



Propositions 12 and 13 Parks and Water Bonds: Implementation Issues

Background

On March 7, 2000, California voters approved a \$2.1 billion parks bond (Proposition 12) and a \$2 billion water bond (Proposition 13). The money provided by the bonds will go to a variety of state, local, and nonprofit agencies to implement a broad range of resource protection and enhancement activities.

LAO Findings

We examine the major provisions of the two bond measures. We also identify issues that will affect how the bond funds are disbursed and how activities are funded. Overall, we find that there are a number of budgetary, administrative, and policy decisions that will have to be made in order to fully implement the two measures.

LAO Recommendations

We recommend the Legislature:

- ❖ Review criteria proposed by departments to administer loan and grant programs under the bond measures.
- ❖ Define and monitor program administrative costs charged to bonds.
- ❖ Designate a lead agency under each bond measure to coordinate decision-making, accounting, and reporting functions.
- ❖ Require annual reports from the administration on bond-funded activities.
- ❖ Require independent programmatic audits of bond-funded expenditures.
- ❖ Require bond fund balances to be displayed in the Governor's budget documents.
- ❖ Consider using a portion of the current increase in General Fund revenues, in lieu of bond funds, to carry out the purposes of Propositions 12 and 13.

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BACKGROUND

Major funding for the development and improvement of state parks and water projects has traditionally come from a variety of sources. These include the state's General Fund, special funds (including proceeds from environmental license plate sales, user and regulatory fees, and other sources), federal funds, as well as proceeds from general obligation bonds.

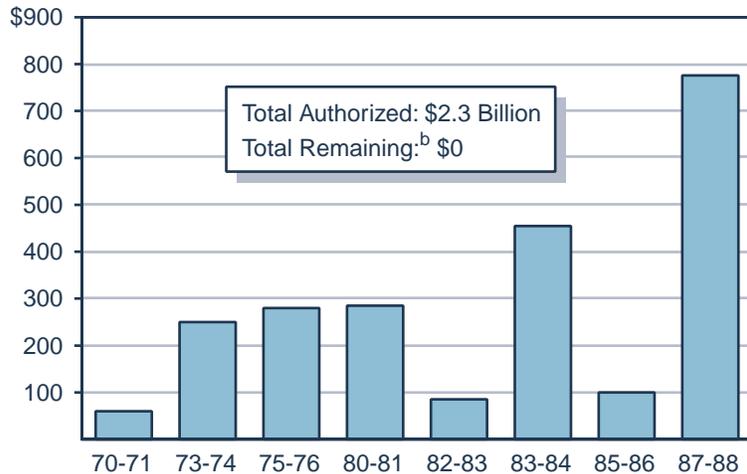
While bonds played an especially important role in parks and water facilities development in the 1970s and 1980s, they diminished as a funding source through the 1990s. As Figure 1 illustrates, no new parks bond was approved for these purposes between 1988 and 2000, and virtually all funds approved prior to 2000 have been depleted. Those funds were used to expand and improve the state parks system, increase public access to the coast and other public lands, and support the development of park facilities by regional and local entities.

Figure 2 shows that only one water bond was approved in the 1990s, and about \$740 million of bond funding from all prior water bonds remains available for expenditure. Unlike the 2000 water bond discussed below,

Figure 1

Park and Habitat Bonds Approved by Voters Since 1970^a

(In Millions)



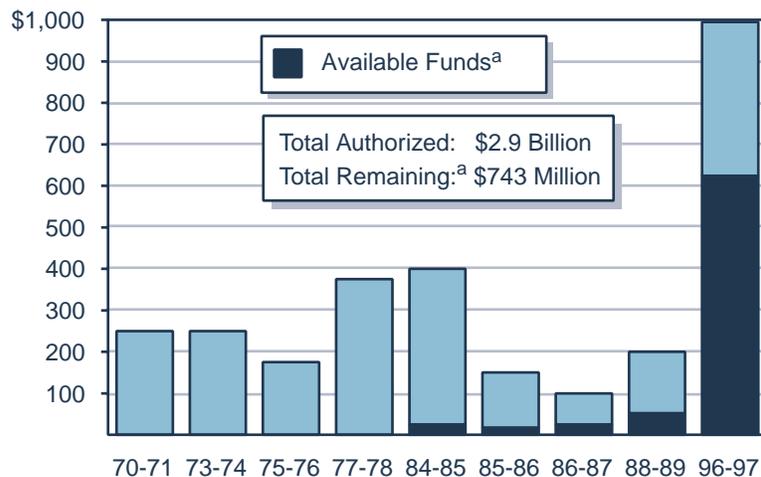
^aNo park bond measures were approved by voters between 1988 and 2000.

^bEstimated, as of June 30, 2000, excluding Proposition 12 bond funds.

Figure 2

Water Bonds Approved by Voters 1970 Through 1999

(In Millions)



^aEstimated, as of June 30, 2000, excluding Proposition 13 bond funds.

these prior water bonds provided loans and grants almost exclusively for the control of “point source” pollution (discharges of pollution directly into a water body) as opposed to the control of agricultural runoff and other types of “nonpoint source” pollution. Today, nonpoint source pollution is the major source of degradation of the state’s waters.

In 1999, the Legislature approved Chapter 461 (AB 18, Villaraigosa) and Chapter 725 (AB 1584, Machado) which placed before the voters a \$2.1 billion parks bond measure and a \$2 billion water bond measure, respectively. Voters approved both measures in March 2000, and the Governor’s May Revision proposes about \$1.4 billion in expenditures from these bond funds. This

report summarizes the major provisions of those two measures and identifies major issues the Legislature should consider as it reviews the Governor’s May Revision proposal and works with the administration to implement the bond measures in this and future years.

In general, we believe it is important that the bond funds be allocated in a timely manner so that work on specific projects may begin as soon as possible, but also that accountability for bond-funded expenditures is assured. To facilitate accountability, we believe the allocation of funds should be based on clear, appropriate criteria, and that such criteria should be developed if they are not specified in the bond measures.

MAJOR PROVISIONS OF THE BOND MEASURES

PROPOSITION 12—THE PARKS BOND

Proposition 12, the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000, provides \$2.1 billion primarily for the development and improvement of state and local parks. The majority of this money (about \$1.3 billion) is directed to the state Department of Parks and Recreation (DPR) for land acquisitions, park development and restoration, as well as grants to local governments and nonprofit organizations. The remaining \$750 million is allocated to about a dozen state departments for various land acquisition, preservation, and development purposes. Figure 3 (see page 4) shows the amount of funding allocated to each department by Proposition 12.

Proposition 12 allocates bond proceeds for a variety of purposes. In many cases, the measure provides only general guidelines for the use of the

funds (such as \$15 million to the San Joaquin River Conservancy for the acquisition, protection, and development of land consistent with its mission). In other cases, the measure provides more specific direction in the use of the bond money (such as \$250,000 to renovate a particular historical building). Figure 4 (see page 5) shows the major categories for which bond funds are allocated.

About 57 percent (\$1.2 billion) of the bond funds will be expended by about a dozen *state* departments to acquire and improve property. The other 43 percent (\$913 million) will be provided as grants to local governments and nonprofit organizations. Of this amount, about 42 percent (\$388 million) is to be allocated to local governments on the basis of population. An additional 30 percent (\$272 million) is earmarked for recreational areas and cultural facilities in urban areas.



The remaining 28 percent of the grant funding (\$253 million) is provided for a variety of purposes. These are primarily competitive grants, although a small portion are designated for specific projects and recipients. Figure 4 shows the main categories of grant funding.

PROPOSITION 13—THE WATER BOND
 Proposition 13, the Safe Drinking Water, Clean

Water, Watershed Protection, and Flood Protection Act, provides \$2 billion in bond funds for various water-related purposes. Of this amount, about 70 percent is for loans and grants to local agencies and nonprofit associations, with the balance available for direct expenditure by a number of state agencies. These state agencies include the Departments of Water Resources (DWR) and Fish and Game, among others.

Figure 3

Proposition 12: Bond Funds by Department

(In Millions)

| Department | Purpose | Amount |
|--|--|----------------|
| Parks and Recreation | • Grants to local governments. | \$824 |
| | • Acquisition, protection, development, and rehabilitation of parklands. | 525 |
| Wildlife Conservation Board | Acquisition, protection, and enhancement of wildlife habitat. | 266 |
| State Coastal Conservancy | Acquisition, protection, development, and rehabilitation of coastal watersheds and property. | 220 |
| California Tahoe Conservancy | Acquisition, protection, development, and rehabilitation of property in Tahoe region. | 50 |
| Secretary for Resources | • River, watershed, and parkway projects. | 46 |
| | • Miscellaneous specific local projects. | 45 |
| Santa Monica Mountains Conservancy | Acquisition, improvement, and restoration of park, wildlife, and natural areas. | 35 |
| Conservation | Grants to state, local, and nonprofit agencies for farmland protection. | 25 |
| San Joaquin River Conservancy | Acquisition, development, enhancement, and protection of land within conservancy's jurisdiction. | 15 |
| California Conservation Corps | Resource conservation and other capital projects. | 15 |
| Fish and Game | Development, enhancement, restoration, and preservation of habitat and wetlands. | 12 |
| Forestry and Fire Protection | Grants for purchase, planting, and maintenance of trees in urban areas. | 10 |
| Integrated Waste Management Board | Grants to local agencies for playground equipment. | 7 |
| Coachella Valley Mountains Conservancy | Acquisition, development, enhancement, and protection of land within conservancy's jurisdiction. | 5 |
| Total | | \$2,100 |

Figure 5 (see page 6) summarizes the allocation of Proposition 13 bond funds, by recipient of the funds and by purpose for which the funds can be used. The broad purposes include improving the safety, quality, and reliability of water supplies, and improving flood protection.

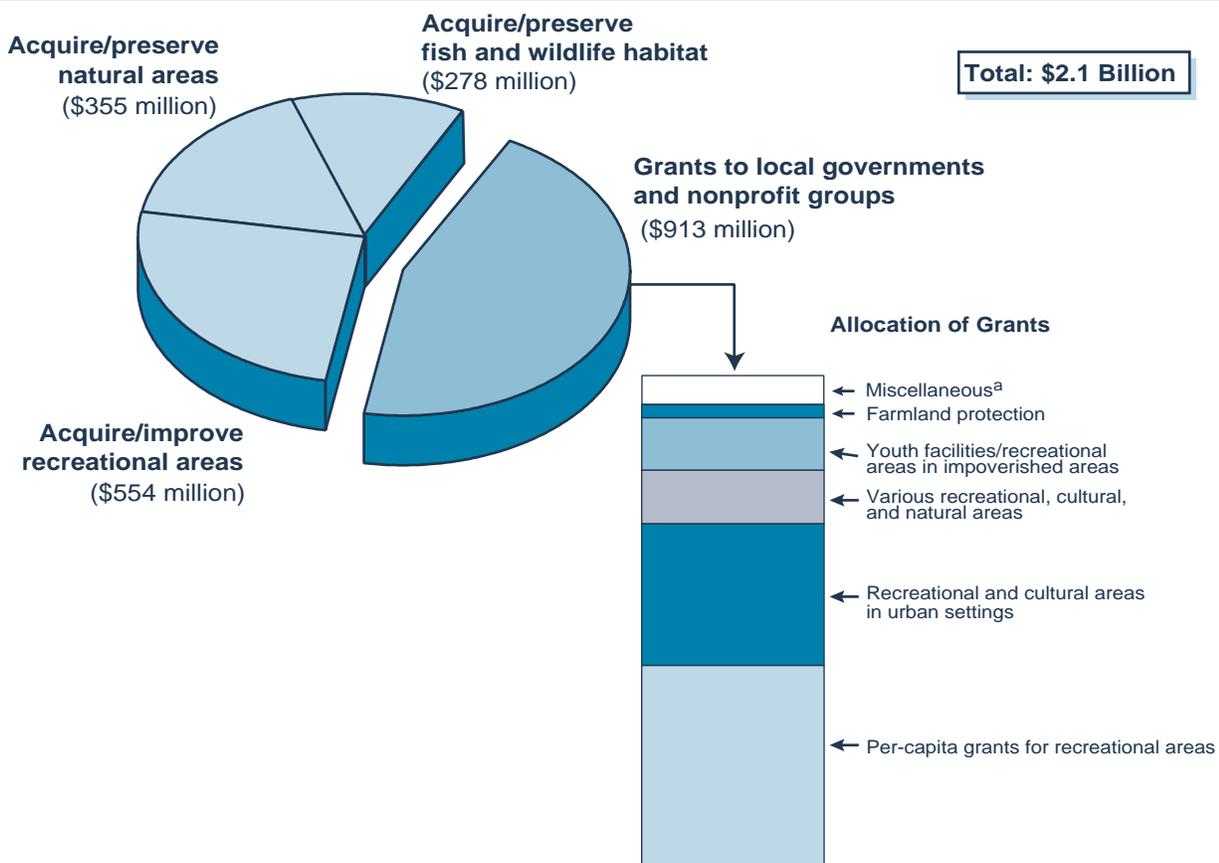
As with Proposition 12, in many cases Proposition 13 provides only general guidelines for the use of funds. For example, the only guidelines provided for expenditure of \$25 million under the measure's Coastal Watershed Salmon Habitat

Subaccount are that the funds be spent "to protect, restore, acquire, and enhance habitat for salmon." In other cases, the measure provides much more specific direction, such as in the case of \$3 million allocated for engineering and environmental studies for the San Diego Regional Conveyance Facility.

Proposition 13 provides funds for a number of existing programs, such as the programs for wastewater treatment construction and safe drinking water. In addition, the bond measure also

Figure 4

Use of Proposition 12 Bond Funds



^aIncludes playground equipment, grants to specific cities and counties, urban forestry, and sports facilities for disadvantaged youth.



Figure 5

Proposition 13: Allocation and Use of Bond Funds

(In Millions)

| State Agencies - Direct Expenditures | Subtotals |
|---|--------------------|
| Department of Water Resources | \$406.9 |
| - "CALFED" projects in Bay-Delta. | \$250.0 |
| - Flood control projects and local technical assistance. | 152.4 ^a |
| - Floodplain mapping. | 2.5 |
| - Develop Delta Science Center. | 2.0 |
| Conservancies and Departments | 95.0 |
| - River parkway acquisition and riparian habitat restoration. | 95.0 |
| Department of Fish and Game | 45.0 |
| - Protection and acquisition of coastal salmon habitat. | 25.0 ^b |
| - Fish and wildlife habitat mitigation for flood projects on Yuba/Feather Rivers. | 20.0 |
| University of California, CSU-Fresno | 6.0 |
| - Establish Watershed Science Laboratory and San Joaquin Valley Water Institute. | 6.0 |
| Department of Conservation | 2.5 |
| - Agriculture and open space mapping. | 2.5 |
| Department of Health Services | 2.0 |
| - Technical assistance to "disadvantaged" public water systems. | 2.0 |
| Total for Direct Expenditures | \$557.4 |
| Grants and Loans to Local Agencies and Nonprofit Associations | Subtotals |
| Allocated by State Water Resources Control Board | \$695.0 |
| - Protection of Santa Ana Watershed. | \$235.0 |
| - "Nonpoint source" pollution control. | 190.0 |
| - Water pollution prevention, water recycling, and other water quality projects. | 165.0 |
| - Develop and implement local watershed management plans. | 90.0 |
| - Protection of Lake Elsinore and San Jacinto Watersheds. | 15.0 |
| Allocated by Department of Water Resources | 649.6 |
| - Groundwater storage. | 200.0 ^c |
| - Water quality and supply projects in areas receiving delta water. | 180.0 |
| - Water conservation projects. | 155.0 |
| - Local flood protection projects. | 114.6 |
| Allocated by Department of Health Services | 68.0 |
| - Public water system capital improvements to meet safe drinking water standards. | 68.0 |
| Total for Grants and Loans | \$1,412.6 |
| Grand Total | \$1,970.0 |

^a Of this amount, up to \$64 million may be used for grants to local public agencies and nonprofits for flood control projects.

^b Funds may also be used for grants to public agencies and nonprofits.

^c Grantee may be a private entity provided there is also local agency participation in the project.

establishes several major new programs. For example, the bond measure establishes major new grant programs (totaling over \$560 million) under the State Water Resources Control Board (SWRCB) for nonpoint source pollution control, watershed management plan development and implementation, wastewater recycling, and the protection of targeted watersheds (the Santa Ana River, Lake Elsinore, and San Jacinto Watersheds).

In addition, Proposition 13 provides targeted funding to particular local flood control projects and establishes a number of new programs under DWR. These new programs include programs for groundwater storage, to fund CALFED projects, and to increase the reliability of water supplies to local agencies served by Delta water.

ADMINISTRATIVE PROVISIONS OF THE BOND MEASURES

Both Propositions 12 and 13 contain provisions that specify, to varying degrees, how the bond programs are to be administered. The key administrative provisions of the two measures are summarized in Figure 6 (see page 8). Major differences between the two measures' administrative provisions concern the funding of administrative costs and structuring of accounts into which bond funds are to be deposited.

Some of these provisions could affect the timing and structure of program implementation. For instance, by requiring that all "actual" administrative costs be paid from bond proceeds, Proposition 12 sets up a tradeoff between capital outlay expenditures and administrative costs. Alternatively, Proposition 13 caps most administrative costs at 3 percent or 5 percent, thus limiting the amount of bond funds that might be used for administrative purposes.

ISSUES FOR LEGISLATIVE CONSIDERATION

The Governor's May Revision proposes about \$1.4 billion in expenditures from Propositions 12 and 13 bond funds. While the Legislature is reviewing this proposal for inclusion in the budget bill, the administration continues to draft guidelines and policies to implement the bond measures.

We think that it is critical that the Legislature ensure that its priorities for implementation of the bond measures be reflected in this and future years' budget proposals. In this regard, we have identified several immediate issues that we think the Legislature should address to ensure the effective and efficient implementation of the bond

measures in accordance with the Legislature's objectives. As discussed below, we recommend the adoption of budget bill language and the enactment of a trailer bill to address these issues.

DEVELOPMENT OF LOAN AND GRANT CRITERIA

In total, the two bond measures provide \$2.3 billion in loan and grant funding to local and nonprofit organizations—\$913 million under Proposition 12 and \$1.4 billion under Proposition 13. Approximately \$1.7 billion of this money is to be available on a competitive basis, and the remaining \$600 million is designated for specified



Figure 6

**Propositions 12 and 13
Key Administrative Provisions**

| Issue | Proposition 12 | Proposition 13 |
|--|---|--|
| Bond issuance and other financing costs ^a | <ul style="list-style-type: none"> - Cost to be paid out of bond proceeds. - Shared proportionally by each program funded through proposition. | <ul style="list-style-type: none"> - Measure generally does not address issue. (However, per general obligation bond law, bond issuance costs are to be paid out of bond proceeds.) |
| Administrative costs | <ul style="list-style-type: none"> - "Actual costs" of administering programs to be paid from bond proceeds. | <ul style="list-style-type: none"> - No requirement that bond funds be used for administrative costs. - Authority to use bond funds to administer programs varies depending on account/subaccount in question. - For most subaccounts, bond-funded administrative costs are capped at either 3 percent or 5 percent, but in one case the cap is 0 percent. - For a few subaccounts, the bond act is silent regarding administrative costs. |
| Appropriation of funds | <ul style="list-style-type: none"> - Most funds require legislative appropriation. - \$265.5 million (for Wildlife Conservation Board) is continuously appropriated. | <ul style="list-style-type: none"> - Most funds require legislative appropriation. - \$290.5 million (for various departments) is continuously appropriated. |
| Structuring of accounts for deposit of bond funds | <ul style="list-style-type: none"> - Bond proceeds deposited in Villaraigosa-Keeley Act Bond Fund. | <ul style="list-style-type: none"> - Bond proceeds deposited either in one of six new accounts (with a total of 26 subaccounts) or an existing account (Safe Drinking Water State Revolving Fund). |
| Reporting requirements | <ul style="list-style-type: none"> - Department of Parks and Recreation (DPR) must submit annual comparative evaluation of needs. - The DPR must estimate cost of total deferred maintenance needs by November 1, 2001. - Secretary for Resources must report annually on progress in implementing Lake Tahoe's Environmental Improvement Program. | <ul style="list-style-type: none"> - State Water Resources Control Board (SWRCB) must report to Governor biennially on the watershed protection program. - The SWRCB must provide one report to Legislature on water recycling program. - Secretary for Resources must report annually to the Legislature on the CALFED Bay-Delta Program. |

^a Does not include principal and interest costs for sold bonds.

recipients. A total of eight state departments are involved in the allocation of these grants and loans.

In the case of competitive loans and grants, it is important that clear criteria be established to facilitate the efficient evaluation of loan and grant applications and to ensure that the most appropriate projects are funded. Additionally, the development of loan and grant criteria, and associated rules, will help applicants to formulate appropriate project applications.

Recommend Legislative Review of Loan and Grant Criteria. We believe the Legislature has an interest in monitoring the development of criteria and guidelines for the administration of loans and grants. Accordingly, we recommend that the Legislature adopt budget bill language prohibiting the expenditure of bond funds by departments in the budget year until relevant loan and grant criteria, and associated rules, have been submitted to the Legislature for review. To the extent that the Legislature finds modification of the criteria to be necessary, this will provide the opportunity to do so.

USE OF BOND FUNDS FOR ADMINISTRATIVE COSTS

To the extent that various administrative costs are charged to bond proceeds, there will be less bond funding available for specific projects and programs. Therefore, the Legislature should consider how these costs are funded and allocated as it reviews proposals to appropriate funds for water and park bond programs. An example of these costs are the discretionary program administrative costs charged by some departments that carry out the bond programs.

Program Administrative Costs Require More Legislative Direction. Generally, program administrative costs are for general administrative purposes, such as accounting and processing grant

applications related to carrying out the bond-funded programs. These costs include staff salaries, benefits, equipment, and other operating expenses. The bond measures impose some conditions on the use of bond funds for certain administrative costs. For example, Proposition 12 requires that actual costs of administering programs be paid from bond proceeds, and Proposition 13 allows administrative costs to be funded from bond monies for certain programs, but imposes limits (generally up to 3 percent or 5 percent) on these bond costs.

However, these statutory requirements leave considerable room for budgetary discretion. This is because program administrative costs are not defined in either bond measure or elsewhere in state law. As a result, departments effectively have broad discretion to determine which administrative costs to charge against bond proceeds. In our opinion, this broad discretion can result in diluting the intended uses of the bonds—construction and expansion of certain infrastructure. For example, in the case of Proposition 12, there is no cap on the magnitude of these costs that can be paid with bond funds. These costs potentially could be quite significant. For every 1 percent of bond money spent on administrative costs, the total amount of parks bond funds available for capital outlay and local assistance would be reduced by about \$21 million.

Recommend Legislative Definition and Oversight of Administrative Costs Charged to Bonds. Given the potentially substantial impact of program administrative costs on the amount of bond funds ultimately available for projects, we think that it is important that the Legislature exercise effective oversight of these costs. In order to do this, we recommend the adoption of a control section in the *2000-01 Budget Bill* that would limit



the maximum percentage of bond funds that could be spent on administrative costs for grants, loans, and property acquisitions. We believe this control section should apply to appropriations from the March 2000 bonds for these purposes. We believe that a cap in the range of 3 percent to 5 percent of an appropriation for loan and grant programs and for individual property acquisition projects would be reasonable.

In order to address these issues for subsequent years, we recommend the enactment of legislation that would provide a reasonable limit on, and definition of, administrative costs funded from bond proceeds. As a general guideline, we believe that only departmental costs directly attributable to bond-related projects should be borne by bond funds.

Even with this legislative direction, we believe the allocation of bond funds to administrative costs warrants ongoing legislative monitoring. It is important that the administration report annually on the amount of administrative costs actually funded from bond proceeds in order to allow for continued legislative oversight.

Nonstate entities, such as local governments and nonprofit organizations, also may incur administrative costs as they utilize bond funds for specified purposes. The bond measures, however, do not provide parameters for the use of bond funds by these entities for administrative purposes. We believe it is appropriate to permit certain project-related costs incurred by nonstate entities to be covered from the bond funds. However, in order to minimize the erosion of bond funding available for project costs, we recommend that provisions be adopted in a budget bill control section and in future legislation (similar to those recommended previously for the state) to limit and define administrative costs to be applied to nonstate entities.

COORDINATION OF ACTIVITY

The implementation of both Propositions 12 and 13 will involve more than 20 state agencies. In some cases, bond expenditure decisions made by one agency may affect a bond-funded program area that is under another agency's jurisdiction. For example, flood control-related funding decisions made by DWR may affect the bond-funded watershed protection activities overseen by SWRCB. In addition, bond-funded activities may relate to existing programs. For example, projects eligible for funding from Proposition 13's groundwater storage program could potentially be funded under DWR's existing water conservation bond program.

In view of the above, there will be a need for coordination both within and among state agencies implementing the bonds' provisions. This coordination is important mainly for two reasons. First, it is necessary to ensure that bond-funded expenditures are cost-effective in addressing the state's priorities for resource protection. To accomplish this, expenditure decisions should not be made without considering other bond-funded program areas and existing programs that relate to, or may be affected by, the expenditure in question.

Second, coordination is necessary in order to ensure a complete and accurate accounting of bond-funded expenditures and account balances. For example, a lack of coordination and standardization in fiscal accounting by various state agencies in the initial implementation of the 1996 water bond (Proposition 204) made it difficult to obtain information on that measure's fund conditions at any point in time. In addition, coordinated and consolidated reports would facilitate legislative oversight by providing an easier means by which to hold state agencies accountable for implementation of the bond programs.

Recommend Designation of Lead Agencies.

The coordination of decision making, accounting, and reporting under the two bond measures would be facilitated by designating a lead agency responsible for overseeing the implementation of each bond. For instance, the Resources Agency could be designated as the lead agency for Proposition 12. By doing so, the bond measures would be implemented more effectively and the Legislature's oversight of bond-funded activities would be enhanced. Accordingly, we recommend the enactment of a trailer bill to designate lead agencies for the overall implementation of the two bond measures.

ACCOUNTABILITY MEASURES

As Figure 6 (see page 8) shows, the bond measures impose few reporting requirements on the departments that will be administering the bonds. Because most of the bond-funded programs will be administered over a number of years, it is important that the Legislature receive regular updates regarding the status of the programs, as well as information that allows for the evaluation of whether bond expenditures are meeting legislative goals and objectives.

Recommend Annual Reporting to Legislature.

To that end, the Legislature should enact legislation that would require affected departments, or preferably a lead agency, to provide annual reports on these programs. Such reports should include fiscal information such as an accounting of expenditures (including administrative costs), a description of major projects that have been approved, and an estimate of bond funds remaining available. We note that the Governor has directed the Director of Finance to conduct annual fiscal audits of Propositions 12 and 13 bond fund expenditures, as well as expenditures from the three

other bond measures passed by voters in March 2000. The audits are to be provided to the Governor's Commission on Infrastructure Building for the 21st Century.

In addition, the annual reports should address broader programmatic issues, such as the amount of habitat acquired by bond funds and the species targeted for protection. This type of information would allow the Legislature to assess the extent to which the bond programs achieve legislative goals and priorities.

Recommend Fund Balances Be Displayed in Governor's Budget. Finally, in order to exercise oversight of the bond programs, the Legislature will need periodic updates on the fund balances remaining for the various programs and projects funded by the bond measures. While Proposition 13 established 26 subaccounts for the various programs, Proposition 12 created only one fund for all bond proceeds. We recommend the enactment of trailer legislation that requires the account balances for each of the programs created by the bond measures to be displayed annually in the Governor's budget document. This will promote accountability, and will facilitate the monitoring of fund balances for use in future budget appropriations.

USE OF GENERAL FUND IN LIEU OF BOND FUNDS

The Governor's May Revision proposes to appropriate a total of about \$1.4 billion of Propositions 12 and 13 bond funds to various departments to implement programs and projects authorized in the bond measures. These proposed appropriations are listed in Figure 7 (see page 12).

While bond proceeds were the funding source originally envisioned by the Legislature for activities and projects specified in the bond measures,



the state's improved revenue outlook (estimated to total \$12.3 billion in the May Revision) provides an alternative for funding these programs and projects. Specifically, the Legislature has the option of using General Fund monies rather than bond proceeds to fund activities authorized in Propositions 12 and 13.

Using General Fund monies rather than bond proceeds has the advantage of avoiding borrowing costs. At current interest rates, we estimate that the interest cost of the two bond measures would be about \$3 billion over a 25-year period.

Figure 7

Parks and Water Bonds Appropriations By Department

*2000-01
(In Millions)*

| Department | Proposition 12 (Parks Bond) | Proposition 13 (Water Bond) |
|--|--------------------------------|--------------------------------|
| California Conservation Corps | \$3.0 | — |
| California Tahoe Conservancy | 6.5 | — |
| Coachella Valley Mountains Conservancy | 4.9 | — |
| Coastal Conservancy | 60.5 | \$21.5 |
| Conservation | 0.5 | 0.5 |
| Fish and Game | 1.5 | 7.7 |
| Forestry and Fire Protection | 1.4 | — |
| Health Services | — | 35.0 |
| Integrated Waste Management | 2.8 | — |
| Parks and Recreation | 274.9 | 1.5 |
| Resources | 41.6 | 25.0 |
| Santa Monica Mountains Conservancy | 17.5 | 5.0 |
| Water Resources | — | 383.2 |
| Water Resources Control Board | — | 260.2 |
| Wildlife Conservation Board | 231.1 | 14.0 |
| Totals | \$646.2 | \$753.6 |

CONCLUSION

The passage of Propositions 12 and 13 provides the opportunity for the state to make major new investments in its parks and water resources. Although the size of these investments is substantial, the state's needs in these areas are much larger. It is therefore critical that these investments be targeted to address the state's highest priori-

ties, and that available funds be administered as efficiently and effectively as possible. Toward these goals, we believe the Legislature should provide further direction, along the lines suggested above, at the time appropriations are made from these bond funds.

Acknowledgments

This report was prepared by Mark C. Newton and Steve Boilard, under the supervision of Dana Curry. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.



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