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RECOMMENDED
LEGISLATION


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INTRODUCTION

The role of the Legislative Analyst's Office is to review state programs and make recommendations to the Legislature as to how the state can operate more effectively and efficiently. While most of our recommendations can be addressed in the annual budget bill, some involve recommended changes in law that require separate legislation. This report includes such recommended law changes that we have made in recent years. If you would like more information or assistance on any one of the proposed recommendations, please contact the person(s) listed at the bottom of each page. The deadline for bill requests to Legislative Counsel is January 22, 1999. The last day for bill introduction is February 26, 1999.



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K-12 EDUCATION

Provide Faster Equalization of School Funding

Recommendation

Provide annual cost-of-living adjustments (COLAs) on a sliding scale—larger for low-wealth districts—rather than the current approach of fixed amounts per student regardless of whether districts are rich or poor.

Rationale

Providing higher COLAs for low-wealth districts, over time, will help eliminate the per-student funding disparities that exist among districts. Under the current COLA approach, funding disparities shrink slowly and never entirely disappear.

LAO Reference

Please see our *1997-98 Analysis*, page E-61.

LAO Contact

Robert Turnage or Jannelle Lee: 445-8641



K-12 EDUCATION

Eliminate Costly and Inappropriate Placement of Students In County Community Schools

Recommendation

Enact law changes, phased-in over a three-year period, to eliminate incentives that lead to costly and inappropriate placement of probation-referred students to county community schools.

Rationale

Our proposal would eliminate counter-productive incentives under current funding formulas that lead to these inappropriate placements of pupils in county community schools. This change would encourage districts to place many of these pupils in school district alternative programs which are less costly and are more likely to meet the needs of students. For those pupils appropriately assigned to community schools, who are the type of pupils most in need of adult supervision, our proposal would increase the hours of adult supervision per school day from four to six.

LAO Reference

Please see our *1995-96 Analysis*, page E-64.

LAO Contact

Robert Turnage or Mary Jones: 445-8641



K-12 EDUCATION

Phase Out Basic Aid

Recommendation

Phase out “basic aid” given to high-property-wealth districts, over a three-year period.

Rationale

So-called basic aid school districts are among the districts with the highest amounts of combined state/local revenues per student. They are not in need of the additional state aid provided by basic aid payments. The provision of basic aid to these districts exacerbates the disparities in per-student funding that the Legislature perennially tries to address through equalization funding. The amount currently spent on basic aid to those districts (an estimated \$10 million in 1997-98) could be used instead to address higher priority educational needs.

LAO Reference

Please see our *1997-98 Analysis*, page E-64.

LAO Contact

Robert Turnage or Jannelle Lee: 445-8641



K-12 EDUCATION

Consolidate Categorical Funding Into Block Grants

Recommendation

Consolidate and simplify the current plethora of categorical programs into a discrete number of manageable and flexible block grants.

Rationale

The state currently funds more than 60 categorical programs, each with detailed requirements and amounts that cannot fully account for local variations in needs. Consolidating many of these programs into several block grants would eliminate unnecessary “red tape,” and free local districts and schools to address their needs in ways that best match their local circumstances. Money would flow more readily to those activities for which it is needed most, leading to more effective use of funds. Under this proposal, state oversight would focus on the contribution made by block grant funds to improving student achievement and other educational outcomes.

LAO Reference

Please see our *1997-98 Analysis*, page E-70.

LAO Contact

Robert Turnage or Jannelle Lee: 445-8641



K-12 EDUCATION

Class Size Reduction: Increase Program Flexibility For Educational Benefit

Recommendation

Require school districts to use the same number of teachers mandated by the current class size reduction (CSR) program, but allow schools to deploy teachers as best meets students' needs, rather than the rigid 20 to 1 formula for each classroom required by current law. This proposal would *not* decrease funding for CSR; it *would* provide for more flexible and effective implementation.

Rationale

One size does not always fit all. Our proposal for increased flexibility could help schools improve educational outcomes. For example, our proposal would permit one-on-one or small group tutoring to supplement classroom instruction, something that is impractical under current CSR constraints. Our proposal also would alleviate counter-productive side-effects of the current rigid formula, such as the busing of children among schools in order to assure that each classroom in each school not exceed 20 children. It also would ease the problems that participation in the program poses for schools with serious facilities constraints.

LAO Reference

Please see our *1997-98 Analysis*, page E-52.

LAO Contact

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HIGHER EDUCATION

Increase Federal Support to Improve Programs

Recommendation

Develop strategy to take advantage of federal tax credits by selective increases in higher education fees. These increases would be offset substantially—in some cases completely—by higher federal tax credits for students. For low-income students, fee increases could be offset fully by increased financial aid.

Rationale

Federal law allows the Legislature to increase federal support of state higher education. Additional funds could be used to improve programs and increase student access at little or no cost to students/families.

Failure to act will unintentionally shift enrollment away from community colleges to the universities at significant costs to the state and at cross purposes with the state's higher education master plan.

LAO Reference

Please see our report, *Taking Advantage of New Federal Higher Education Tax Credits* (February 1998).

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CALWORKS

Evaluate Work Participation Standards

Recommendation

Require the department to contract for an evaluation of the cost-effectiveness of giving counties the discretion to reduce required weekly hours of participation from 32 hours to 20 hours for families with a child under age six.

Rationale

Federal law requires that single-parent families with children under age six participate in work-related activities for a minimum of 20 hours per week. Beginning in 1999, current state law sets the minimum participation requirement at 32 hours for *all* single parent families. Given the high cost of child care for preschool children, providing county case managers with the flexibility to set participation standards for families with young children between the federal minimum (20 hours per week) and the California Work Opportunity and Responsibility to Kids (CalWORKs) program minimum (32 hours per week) could facilitate cost-effective use of CalWORKs resources. (We note that subsequent to publication of our report, nine counties have indicated an interest in participating in such an evaluation.)

LAO Reference

Please see our January 1998 report, *CalWORKs Welfare Reform: Major Provisions and Issues*, page 20.

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CHILD SUPPORT ENFORCEMENT

Revise Program Administration

Recommendation

Require the state to assume administrative control of the program.

Rationale

Additional spending in the program is likely to lead to additional savings to the state through greater recouplement of California Work Opportunity and Responsibility to Kids (CalWORKs) grant costs. The existing funding system gives counties control over the level of spending in the program, but does not give counties the incentive to spend at the level that is optimal from the state's perspective. State administration of the program would facilitate an optimal allocation of resources to maximize net revenues.

LAO Reference

Please see our *1992-93 Perspectives and Issues*, page 153.

LAO Contact

Chuck Lieberman: 445-6061



IN-HOME SUPPORTIVE SERVICES

Standardize Payment Methods

Recommendation

Eliminate the “advance pay” option in the In-Home Supportive Services (IHSS) program.

Rationale

There are approximately 940 cases in an average month—less than 1 percent of the total IHSS caseload—in which payments for services are sent *to the recipient* at the beginning of each month, *before* services are rendered. State law authorizes this method of payment for severely impaired recipients. These advance pay cases, however, are not eligible for federal funding. Elimination of the advance pay option would not reduce the level of services to recipients. It would require that all payments be made to the service provider on an arrears basis, which is how almost all IHSS cases are paid. Eliminating the advance pay option will save the state approximately \$2 million annually.

LAO Reference

Please see our *1995-96 Analysis*, page C-147.

LAO Contact

Chuck Lieberman: 445-6061



MEDI-CAL PROGRAM

Recognize Regional Clearinghouses for Nursing Home Placements

Recommendation

Require the use of regional nursing bed clearinghouses to facilitate the transfer of Medi-Cal patients needing only nursing care from hospitals to less costly freestanding nursing facilities.

Rationale

Current law requires hospitals to individually contact nursing homes during regular workdays to seek placements for Medi-Cal patients who no longer require hospital care, but who do need nursing care. If an appropriate outside placement is not located, then the patient may remain in a hospital-based nursing bed.

The current process is cumbersome, imposes administrative costs on hospitals and the department, and is potentially subject to manipulation by hospitals that have a financial incentive to retain patients in their own nursing beds.

Regional clearinghouses would maintain a central database of available nursing beds that would simplify and expedite the placement process, reduce hospital administrative costs, and allow the department to easily verify compliance with the placement process. State savings could be up to several million dollars annually.

LAO Reference

Please see our *1997-98 Analysis*, page C-50.

LAO Contact

Daniel Rabovsky: 445-6061



DEPARTMENT OF HEALTH SERVICES

Improve Test Reliability at Clinical Laboratories

Recommendation

Require physician office laboratories (POLs) to have at least one licensed clinical laboratory technologist when conducting moderate- or high-complexity tests.

Rationale

A 1997 study of the reliability of lab test results found that POLs using unlicensed personnel to conduct moderate- and high-complexity tests had a failure rate more than twice that of POLs using licensed laboratory technologists. This recommendation is consistent with current law that requires *non-POL* labs to use licensed technologists for all such tests.

LAO Contact

Chuck Lieberman: 445-6061



MANAGED RISK MEDICAL INSURANCE BOARD

Require CCS Children to Enroll in Healthy Families Program

Recommendation

Require qualifying participants in the California Children's Services (CCS) Program to enroll in the Healthy Families Program.

Rationale

Currently, the state and the counties equally share the cost of providing eligible medical services to children in the CCS program who do not qualify for Medi-Cal. Enrollment in Healthy Families would provide these children with coverage for a broader range of services, including dental and vision care, and would result in state and county savings by shifting two-thirds of the cost to federal funds. Requiring enrollment in Healthy Families for qualifying CCS children (rather than relying on gradual voluntary enrollment) would maximize this coverage and fiscal benefits and result in annual net state and county savings on the order of \$6 million each.

LAO Reference

Please see our *1998-99 Analysis*, page C-20.

LAO Contact

Daniel Rabovsky: 445-6061



DEPARTMENT OF CORRECTIONS

Accommodating Long-Term Inmate Population Growth

Recommendation

Enact legislation that takes a balanced approach to handling projected growth in the prison inmate population by (1) adding new prison capacity and (2) reducing the expected growth in the inmate population by expanding inmate and parole programs that reduce recidivism, releasing elderly inmates to home or community facility detention, and reforming the present sentencing system.

Rationale

As of fall 1998, the Department of Corrections projected that the state's prison population would climb to almost 208,000 inmates by June 2004, resulting in a housing gap of about 27,000 beds to accommodate these inmates. The Legislature could bridge this housing gap by enacting legislation that is weighted almost equally between (1) adding new prison capacity and (2) reducing the expected inmate population growth as a result of policy changes that are cost-effective and minimize the risks to public safety.

LAO Reference

Please see our policy brief *Addressing the State's Long-Term Inmate Population Growth*, May 1997.

LAO Contact

Dan Carson: 445-4660 and Chuck Nicol: 322-8402



DEPARTMENT OF CORRECTIONS

Enact Reforms in Prison Industry Authority

Recommendation

Privatize the Prison Industry Authority (PIA) as an independent, nonprofit, tax-exempt organization. Focus PIA on providing job training and other services aimed at preventing second-strike offenders from coming back to state prison with 25-years-to-life third-strike sentences. Also, enact other changes to restructure PIA management, improve fiscal accountability, do away with protected markets, establish clear rules for competition, allow for new private partnerships, and measure mission performance.

Rationale

Following a number of years of poor financial performance, the PIA has improved, but the state continues to receive a poor return on its more than \$91 million contribution in buildings and equipment for the program. The PIA's progress has been hampered by an ever-shifting and muddled mission, constraints on inmate productivity, governmental constraints such as the state's personnel system, and a weak internal governance structure.

LAO Reference

Please see our policy brief *Reforming the Prison Industry Authority*, April 1996.

LAO Contact

Dan Carson: 445-4660



DEPARTMENT OF CORRECTIONS

Expand Civil Addict Program

Recommendation

Encourage additional court-ordered commitments of narcotic-addicted offenders to the Civil Addict Program by ensuring that offenders who are eligible for the program are identified by county probation officers in the officers' reports to the sentencing judges. In addition, restore the system of credits that was inadvertently eliminated for these offenders in prior legislation.

Rationale

The Civil Addict Program has proven to be effective at reducing inmate recidivism due to substance abuse. Expansion of the program to include additional inmates with substance abuse problems would likely be a cost-effective strategy to reduce rising state incarceration costs.

LAO Reference

Please see our *1998-99 Analysis*, page D-76.

LAO Contact

Dan Carson: 445-4660



DEPARTMENT OF CORRECTIONS AND BOARD OF PRISON TERMS

Enact Reforms to Parole System

Recommendation

Enact a new approach to reform the parole system, including (1) restructuring parole supervision to focus on control of high-risk offenders, (2) additional sanctions for parole violators, including supervision fees and home detention with electronic monitoring, and (3) restoration of authority over sanctions to the Department of Corrections' parole division and individual parole agents.

Rationale

A major contributor to the growth in the state's prison population is the large number of parolees being returned to prison for a parole violation. Our recommended reforms are designed to improve public safety, reduce prison overcrowding, and save the state money by breaking the cycle of parole failure and reincarceration.

LAO Reference

Please see our *1998-99 Analysis*, page D-11.

LAO Contact

Dan Carson: 445-4660



DEPARTMENT OF CORRECTIONS AND BOARD OF PRISON TERMS

Eliminate Foreign Prisoner Transfer Program

Recommendation

Repeal 1994 legislation which established a program to transfer state prison inmates back to the foreign countries from which they originated.

Rationale

The program has not been cost-effective. At considerable expense, the Department of Corrections has notified tens of thousands of inmates per year of their opportunity to apply to finish out their prison terms in their home countries. However, each year only a handful of offenders who apply have actually been transferred from state custody through the actions of the Board of Prison Terms.

LAO Reference

Please see our *1997-98 Analysis*, page D-110.

LAO Contact

Dan Carson: 445-4660



DEPARTMENT OF JUSTICE

Enact Excise Tax on Precursor Chemicals Used in Methamphetamines

Recommendation

Enact an excise tax on the *retail* sale of the precursor chemicals that are used in the illegal manufacture of methamphetamine. Use the revenues generated from such a tax (probably in the millions of dollars annually) to defray the state's costs for enforcement and cleanup of clandestine methamphetamine laboratories.

Rationale

The illegal manufacture of methamphetamine has become a serious problem in California in recent years, costing the state millions of dollars for the enforcement of drug laws and cleanup of clandestine laboratories. Although most legitimate users of chemicals purchase the chemicals at the wholesale level, much of the precursor chemicals used in illegal manufacturing are sold at the retail level. Thus, a tax on retail sale would not affect most legitimate users. Also, retail sellers must already register with the state, so the tax collection process would be relatively easy.

LAO Reference

Please see our *1996-97 Analysis*, page D-142.

LAO Contact

Craig Cornett or Tracy Kenny: 445-4660



DEPARTMENT OF JUSTICE

Enact Changes in Responsibilities and Relationships With Local Governments

Recommendation

- Designate Department of Justice (DOJ) as the lead agency for all interactions with foreign governments related to the prosecution of persons committing crimes in California who have fled to their home countries.
- Require local law enforcement agencies to pay for the costs of services provided by the DOJ's crime laboratories.
- Require counties to reimburse the state for legal work performed by DOJ on behalf of district attorneys who are disqualified from handling local cases due to conflicts of interest.

Rationale

Designating DOJ as lead agency for all foreign prosecutions would enhance law enforcement coordination efforts between foreign governments and California. Requiring local governments to pay for crime lab services and prosecution in conflict of interest cases would properly align local government's funding and programmatic responsibilities for investigation and prosecution of criminal cases.

LAO Reference

Foreign prosecution: Please see our *1997-98 Analysis*, page D-179. Reimbursement for crime lab services: Please see our *1997-98 Analysis*, page D-174. Reimbursement for legal work in conflict of interest cases: Please see our *1988-89 Analysis*, page 53.

LAO Contact

Craig Cornett, Alex MacBain, or Tracy Kenny: 445-4660



DEPARTMENT OF CONSERVATION

Transfer Beverage Container Recycling Program

Recommendation

Authorize the transfer of the Department of Conservation's (DOC's) beverage container recycling program to the Integrated Waste Management Board (IWMB).

Rationale

The IWMB is responsible for most of the state's waste recycling programs. The DOC, however, administers the beverage container recycling program, which promotes the recycling of certain types of beverage containers.

Transferring the beverage container recycling program to IWMB would result in some administrative cost savings (probably in the range of \$100,000 per year). Perhaps more importantly, merging these programs would improve the integration and coordination of the state's recycling efforts, thus increasing their effectiveness.

LAO Reference

Please see our *1993-94 Analysis*, pages B-36 and B-37.

LAO Contact

Steve Boilard: 445-5921



DEPARTMENT OF FORESTRY AND FIRE PROTECTION

Levy Fire Protection Fees

Recommendation

Require that property owners who directly benefit from fire protection services of the California Department of Forestry and Fire Protection (CDFFP) partially offset the costs of that service by paying a fee or fire insurance surcharge.

Rationale

The CDFFP provides fire protection services in state responsibility areas (SRAs). Property owners in SRAs benefit directly from CDFFP's services. Thus, they ought to share in the cost of those services through user fees.

User fees are typically levied by departments to finance programs where an identifiable group benefits, such as the Department of Parks and Recreation's camping and day use fees and the Department of Fish and Game's hunting and fishing licenses. However, such fees are not currently charged for fire protection services provided by CDFFP in SRAs.

LAO Reference

Please see our *1993-94 Analysis*, page B-43.

LAO Contact

Miriam Ingenito: 445-5921



DEPARTMENT OF TOXIC SUBSTANCES CONTROL

Reauthorize State Superfund Program

Recommendation

Reauthorize the state Superfund program, which sunsets in January 1999, and make changes that will reduce cleanup delays and the abandonment of contaminated properties.

Rationale

The Legislature could expedite site cleanups and promote the redevelopment of abandoned or idle contaminated properties by making various changes to the current Superfund law. For example, litigation-related delays associated with allocating liability for cleanup costs could be reduced by providing for state funding at “orphan share” sites, liability protection for prospective site purchasers, and expedited settlements for modest contributors to the contamination. Cleanups could also be expedited by (1) providing greater legislative direction regarding cleanup standards in order to facilitate regulatory compliance and promote greater consistency statewide in the application of the standards and (2) providing authority for land-use-based cleanups.

LAO Reference

Please see *State Superfund Reauthorization: Expediting Hazardous Substance Site Cleanups*, August 17, 1998.

LAO Contact

Mark Newton: 445-5921



ENVIRONMENTAL PROTECTION DEPARTMENTS

Enact Polluter Pays Fees

Recommendation

Require fees to fully cover costs of (1) environmental regulatory programs designed to prevent or reduce pollution and (2) programs for the cleanup and restoration of polluted properties and natural resources.

Rationale

Private parties that benefit from using public resources should be responsible for paying the costs imposed on society to regulate such activities. Environmental regulatory programs currently exempted from paying fees include the Air Resources Board's stationary source program; the State Water Resources Control Board's (SWRCB) core water quality regulatory and water rights programs; the Department of Toxic Substances Control's transportation-related emergency response program and the review of timber harvest plans by the Department of Forestry and Fire Protection and SWRCB.

LAO Reference

Please see our *1992-93 Analysis*, page IV-19 (financing of resources and environmental programs).

Also see our *1993-94 Analysis*, pages B-44 and B-69, page B-59, and page B-65; *1997-98 Analysis*, page B-85.

LAO Contact

Mark Newton: 445-5921



VARIOUS STATE AND LOCAL AGENCIES

Modify California Environmental Quality Act

Recommendation

Make various changes to the California Environmental Quality Act (CEQA) so that the CEQA review process works better to achieve the statute's goals.

Rationale

The CEQA's ability to inform public decision-makers and the public about the environmental impacts of development can be increased, and compliance costs to the business community can be reduced, if the CEQA process is made more efficient. This can be done by (1) clarifying a number of statutory requirements, (2) expanding streamlining measures to avoid duplication of environmental review, (3) making local CEQA policies more certain by enhancing public access to these policies, and (4) requiring mitigation measures to be based on statewide goals.

LAO Reference

Please see our *CEQA: Making It Work Better*, March 20, 1997.

LAO Contact

Mark Newton: 445-5921



AGRICULTURAL LABOR RELATIONS BOARD

Eliminate Board and Transfer Duties to the Public Employment Relations Board

Recommendation

Eliminate the five-member Agricultural Labor Relations Board (ALRB) along with related positions and transfer the remaining staff and the responsibility for enforcing the Agricultural Relations Act to the Public Employment Relations Board (PERB).

Rationale

The workload for the board has declined sharply and permanently since it was created in 1975. The PERB's responsibilities in the areas of public education and state employees are similar to the ALRB. Given the ALRB's ongoing low workload and the PERB's ability to enforce the Agricultural Labor Relations Act, we recommend transferring the responsibilities for this act to PERB.

LAO Reference

Please see our *1997-98 Analysis*, page G-46.

LAO Contact

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CAPITAL OUTLAY

Develop Statewide Multiyear Capital Outlay Plan

Recommendation

Enact legislation requiring the development of a multiyear capital outlay improvement plan that identifies all needs and priorities for development of the state's infrastructure.

Rationale

Estimated capital outlay needs over the next five years for the various state department and K-12 education totals about \$37 billion. The Legislature, however, does not have a comprehensive plan that identifies these needs, establishes priorities, or provides a financing plan. The development of such a plan is essential in order to assure that state infrastructure needs are met in a timely manner.

LAO Reference

Please see our *1991-92 Perspectives and Issues*, page 227.

LAO Contact

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CIVIL SERVICE

Improve the Structure and Nature of State Civil Service

Recommendation

Develop legislation to make significant improvements to the state's civil service system.

Rationale

Existing civil service laws and rules have resulted in significant problems such as (1) preoccupation with process over results, (2) impediments to effective conduct of programs, and (3) barriers to personal and career development of employees. We suggest the Legislature use a set of guiding principles to review and craft legislation to correct these and other problems in the structure and nature of the civil service system.

LAO Reference

Please see our *1995-96 Perspectives and Issues*, page 153.

LAO Contact

Gerald Beavers or Todd Clark: 322-8402



CONSUMER AFFAIRS

Eliminate State Regulation of Certain Occupational and Professional Activities

Recommendation

Enact legislation to eliminate the state's regulation of activities such as barbering, cosmetology, appliance repair, home furnishings, and shorthand reporters.

Rationale

The state should regulate activities in order to protect the public from potential serious injury or death, severe financial harm, and where there are federal mandates. If an activity does not meet these criteria, we believe that state regulation is not warranted.

LAO Reference

Please see our *1993-94 Analysis*, page G-14.

LAO Contact

Gerald Beavers or Megan Atkinson: 322-8402



BOARD OF EQUALIZATION AND FRANCHISE TAX BOARD

Consolidate Boards Into a New Department of Revenue

Recommendation

Enact legislation to create a Department of Revenue to carry out state tax administration activities.

Rationale

Integrating the existing tax administration functions into a single department should increase accountability, clarify management authority, encourage efficiency, and enhance public perception of these activities. In addition, consolidation should achieve improved services and long-run savings even though there would be increased costs in the short-run.

LAO Reference

Please see our *1993-94 Analysis*, page H-14.

LAO Contact

Gerald Beavers or Megan Atkinson: 322-8402



REDEVELOPMENT

Submit Plans to State Attorney General

Recommendation

Require cities and counties to submit proposed redevelopment plans to the state Attorney General for a finding of consistency with state law.

Rationale

The state's redevelopment oversight system is decentralized and weak. Community redevelopment law oversight efforts by local agencies, the Department of Finance, and private parties are not sufficient to protect the state's significant fiscal and policy interests in redevelopment.

LAO Reference

Please see our policy report *Redevelopment After Reform: A Preliminary Look*, December 29, 1994.

LAO Contact

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STATE TEACHERS' RETIREMENT SYSTEM

Make School Districts Responsible for Benefits

Recommendation

Make the State Teachers' Retirement System (STRS) fully supported by local school districts and phase out state subsidy of the retirement benefits for teachers.

Rationale

Teachers in K-12 schools and the community colleges are employees of those local entities. The cost of retirement benefits for these local employees should be the responsibility of the individual districts rather than the state. Currently, however, the state subsidizes teachers' retirement benefits through annual General Fund appropriations in the hundreds of millions of dollars.

LAO Reference

Please see our *1995-96 Perspectives and Issues*, page 185.

LAO Contact

Gerald Beavers or Todd Clark: 322-8402



DEPARTMENT OF VETERAN AFFAIRS

Rethink Cal-Vet Home Loan Program

Recommendation

In the short term, enact legislation to strengthen internal and external oversight of the Cal-Vet program to ensure proper management. In the long term, amend state law to direct the orderly phase-out of issuance of new Cal-Vet home loans. Subject to voter approval, surplus Cal-Vet funds should be directed to programs that will benefit both aging war veterans and state taxpayers.

Rationale

The Cal-Vet home loan program has not been competitive with other private- and public-sector loan programs which offer better interest rates and terms. Additionally, the Cal-Vet loan portfolio is declining due to federal restrictions on tax exempt state bonds (which fund the program) and the aging of the war veteran population. Significant financial and operational problems have eroded the state's equity (assets less liabilities) in the Cal-Vet fund by \$200 million.

LAO Reference

Please see our policy brief *Rethinking the Cal-Vet Loan Program*, January 1998.

LAO Contact

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TRANSPORTATION

Authorize High Occupancy Toll Lane Pilot Project

Recommendation

Authorize the construction of high occupancy toll lanes, either publicly or privately owned, as a pilot program.

Rationale

Charging drivers for the cost of their driving can encourage more efficient use of the road system. (Through the use of tolls, for example.)

In order to determine whether a more widespread use of road pricing is advisable, a pilot program should be undertaken. One alternative is to study the feasibility and congestion-reduction benefits of high occupancy toll (HOT) lanes. The HOT lanes are similar to traditional high occupancy vehicle (HOV) lanes, except that non-HOVs can pay a toll to use HOT lanes. Such a pilot program could also evaluate the effect on low-income drivers and how any adverse impact can be mitigated.

LAO Reference

Please see *After the Transportation Blueprint: Developing and Funding an Efficient Transportation System*, March 5, 1998, page 12.

LAO Contact

Dana Curry: 445-5921



TRANSPORTATION REVENUES

Fund Transit Rolling Stock

Recommendation

Amend the State Constitution to permit the use of gas tax revenues for transit rolling stock.

Rationale

The State Constitution (Article XIX) restricts the use of fuel tax revenues (gas and diesel taxes) to (1) construction, maintenance, and operation of roads and highways; or (2) construction and maintenance of mass transit guideways and facilities (mainly rail tracks). Transit rolling stock (mainly railcars and buses) is the only type of transportation capital outlay that currently cannot use fuel tax revenues under Article XIX.

Modifying Article XIX to allow fuel tax revenues to be used for transit rolling stock would allow greater flexibility in the use of fuel tax revenues for the most cost-effective transportation projects.

LAO Reference

Please see *After the Transportation Blueprint: Developing and Funding an Efficient Transportation System*, March 5, 1998, page 3.

LAO Contact

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