. Because these centers provide technical assistance to school districts, they could be operated on a reimbursement basis.

Option: **Driver Training.**
Eliminate Driver Training Program.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of up to $35.9 million (non-Proposition 98).

Comments: There is little evidence to support the argument that students who receive driver training through the public schools and qualify for their license before the age of 18 are safer drivers than those who either (1) receive privately provided driver training or (2) simply wait until age 18 to drive. Thus, the primary beneficiaries of a state-subsidized driver training program are the students who wish to drive before age 18 (and/or their parents).

Option: **Attendance Accounting.**
Base school district apportionments on the number of students actually attending for the minimum day.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Savings of about $125 million, assuming a 1 percent reduction in reported average daily attendance (Proposition 98). Potential additional savings in various categorical programs.

Comments: Under current administrative practice, a school district may receive a full day's apportionment for a student who shows up long enough to have his or her attendance noted, but then misses classes for the remainder of the day. School apportionments would be reduced if a district, in order to receive a full day's apportionment, had to ensure that a student *actually* attended classes for the statutorily specified minimum school day (generally four hours) — or had a valid excuse for not doing so.

Option: **Collective Bargaining.**
Require all school districts to include in their contract with employees an option to "reopen" negotiations if the COLA from the state is less than agreed-upon pay raises.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Will reduce pressure on the General Fund (Proposition 98) for emergency loans. (Richmond School District borrowed approximately $30 million.)

Comments: Many districts have given pay raises in anticipation of certain funding levels from the state. Those that do not include "reopeners" in their contracts often must drastically cut back on program expenditures if actual funding levels differ.

Department of Education

Option: **Proficiency Tests.**
Eliminate the requirement that districts administer proficiency tests to high school students.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of $5.5 million (Proposition 98).

Comments: Currently, local districts are allowed to set their own individual standards of proficiency. Recently enacted legislation (SB 662, Hart), which requires students to take a test in grade 10 to show they have the basic competencies to compete in the job market, may make the proficiency test unnecessary.

Department of Education

Option: **Textbook Adoption Process.**
Eliminate the state textbook adoption process.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of approximately $1.6 million from reduced state operations expenditures (non-Proposition 98).

Comments: The textbook adoption process is cumbersome and results in many materials getting a rather cursory review. If the process were eliminated, local school districts would need to spend more time reviewing materials for content and quality. In order to assist, the State Department of Education (SDE) could conduct and publish reviews of textbooks. (This would reduce the total level of General Fund savings that would result from this option.)

Department of Education

Option: **Staff Development.**
Require local school districts, as a condition of receiving state grants, to tie staff development course work completed by teachers (in order to advance on the salary scale) to school or district staff development goals.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): No direct savings, but would improve the productivity of existing state expenditures on education.

Comments: This option would make staff development more effective by centering it on activities that a school and/or district find are important.

Option: **Adult Education.**
Reduce the per-ADA reimbursement rate for concurrently enrolled students from the K-12 revenue limit rate to 143 percent of the adult education rate.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Savings in the range of $30 million (Proposition 98).

Comments: Currently, high school students, including concurrently enrolled students, are funded at about twice the reimbursement rate of adult education students. By lowering the rate for concurrently enrolled students to 143 percent of the adult education rate, the Legislature would (1) reduce the incentive for districts to enroll high school students in adult education programs solely for financial purposes and (2) provide a reasonable level of funding for these students.

Reference: 1990-91 *Analysis*, page 860.

Option: **Desegregation Audits.**
Reinstate State Controller's Office (SCO) audits of school district desegregation claims.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Potential additional *costs* to the State Controller in the several hundred thousand dollars range; savings in the range of several millions of dollars due to reduced desegregation claims (Proposition 98).

Comments: These audits were eliminated effective October 1, 1991 as an internal administrative decision to meet General Fund budget cuts. Reinstating the audits would assure that General Fund dollars are spent for allowable purposes. Based on past experience, the savings resulting from these audits would be significantly greater than audit costs.

Option: **Credentialing Options.**
Simplify the credentialing system by consolidating and updating credentialing options.

Type of Option: Consolidation.

General Fund Impact (1992-93): Probably $1 million to $2 million savings (non-Proposition 98) to the Teacher Credentials Fund. Potential savings to the University of California (UC) and California State University (CSU) of $1 million to $2 million, if course work requirements were reduced by one or two courses.

Comments: The Commission on Teacher Credentialing (CTC) currently spends about $6.4 million in order to review applications and issue credentials, for about 80 different credential options. (A credential option refers to a set of requirements that an individual must fulfill in order to receive a credential.) Some of these options could be consolidated, thereby decreasing the workload for CTC. If preservice course work requirements were also reduced, there might also be savings in UC and CSU.

Commission on Teacher Credentialing

Option: **Credential Fees.**
Raise credential fees; use additional revenues to fund some staff development programs that are currently supported by the General Fund.

Type of Option: Fees.

General Fund Impact (1992-93): Savings of $13 million (to the Teacher Credentials Fund — non-Proposition 98), assuming fees were doubled (from $60 per credential to $120). If used to fund staff development programs, Proposition 98 funds would be freed up.

Comments: Because teachers benefit from staff development programs through increased productivity and professionalism, it may be appropriate to use credential fee revenue to support such programs.

University of California

Option: **Calculation of Salary Parity.**
Use a "weighted" comparison when calculating salary parity amounts for University of California (UC) faculty.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Savings of $20 million, assuming that a "weighted" comparison results in a salary parity that is 2 percent less than the current "unweighted" method.

Comments: Currently, the UC's eight comparison institutions are given equal weight in computation of the overall average, while salaries paid at each of the CSU's 20 comparison institutions are weighted by the number of faculty at the institution involved. The "weighted" comparison method more accurately reflects the salaries paid to the *total* market of faculty used in the comparison.

Option: **Faculty Teaching Workload.**
Increase University of California (UC) faculty course workload by one additional class per academic year.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Savings of up to $55.8 million, assuming one more course per academic year. (This amount of savings would require layoffs; layoffs could be avoided by reducing savings to $7.5 million — the amount requested by UC for *additional* faculty in the budget year).

Comments: Currently, UC faculty teach no more than five classes per academic year, while CSU faculty teach approximately eight classes per academic year and community college faculty teach approximately 10 classes per academic year. UC faculty would need to reduce their research and public service workload during a portion of the academic year in order to accommodate the increase in teaching workload. In order to avoid layoffs, the UC could be required to absorb additional enrollments over the next few years to reflect an increase in teaching load of one more course per year.

Option: **Student Fees.**
Increase student fees at the University of California (UC), California State University (CSU), and California Community Colleges (CCC).

Type of Option: Fees.

General Fund Impact (1992-93): Every $100 increase in resident student fees would result in net revenues (after university-based financial aid and Cal Grant offsets) of approximately $8 million at UC, $22 million at CSU, and $70 million at the CCC.

Comments: UC, CSU, and CCC resident student fees in 1991-92 are $2,274, $936, and $120, respectively. These fee levels are, respectively, approximately $758, $1,201, and $800 below comparable institutions in other states in the current year. Fee increases need not be proposed uniformly for all students. Upper division students and graduate students could be charged more than lower division students.

University of California, California State University, and Community Colleges

Option: **Redirection of Lower Division Students.**
Redirect lower division students from UC and CSU to the community colleges.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): Savings in the range of $30 million in the first year (1993-94 at the earliest) and $60 million annually thereafter.

Comments: Currently, the California Master Plan for Higher Education directs UC and CSU to maintain a 60 percent (upper division)/ 40 percent (lower division) student mix. This mix — chosen to encourage students to attend community colleges for lower division work and then transfer to UC or CSU — could be modified to a 70 percent/30 percent mix. It is less expensive to the state to have students take lower division course work at a community college because the added state cost per additional student at a community college is about $2,300 compared to $6,000 at UC and $4,400 at CSU.

This option would be an alternative to reducing eligibility through changes in admission criteria set forth in the Master Plan for Higher Education.

Capital Outlay

Capital Outlay Bond Financing

Option: **Avoid Issuance of Lease-Payment Bonds.**
Adopt legislative policy to use lease-payment bonds on an exception basis only.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): None in 1992-93, but potential savings in the millions or tens of millions of dollars annually thereafter.

Comments: Because lease-payment bonds are not backed by the full faith and credit of the state, they carry a higher interest rate than general obligation bonds. If the state carefully plans for capital outlay needs and receives voter approval on the necessary bond issues, it could finance the vast majority, or all, of its projects without resorting to lease-payment bonds.

Reference: 1991-92 *Analysis*, page 1323.

Local Authority for Bond Financing

Option: **State Assistance for Local Purposes.**
Propose a constitutional amendment to allow a simple majority vote on local general obligation bond measures for all infrastructure that would be developed and controlled by local entities — K-12 schools, community colleges, jails and juvenile facilities, courthouses, parks, libraries, etc.

Type of Option: Funding Shift/Reallocation of Responsibilities.

General Fund Impact (1992-93): Probably no budget-year impact. Annual debt-service savings in out-years of tens or hundreds of millions of dollars.

Comments: The state currently issues hundreds of millions of dollars of general obligation bonds each year for grants to local governments for various purposes. If, however, locals had a more accessible revenue source to finance their local needs (such as a majority vote on local bonds), the state could shift responsibility for funding these facilities to the local entities.

State Financing of K-12 School Construction

Option: **K-12 School Facilities Programs.**
Limit the state's responsibility for building K-12 facilities only to "high need/low wealth" districts that cannot meet their facilities needs.

Type of Option: Program Restructuring.

General Fund Impact (1992-93): None in 1992-93. Potential savings in annual debt service on school facilities bonds in the tens of millions of dollars. Potential out-year savings in administrative expenses in the millions of dollars annually.

Comments: Under the state program, districts would be eligible for state financing assistance if (1) the districts' schools are operated on a multi-track year-round schedule (high need) and (2) the districts have obligated a minimum percentage (say 80 percent) of their debt capacity (low wealth). State aid could be loans made from the sale of revenue bonds, with long terms to reduce annual repayments from districts.

Reference: 1991-92 *Analysis*, page 963.

Option: **Capital Outlay Projects.**
Eliminate California Community College (CCC) facilities from Field Act requirements, thereby making them comparable to the University of California and California State University (instead of K-12).

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings of potentially millions of dollars annually by moving construction projects to bid sooner and eliminating administrative costs.

Comments: One argument for having K-12 subject to the Field Act, instead of the somewhat less stringent Uniform Building Code, is that the students are required to be in school. This is not the case with higher education facilities. Not having an Office of State Architect plan check of CCC buildings would save time in getting projects under construction and eliminate administrative costs.

Option: **State Office Space.**
Implement the Capital Area Plan (CAP) by increasing the amount of state office space in Sacramento in state-owned rather than leased facilities.

Type of Option: Program Investment.

General Fund Impact (1992-93): Costs in the millions or tens of millions of dollars for about the first 15 years after new buildings are completed, then annual savings of several million dollars.

Comments: The state currently leases about 52 percent of its office space in Sacramento, even though the CAP calls for a level of only 10 percent. The state could greatly reduce its out-year costs by owning more of the buildings it occupies.

Department of Parks and Recreation

Option: **Capital Outlay Projects.**
Use capital outlay funds for the next several years only for projects that (1) address health/safety concerns, (2) rehabilitate existing park facilities, (3) are cost-effective new developments (i.e., generate revenue exceeding operation and maintenance costs), or (4) involve opportunity purchases of property.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Little, if any immediate savings. Longer-term savings — potentially in the millions of dollars — in reduced operation and maintenance costs for rehabilitated facilities and avoided operation and maintenance costs for new facilities that are deferred until the department's budget has become more stable.

Comments: Due to severe budget limitations, the department currently has difficulty operating and maintaining its *existing* facilities. A moratorium on the development of new facilities would help it "catch up" on its capital outlay needs in existing parks and preserve limited operations resources.

State Public Works Board and Department of Finance

Option: **Review of State Capital Outlay Projects.**
Abolish the Public Works Board (PWB) and its review function in order to expedite state capital outlay projects and, instead, have the Department of Finance (DOF) review and approve preliminary plans, working drawings, etc.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Savings of potentially millions of dollars annually by moving construction projects to bid sooner.

Comments: The PWB is composed of ex-officio members (for example, the Directors of General Services and Finance) and staffed by the DOF, so there would be no significant *staff* savings by abolishing the board. There would be, however, significant time savings by (1) eliminating the board's review of projects and (2) requiring the DOF to meet various deadlines in reviewing and approving changes in state capital outlay projects.

Office of State Architect and State Fire Marshal

Option: **Eliminate Plan Checks.**
Eliminate plan checks by the Office of State Architect (OSA) and State Fire Marshal (SFM) for state capital outlay projects and require, instead, that project architects/engineers certify that their work complies with codes.

Type of Option: Management Efficiencies.

General Fund Impact (1992-93): Potentially several million dollars savings by expediting state construction projects.

Comments: By requiring these agencies to perform these plan checks, the state, in effect, lets architects and engineers who design state projects "off the hook." This option would not change any building *requirement*, just shift the burden of accountability. The OSA and SFM could still audit on a sample basis to check compliance.

Department of the Youth Authority

Option: **School Facilities.**
Eliminate Field Act requirements for school buildings at Youth Authority facilities and, instead, use the Uniform Building Code for earthquake safety.

Type of Option: Program Reduction.

General Fund Impact (1992-93): Savings of $22 million in capital outlay expenditures over five years. (The department's five-year plan calls for these expenditures to retrofit its existing school buildings, which were originally constructed to meet building codes but not Field Act requirements.)

Comments: The Field Act provides marginally increased safety at significant additional cost. Youth Authority wards are housed in dormitories that are *not* subject to the Field Act and attend school in neighboring buildings that are subject to the Act.

Revenues

Option: **Indexing.**
Suspend income tax indexing for one year.

Type of Option: Revenue Base Expansion.

General Fund Impact (1992-93): $1.1 billion increased revenues.

Comments: Although the indexing of income tax brackets is required by a voter-approved initiative, Legislative Counsel has stated that the initiative does not prohibit the Legislature from adopting new tax brackets, and these new tax brackets could be identical to the tax brackets that would be in effect if indexing were suspended.

The suspension of indexing is analogous to the state not providing inflation adjustments for expenditure programs in times of budgetary distress. It would tend to increase the relative tax burden on middle-income taxpayers who have the greatest percentage of their income in the middle tax brackets.

Sales and Use Tax

Option: **Tax on Services.**
Extend sales and use tax to selected services.

Type of Option: Revenue Base Expansion.

General Fund Impact (1992-93): Up to several billion dollars revenue gain.

Comments: Extension of the sales tax to selected service transactions, such as admission to entertainment/amusement events, or telecommunications services, would help make the state's revenue base more responsive to growth in all sectors of the state's economy.

Senior Citizens' Property Tax Assistance

Option: **Property Tax Assistance.** Eliminate this program.

Type of Option: Program Elimination.

General Fund Impact (1992-93): $2.3 million savings.

Comments: This program will provide roughly 170,000 low-income, home-owning seniors with direct reimbursements for some portion of their property tax bill in 1992-93. The Department of Finance estimates that the average reimbursement will be $81.

This program serves a diminishing number of senior citizens each year because the program's income limits are not adjusted for inflation. This also causes the average amount of assistance to decline. Senior citizens eligible for this program also are eligible to defer payment of their property taxes under the Senior Citizens' Property Tax Deferral Program.

Tax Expenditure

Option:	**Printed Advertising Material.** Eliminate the exemption of printed advertising material from sales tax.
Type of Option:	Tax Expenditure.
General Fund Impact (1992-93):	Up to $50 million revenue gain.
Comments:	Current law exempts printed advertising material from the sales and use tax. This exemption was originally established to enable California printers to compete equally with those in other states who, it was thought, could not be taxed by California. A U.S. Supreme Court decision, however, has made it clear that states can tax those out-of-state printers, thereby eliminating the rationale for this tax exemption.

Option: **Motor Vehicle Fuel Used in Airplanes.**
Eliminate the exemption from the sales and use tax of gasoline purchased for use in private aircraft.

Type of Option: Tax Expenditure.

General Fund Impact (1992-93): $4 million revenue gain.

Comments: Current law exempts the purchase of gasoline for use in private aircraft from the sales and use tax. This exemption was created in 1972, when the sales and use tax base was broadened to include gasoline as a means to fund public transit agencies. The rationale for the exemption is that aircraft users did not benefit from public transit expenditures.

In 1991, the sales tax exemption for fuel used by public aircraft (common carriers) was eliminated to help balance the budget. Elimination of the exemption for private aircraft would be consistent with this action.

Option: **Health Care Tax Credit.**
Repeal the health care tax credit for small businesses.

Type of Option: Tax Expenditure.

General Fund Impact (1992-93): $110 million revenue gain in 1992-93, $570 million in 1993-94, $700 million in 1994-95, and increasing amounts thereafter.

Comments: Currently, 40 percent of small businesses already provide health insurance to their employees, so they will realize a windfall gain from this tax credit. The program was intended to be implemented along with a state comprehensive health insurance program which was never established.

Reference: *Analysis of the 1991-92 Tax Expenditure Budget,* page 87.

Option: **Inherited Property.**
Eliminate capital gains exclusion for inherited property.

Type of Option: Tax Expenditure.

General Fund Impact (1992-93): $200 million revenue gain.

Comments: The most common rationale for this tax expenditure is that the property of deceased persons is subject to estate taxes; thus, subjecting the capital gains to income taxation would amount to "double taxation" of the estate. It is also argued that, without this program, heirs might be forced to sell their inherited property in order to pay the tax on the full capital gain. However, these rationales are flawed. The two taxes imposed by the state on the property of the deceased are merely "pick-up" taxes that collect money which would otherwise go to the federal government. Furthermore, forced sales to pay taxes could be dealt with directly by a tax-deferral program.

Option: **Lottery Winnings.**
Eliminate tax exemption for state lottery winnings.

Type of Option: Tax Expenditure.

General Fund Impact (1992-93): Revenue gain of about $37 million.

Comments: Currently, lottery winnings are subject to federal taxation to the extent that they exceed lottery wagering losses. In addition, gambling winnings are subject to both federal and state taxation. Lottery winnings reflect increased income and, thus, an increased ability to pay taxes. This proposal would require a vote of the electorate.

Reference: *Analysis of the 1991-92 Tax Expenditure Budget,* page 35.

Option: **Mortgage Interest.**
Modify the existing programs for home mortgage interest deductions by (1) limiting the amount of home mortgage interest deductions which can be claimed and/or (2) disallowing interest deductions for second homes.

Type of Option: Tax Expenditure.

General Fund Impact (1992-93): (1) Amount of mortgage interest deduction: $35 million to $2.3 billion revenue gain; (2) second homes: $55 million to $65 million revenue gain.

Comments: Empirical evidence has shown that this program is inefficient, and more often than not results in "windfall benefits" to taxpayers who would have purchased homes anyway, or "over consumption" of housing. Modification of the program would mean that the benefits would go to those who need it most. The larger revenue gain figures shown above reflect a broad limitation of the allowable level of mortgage interest deductions.

Reference: *Analysis of the 1991-92 Tax Expenditure Budget,* page 49.

Option: **Senior Citizen.**
Modify senior citizen tax expenditure programs by imposing a means test based on income.

Type of Option: Tax Expenditure.

General Fund Impact (1992-93): Up to $250 million revenue gain.

Comments: Two programs that could be means tested are the Senior Exemption Tax Credit and the Capital Gains Exclusion on the Sale of a Residence for Taxpayers Over 55. Both programs give preferential treatment to seniors, regardless of income, in addition to existing programs that senior citizens are eligible for, along with all other taxpayers (that is, the Personal Exemption Tax Credit and the Deferral of Capital Gains on the Sale of Principal Residences).

Reference: *Analysis of the 1991-92 Tax Expenditure Budget*, pages 17 and 22.

Tax Expenditure

Option: **Social Security Income.**
Tax a portion of Social Security income.

Type of Option: Tax Expenditure.

General Fund Impact (1992-93): $275 million revenue gain.

Comments: This option would conform state law to federal law as regards the taxation of Social Security income. Under federal law, a portion of Social Security income may be included in taxable income, depending upon the amount of the taxpayer's other income. This option would primarily affect taxpayers with significant amounts of other income in addition to their Social Security income.

Option:	**Open-Space Subventions.** Eliminate the subventions for the open space (Williamson Act) program.
Type of Option:	Program Elimination.
General Fund Impact (1992-93):	Savings of about $14 million.
Comments:	The open-space program provides tax relief to landowners engaged in farming activities by assessing farmland solely on its value from agriculture. By reducing the tax burden on farmland, the Legislature intended to remove the burden of high property taxes as an incentive for the conversion of farmland to other uses. However, Proposition 13's assessment rules, by keeping property taxes nearly constant, provide protection from the pre-1977 style of property tax increases that served as incentives for owners of open space to develop their property.
Reference:	*Analysis of the 1991-92 Budget Bill*, page 1182.

Tax Relief

Option: **Homeowners' and Renters' Tax Relief.**
Eliminate the Homeowners' Property Tax Exemption and the Renters' Tax Credit.

Type of Option: Program Elimination.

General Fund Impact (1992-93): Savings of approximately $760 million.

Comments: Both of these programs were established as a way of offsetting property tax burdens that were increasing rapidly prior to Proposition 13. In the case of renters, these property tax increases led to increased rent levels. Because Proposition 13 has limited the extent of property tax increases, and because the value of the benefits provided by these programs has eroded over time, the continuing need for these programs is questionable.

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