

Counties Have Later Opt-In Date. Chapter 816, Statutes of 1990 (SB 1943, Lockyer), changed the date by which a county must notify the state of its decision to opt into the Trial Court Funding Program for the next fiscal year. Under prior law, a county had to opt in on or before November 15 of the preceding fiscal year. Chapter 816 allows counties to opt in on or before March 1 of the preceding fiscal year, or almost four months later. Chapter 816 also requires the Director of Finance to advise the Joint Legislative Budget Committee of those counties that have opted in for the budget year by March 15, 1991.

The Governor's Budget assumes that all 58 counties will participate in the budget year. At the time this analysis was prepared, the SCO advised that it had received 20 notifications from counties opting in for the budget year. Depending on the number of counties finally opting into the program for the budget year, the amount of funding necessary for this program may change.

State Share of Municipal and Justice Court Judges' Salaries May Change. The Trial Court Funding Program provides for state participation in the salaries of municipal and justice court judges. Each county that participates in the program will contribute \$5,500, \$7,500, or \$9,500 toward the salary of each judge, depending on the county's population. The state will pay the balance of each judge's salary which is currently \$90,680.

Chapter 323, Statutes of 1983 (AB 223, Vasconcellos), requires that for the purpose of determining the amount of the county contribution, the county population be based on the results of the last preceding U.S. decennial census. The Department of Finance advises that 1990 U.S. census data for counties will not be available until March 1991. Depending on the results of the census, the amount of funding necessary for this program may change.

GOVERNOR'S OFFICE

Item 0500 from the General
Fund

Budget p. LJE 16

Requested 1991-92.....	\$9,085,000
Estimated 1990-91	8,858,000
Actual 1989-90	7,908,000
Requested increase \$227,000 (+2.6 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Constitution grants the executive power of the state to the Governor, who is responsible for administering and enforcing state law. The Governor is elected to a four-year term, and receives an annual salary of \$120,000.

GOVERNOR'S OFFICE—Continued

The Governor's Office has 86 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$9.1 million from the General Fund for support of the Governor's Office in 1991-92. The proposed amount is \$227,000, or 2.6 percent, greater than estimated current-year expenditures. The requested net increase includes an offsetting unallocated trigger-related reduction of \$295,000. This reduction is included in the proposed budget for the Governor's Office in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). Table 1 provides a summary of the budget for the Governor's Office in the past, current, and budget years.

**Table 1
Governor's Office
Budget Summary
1989-90 through 1991-92
(dollars in thousands)**

Function	Actual	Est.	Prop.	Change From 1990-91	
	1989-90	1990-91	1991-92	Amount	Percent
Personal services	\$4,587	\$5,143	\$5,081	-\$62	-1.2%
Operating expenses and equipment.....	1,370	1,611	1,788	177	11.0
Unclassified expenses	55	125	125	—	—
Overseas offices	1,896	1,979	2,386	407	20.6
Unallocated reduction	—	—	-295	-295	— ^a
Totals.....	\$7,908	\$8,858	\$9,085	\$227	2.6%

^a Not a meaningful figure.

Most of the increase requested for 1991-92 is proposed for the expansion of services provided in the five overseas trade offices. The overseas trade offices, which are located in Frankfurt, Hong Kong, London, Mexico City, and Tokyo, are designed to promote state exports, establish agricultural markets, and attract more foreign investment and tourists to California.

SECRETARY FOR STATE AND CONSUMER SERVICES

Item 0510 from the General
Fund

Budget p. LJE 17

Requested 1991-92.....	\$853,000
Estimated 1990-91	862,000
Actual 1989-90	826,000
Requested decrease \$9,000 (-1.1 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0510-001-001—Support	General	\$839,000
Reimbursements	—	<u>14,000</u>
Total		\$853,000

GENERAL PROGRAM STATEMENT

The Secretary for State and Consumer Services provides administrative and policy direction to the following state entities:

- | | |
|---|-------------------------------------|
| California Museum of Science and Industry | Department of General Services |
| Department of Consumer Affairs | State Personnel Board |
| Department of Fair Employment and Housing | Public Employees' Retirement System |
| Fair Employment and Housing Commission | State Teachers' Retirement System |
| Office of the State Fire Marshal | Department of Veterans Affairs |
| Franchise Tax Board | |

The agency has 11.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$839,000 from the General Fund for support of the State and Consumer Services Agency in 1991-92. Total agency expenditures in 1991-92, including reimbursements, are budgeted at \$853,000, a decrease of \$9,000, or 1.1 percent, below total current-year expenditures. The decrease is primarily due to the effects of the \$27,000 unallocated trigger-related reduction. This reduction is included in the proposed budget for the department in lieu of the reduction that would be made pursuant to Ch 458/90 (AB 2348, Willie Brown). This decrease is partially offset by the full-year costs of salary and benefit increases granted in the current year.

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

Item 0520 from various funds Budget p. LJE 19

Requested 1991-92.....	\$1,676,000
Estimated 1990-91	1,665,000
Actual 1989-90	1,706,000
Requested increase \$11,000 (+0.7 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0520-001-001—Support	General	\$425,000
0520-001-044—Support	Motor Vehicle Account, State Transportation	697,000
Reimbursements	—	<u>554,000</u>
Total		\$1,676,000

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING—Continued

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	<i>Analysis page</i>
1. Housing Reports. Recommend that the Legislature adopt supplemental report language requiring the Business Transportation and Housing Agency to report on its actions to improve two housing reports.	34

GENERAL PROGRAM STATEMENT

The Secretary for Business, Transportation and Housing supervises the activities of the following 15 departments and administrative bodies:

<i>Business and Regulatory Agencies</i>	<i>Transportation Agencies</i>
Alcoholic Beverage Control	California Highway Patrol
State Banking	Motor Vehicles
Corporations	Transportation
Commerce	Traffic Safety
Major Risk Medical Insurance Board	<i>Housing Agencies</i>
Office of Real Estate Appraisers	Housing and Community Development
Real Estate	California Housing Finance Agency
Savings and Loan	
Stephen P. Teale Consolidated Data Center	

The agency has 19.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$1.7 million to support the agency's activities in 1991-92. This is \$11,000, or 0.7 percent, more than estimated current-year expenditures.

The budget proposes no workload or program changes for the agency. The \$11,000 net increase in proposed expenditures in the budget year results from increases of \$18,000 in pro rata costs and \$31,000 in salaries and benefits, and elimination of \$35,000 in one-time current-year expenses. The Governor's Budget also includes an unallocated trigger-related reduction of \$3,000 in funding for the agency. This reduction is included in the proposed budget for the agency in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

ANALYSIS AND RECOMMENDATIONS

Housing Reports Need Coordination

We recommend the adoption of supplemental report language directing the agency to report to the Legislature on actions the agency has taken to improve the mortgage revenue bond reports issued by the California Housing Finance Agency (CHFA) and the California Debt Advisory Commission (CDAC).

As we discuss in our analysis of the CHFA (please see Item 2260), two state agencies issue annually required reports on the use of mortgage revenue bonds to finance affordable housing. The CHFA's report contains data on housing financed by the CHFA. The CDAC's report contains data on housing financed by local governments. Because of the unusual and inconsistent manner in which these agencies collect and report data, it is impossible for the Legislature to ascertain whether its objectives for these programs are being realized. It also is extraordinarily difficult to compare the state and local mortgage revenue bond programs with one another — or with other affordable housing programs.

Because the agency supervises the CHFA and is responsible for policy matters pertaining to housing, we recommend that the Legislature direct the agency to convene a task force, with legislative representation, to identify actions which the CHFA and CDAC can take to improve their annual reports. Specifically, we recommend the Legislature adopt the following supplemental report language in Item 0520-001-001:

The agency shall convene a task force to identify steps that the CHFA and CDAC can take to (1) increase the consistency between their mortgage revenue bond reports and (2) ensure that these reports enable the Legislature to ascertain whether its objectives for these programs are being attained. The agency shall report to the Legislature on its progress by November 1, 1991.

SECRETARY FOR HEALTH AND WELFARE

Item 0530 from the General

Fund

Budget p. LJE 20

Requested 1991-92.....	\$2,093,000
Estimated 1990-91	4,081,000
Actual 1989-90	3,362,000
Requested decrease \$1,988,000 (-49 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0530-001-001—Support	General	\$1,525,000
Control Section 23.50	State Legalization Impact Assistance Grant	150,000
Reimbursements	—	<u>418,000</u>
Total		\$2,093,000

SECRETARY FOR HEALTH AND WELFARE—Continued**SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS***Analysis
page*

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|--|----|
| 1. Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program. We find that the agency's failure to provide the Legislature with information on implementation options for the EPSDT Program has severely limited the Legislature's ability to determine whether or not (a) the same number of children could be served at reduced General Fund cost, (b) additional children could be served with federal matching funds, and (c) funds are sufficient to implement the program. In order for the Legislature to make informed decisions regarding program options, it will need to have the required information by April 1, 1991. | 37 |
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GENERAL PROGRAM STATEMENT

The Secretary for the Health and Welfare Agency (HWA) is directly responsible to the Governor for general policy formulation in the health and human services area. The Secretary is also responsible for the operations and fiscal management of the following departments and offices:

<ul style="list-style-type: none"> Aging Alcohol and Drug Programs Developmental Services Emergency Medical Services, Authority and Commission Employment Development Health Services 	<ul style="list-style-type: none"> Mental Health Office of Statewide Health Planning and Development Rehabilitation Social Services Health and Welfare Agency Data Center
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The HWA is the lead agency in the implementation of the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65) and of the federal Immigration Reform and Control Act of 1986 (IRCA).

The agency has 24.1 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$2.1 million to support the Secretary for Health and Welfare in 1991-92. This amount consists of (1) \$1.5 million from the General Fund for direct support costs, (2) \$150,000 from the federal State Legalization Impact Assistance Grant (SLIAG) for implementation of IRCA, and (3) \$418,000 in reimbursements. Proposed expenditures are \$2 million, or 49 percent, less than estimated total expenditures in 1990-91. The decrease is due primarily to a projected reduction in SLIAG funds. This will result in the elimination of most of the agency's funding for administration of SLIAG activities and anti-discrimination education programs. In addition, the Governor's Budget includes an unallocated reduction of \$37,000 in funding for the agency. This reduction is included in the proposed budget for the agency in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1 presents a summary of program expenditures and funding sources for the agency during the past, current, and budget years.

Table 1
Secretary for Health and Welfare
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Secretary's office	\$1,970	\$1,942	\$1,980	\$38	2.0%
Proposition 65 implementation	279	—	—	—	—
Immigration Reform and Control Act.....	1,113	2,139	150	-1,989	-93.0
Unallocated reduction	—	—	-37	-37	— ^a
Totals	\$3,362	\$4,081	\$2,093	-\$1,988	-48.7%
Funding Sources					
General Fund	\$1,842	\$1,532	\$1,525	-\$7	-0.5%
State Legalization Impact Assistance					
Grant	1,113	2,139	150	-1,989	-93.0
Reimbursements.....	425	410	418	8	2.0

^a Not a meaningful figure.

Failure to Provide Information Severely Inhibits Legislative Decision Making

We find that the agency's failure to provide the Legislature with information on implementation options for the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program has severely limited the Legislature's ability to determine whether or not (1) the same number of children could be served at reduced General Fund cost, (2) additional children could be served with federal matching funds, and (3) sufficient General Fund support is available to implement the program. In order for the Legislature to make informed decisions regarding these program options, it will need to have the required information by April 1, 1991.

The federal Omnibus Budget Reconciliation Act of 1989 (OBRA 89) made two significant changes to the federal EPSDT Program, which provides comprehensive health assessments to Medicaid-eligible children. First, OBRA 89 requires states to allow authorized providers to perform "specialty" health assessments (focusing on children's developmental, mental, vision, or hearing needs) separate from the comprehensive health assessments required under current law. Second, OBRA 89 specified that Medi-Cal must provide any service that is identified in a health assessment as necessary to correct or ameliorate a child's condition, regardless of whether the service is a benefit under the state Medi-Cal plan. Services affected in California include personal care, rehabilitation, case management, and outpatient mental health services.

Through the *Supplemental Report of the 1990 Budget Act*, the Legislature required the agency, in consultation with the Departments of Health Services, Mental Health, Education, and Developmental Services, to provide information to the legislative fiscal committees by January 2,

SECRETARY FOR HEALTH AND WELFARE—Continued

1991 on the fiscal and programmatic considerations in billing the EPSDT Program — and therefore receiving Medi-Cal reimbursements — for (1) specialty assessments currently provided by regional centers, schools, and county mental health agencies and (2) services identified in the EPSDT screen that the federal government mandates be provided, regardless of whether the service is currently included in the state Medi-Cal plan.

The potential opportunities — and General Fund costs — for operating existing or new services through the EPSDT Program are significant. It is possible that the state could receive Medi-Cal reimbursements for children's services currently supported fully by the General Fund. This would free up General Fund money for other legislative spending priorities.

On the other hand, it is possible that the new assessment and treatment provisions of OBRA 89 would require the state to pay new providers for assessments and treatment delivered to children not served currently. Under this scenario, OBRA 89 would result in new General Fund costs.

The HWA assigned the Department of Health Services (DHS) lead responsibility in providing the required information. The agency reported in early January that due to the complexity of the issue, it would not provide the Legislature with the required information until June 30, 1991, but would provide an outline of its efforts by January 18, 1991.

Agency Gives Low Priority to Legislative Direction. We agree with the agency's assessment that the fiscal and programmatic implications of OBRA 89's EPSDT provisions are quite complex. However, our analysis indicates that the agency's failure to provide the required information has little to do with the issue's complexity and more to do with the low priority given the issue by both the DHS and the agency. Specifically, when we met with the DHS three weeks before the deadline established by the Legislature, the DHS had neither (1) initiated work on the issue nor (2) listed it in its report on potential Medi-Cal initiatives that it published in December. Less than a week later, the agency reported to us that work on the information was progressing on schedule.

If the agency does not provide the required EPSDT information until June 30, 1991, the Legislature will not have the information it needs to consider EPSDT-related funding options during its deliberations on the 1991-92 budget. Our analysis indicates that the ramifications are significant.

For example, the Legislature will face at least one specific decision this spring in which the EPSDT-related information may be critical. The Legislature must determine whether to establish as an ongoing program — at an estimated General Fund cost of at least \$7.7 million — the federal Early Intervention Services Program administered by the Department of Developmental Services. Information on the extent to which federal funding could be available through EPSDT to offset some of the General Fund supported assessment and service costs will assist the Legislature in making this decision.

Information Needed by April 1, 1991. In summary, we find that the agency's plan to submit the required information on June 30 would severely restrict the Legislature's ability to determine whether or not (1) the same number of children could be served at reduced General Fund cost and/or (2) additional children could be served with federal matching funds through the EPSDT Program. In order to enable the Legislature to consider this information in its budget deliberations, the agency will need to submit the EPSDT information to the Legislature no later than April 1, 1991.

SECRETARY FOR RESOURCES

Item 0540 from the General
Fund and various funds

Budget p. LJE 22

Requested 1991-92.....	\$1,897,000
Estimated 1990-91.....	2,184,000
Actual 1989-90.....	1,400,000
Requested decrease \$287,000 (-13.1 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0540-001-001—Support	General	\$1,404,000
0540-001-140—Support	Environmental License Plate	75,000
0540-001-183—Support	Environmental Enhancement and Mitigation Demonstration Program	120,000
0540-001-235—Support	Public Resources Account, Cigarette and Tobacco Products Surtax	127,000
0540-491—Reappropriation	Public Resources Account, Cigarette and Tobacco Products Surtax	125,000
Reimbursements	—	46,000
Total		\$1,897,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

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| 1. Status of Special Funds and Park-Related Bond Funds in the Resources Area. Our review indicates that, if the Legislature approves the Governor's spending proposals, (1) several special funds have little money for legislative priorities and (2) the park-related bond funds are in large part depleted. | 41 |
| 2. Status of Bond Funds for Water Programs. Our review indicates that (1) there is very little money available to help water agencies comply with new federal drinking water regulations and (2) there are sufficient funds available in the | 46 |

Analysis page

SECRETARY FOR RESOURCES—Continued

short run to continue water supply and waste water treatment programs.

GENERAL PROGRAM STATEMENT

The Secretary for Resources heads the Resources Agency. As a member of the Governor's cabinet the Secretary is responsible for the management, preservation, and enforcement of California's natural, recreational, and wildlife resources. The Resources Agency is composed of the following departments and organizations:

Conservation
Fish and Game
Forestry and Fire Protection
Parks and Recreation
Boating and Waterways
Water Resources
Air Resources Board
State Lands Commission
Colorado River Board

California Conservation Corps
Energy Resources Conservation and
Development Commission
Santa Monica Mountains Conservancy
State Coastal Conservancy
California Tahoe Conservancy
California Coastal Commission
State Water Resources Control Board
Integrated Waste Management Board

In practice, the Air Resources Board, the Integrated Waste Management Board, and the State Water Resources Control Board report to the administratively established Environmental Affairs Agency, rather than to the Resources Agency.

The Secretary also (1) serves as an ex-officio member of various commissions and conservancies, (2) administers the Environmental License Plate Fund, and (3) issues the state's guidelines for preparation of environmental impact reports (EIRs) and designates the classes of activities exempted from the preparation of EIRs.

The Secretary's office has 19.5 personnel-years in the current year.

MAJOR ISSUES

- There is little room left in the Environmental License Plate Fund and Public Resources Account for legislative priorities if the Legislature approves the Governor's spending proposals. In addition, the park-related bond funds are depleted, leaving little money available from this source to start new park projects.
- Little money is available to help water agencies comply with new federal drinking water regulations.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes the expenditure of \$1,897,000 for the Secretary for Resources in 1991-92. This is \$287,000, or 13 percent, lower than estimated current-year expenditures.

The decrease is the net result of the following changes:

- An increase of \$120,000 from the Environmental Enhancement and Mitigation Demonstration Program Fund for the agency to review grant applications submitted for the program.
- An increase of \$127,000 from the Public Resources Account for reimbursing the Departments of Water Resources and Fish and Game to administer the San Joaquin River Management Program established by Ch 1069/90 (AB 3603, Costa).
- An unallocated trigger-related reduction of \$40,000 proposed in lieu of the reduction required by Ch 458/90 (AB 2348, Willie Brown).
- Increased salary savings of \$51,000 for 1991-92.
- A decrease of \$400,000 due to the completion of funding for one-time studies required by Ch 1241/89 (AB 1580, Willie Brown) to develop and evaluate timberland wildlife management programs and mitigation measures.

The Governor's Budget Summary (page 99) states that within a year the administration intends to propose a reorganization of the Environmental Affairs Agency into a California Environmental Protection Agency. The budget does not include any adjustments for this purpose.

ANALYSIS AND RECOMMENDATIONS

There are a variety of special and bond funds used to support the departments, conservancies, boards, and programs that regulate and manage the state's environmental resources. In the following sections we provide a brief description and status report for the major special funds and bond funds supporting resources programs. For purposes of this review, we divided the funds into two categories: (1) special funds and park-related bonds and (2) bonds for water programs.

Special Funds and Park-Related Bonds

Based on our review of the status of major special funds and park-related bond funds in the resources area, we conclude that, if the Legislature approves the Governor's spending proposals, there will be little money available (1) in special funds for legislative priorities and (2) in park-related bond funds to start new park projects.

Chart 1 summarizes the total available, the Governor's expenditure proposals, and the reserve balances available for selected special funds and park-related bond funds. Below we discuss the status of individual funds and our general comments.

SECRETARY FOR RESOURCES—Continued

Chart 1

**Selected Special and Bond Fund Conditions
Natural Resources and Environment**
**Based on Governor's Budget
(in thousands)**

Fund	Expenditures 1990-91	Est. Total Available 1991-92	Governor's Proposal	
			Total Spending	Fund Balance
SPECIAL FUNDS				
Special Account for Capital Outlay ^a	\$29,469	NA	\$79,297	NA
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund ^a	2,985	NA	10,343	NA
Environmental License Plate Fund	36,385	\$30,726	23,608	\$1,678
Transfers to the Habitat Conservation Fund (HCF)	2,342	NA	5,440	NA
Public Resources Account, Cigarette and Tobacco Products Surtax Fund (CTPSF):				
Fish and wildlife habitat	21,819	15,393 ^b	9,404	402 ^b
Parks and recreation	24,259	15,393 ^b	10,387	506 ^b
Transfers to the HCF	200	NA	10,087	NA
Habitat Conservation Fund:				
Transfer from the Unallocated Account, CTPSF	13,658	13,268	13,268	--
Transfers from other funds	(16,342)	NA	(17,027)	NA
BOND FUNDS (by year)				
Parklands Fund of 1984	\$48,780	\$10,158	\$6,840	\$3,318
Fish and Wildlife Habitat Enhancement Fund of 1984	3,310	2,771	1,250	1,521
State Coastal Conservancy Fund of 1984	4,287	4,060	3,400	660
California Wildlife, Coastal, and Park Land Conservation Fund of 1988 ^c	65,479	58,025	36,202	21,823
Wildlife and Natural Areas Conservation Fund of 1988	7,770	16,782	5,050	11,732
Various park bond funds ^d	16,579	3,600	2,937	663
Transfers to the HCF	(13,800)	NA	(1,400)	NA
Totals, bond funds	\$146,135	\$95,396^b	\$55,679	\$39,717^b

^a Figures are for resources-related projects only.

^b LAO estimates.

^c Figures are for the bond allocations subject to Budget Bill appropriation only.

^d State Beach, Park, Recreational and Historical Facilities Fund of 1974; State, Urban and Coastal Park (1976 Bond) Fund; and Parklands Fund of 1980.

Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund.

Revenues to this fund come from royalties and other payments for oil and gas recovered from submerged federal lands that are adjacent to California. The revenue amount is determined by an agreement with the federal government. These funds can be appropriated for any purpose.

The budget proposes expenditures totaling \$10.3 million from Section 8(g) funds, all for a variety of resources programs. This is an increase of \$7.4 million above spending for resources programs in the current year. The increase is due to (1) increases in revenue due to the terms of the federal agreement and (2) deletion of one-time funding in the current-year of \$4.3 million for nonresources programs.

The budget proposes to transfer all of the remaining balance in the fund, estimated at \$13.9 million, to the General Fund. This amount is similar to the amount transferred in the current year. Please see our analysis of Item 9896 for additional discussion of the budget's proposal for the use of Section 8(g) funds.

Public Resources Account, Cigarette and Tobacco Products Surtax Fund. The Public Resources Account (PRA) receives 5 percent of the revenue from the Cigarette and Tobacco Products Surtax Fund. Fifty percent of the PRA funds must be used to support park and recreation programs at the state or local level; the remaining 50 percent must be used to support habitat programs and projects.

Proposed expenditures from the PRA total \$19.8 million. This is a decrease of \$26.2 million below spending in the current year. The decrease is due primarily to (1) a decrease of \$18 million in available funds due to spending down reserves in the current year and (2) a budget proposal to transfer \$10.1 million to the Habitat Conservation Fund (HCF) to implement Proposition 117, the California Wildlife Protection Act of 1990. (Please see our analysis of Item 3640 for additional discussion of the HCF.) Based on revenues and expenditures shown in the budget, the fund would have a reserve of \$908,000, or 2.9 percent of 1991-92 revenues, on June 30, 1992.

Environmental License Plate Fund. The Environmental License Plate Fund (ELPF) derives its funding from the sale of personalized motor vehicle license plates by the Department of Motor Vehicles. Funds from the ELPF can be used for the following purposes:

1. Control and abatement of air pollution.
2. Acquisition, preservation, and restoration of natural areas or ecological reserves.
3. Environmental education.
4. Protection of nongame species and threatened and endangered plants and animals.
5. Purchase of real property, consisting of sensitive natural areas, for the state, local or regional park systems.
6. Reduction of the effects of soil erosion and the discharge of sediment into the waters of the Lake Tahoe region.

SECRETARY FOR RESOURCES—Continued

The budget proposes expenditures totaling \$23.6 million from the ELPF, a decrease of \$12.8 million below current-year spending. The reduction in spending is due primarily to (1) a decrease of \$11.8 million in available funds due to spending down reserves in the current year and (2) a budget proposal to transfer \$5.4 million to the HCF. The budget also reflects proposals for legislation (1) to transfer \$2.3 million to the HCF in the current year in order to offset an HCF deficiency and (2) to forgive a loan of \$3.6 million from the ELPF to the Department of Fish and Game. The loan payment is due in the current year. The budget shows a reserve of \$1.7 million, or 5.4 percent of 1991-92 revenues, on June 30, 1992.

Habitat Conservation Fund (HCF). This fund was created by Proposition 117, the California Wildlife Protection Act of 1990. The fund is guaranteed annual revenue of \$30 million primarily to fund wildlife habitat acquisitions and improvements. In order to support the required annual expenditure level, Proposition 117 requires transfer of (1) 10 percent of funds from the Unallocated Account, Cigarette and Tobacco Products Surtax Fund, and (2) additional funds from the General Fund to total \$30 million. Proposition 117 allows the Legislature to substitute for the General Fund the transfer of other appropriate funds.

The transfers from the Unallocated Account to the HCF amount to \$13.7 million in the current year and \$13.3 million in 1991-92. Consequently, the amount that must be funded from the General Fund or other funds was \$16.3 million in the current year and will be \$16.7 million in 1991-92.

In the current year, the Legislature funded the HCF by transferring \$13.8 million from existing bond appropriations and \$200,000 from the PRA. The budget assumes the enactment of legislation to transfer an additional \$2.3 million from the ELPF to cover HCF spending in the current year. For 1991-92, the budget transfers only \$1.4 million to the HCF from bond funds. The 1991-92 budget primarily relies on the PRA (\$10.1 million) and the ELPF (\$5.4 million) to fund the HCF.

Park-Related Bonds. Park development projects and land acquisition have traditionally been funded by various bonds passed by the voters since 1964. Availability of bond funds has contributed to legislative flexibility in funding its priorities during the past several years because the Legislature has been able to free up funds in the ELPF and the PRA by using bond funds to the greatest extent possible to fund various projects.

The budget proposes expenditures totaling \$55.7 million from the various park-related bond funds. This amount includes (1) \$26.5 million for the Department of Parks and Recreation, of which \$15.4 million is for ongoing projects and acquisitions, \$11.5 million is for local assistance, and only \$533,000 is for new projects, and (2) \$29.5 million for acquisitions and ongoing projects of the various conservancies. In contrast, the budget shows for the current year (1) spending of \$146.1 million primarily for major capital outlay (\$98.7 million) and local assistance (\$39.4 million),

and (2) transfer of \$13.8 million to the HCF. The reduction is due to spending down available fund balances.

The budget reflects balances totaling \$95.4 million at the beginning of 1991-92 and \$39.7 million at the end of 1991-92. Of the several bond funds passed by the voters, only the Parklands Fund of 1984, the California Wildlife, Coastal and Park Land Conservation Fund of 1988, and the Wildlife and Natural Areas Conservation Fund of 1988 have a substantial amount of money available. However, most of the money left in these funds is earmarked for development in particular geographic areas and for certain limited categories of projects.

Special Account for Capital Outlay. Funds for the Special Account for Capital Outlay (SAFCO) are derived from tidelands oil revenues. Money from SAFCO has been appropriated for programs in many areas of state government.

The budget proposes expenditures totaling \$79.3 million from the SAFCO for resources programs. This is an increase of \$49.8 million above current-year expenditures for resources programs from SAFCO. The increase reflects increases in tidelands oil revenues. Please see our analyses of Item 9860 and Section 11.50 for additional discussion of SAFCO spending.

Summary: Little Special Fund Money is Available for Legislative Priorities. Over the past several years the Legislature has been able to use the PRA and ELPF to fund legislative priorities after funding the Governor's proposals. However, our review indicates that little money will be available in either the ELPF or PRA to fund legislative priorities in 1991-92 if the Legislature approves the Governor's spending proposals. This is due to several factors: First, there are more demands on these funds. Specifically, the budget proposes transfers totaling \$15.5 million from the ELPF and the PRA to the HCF to satisfy the requirements of Proposition 117. In addition, the budget proposes legislation to (1) forgive the \$3.6 million payment owed to the ELPF by the DFG and (2) transfer \$2.3 million from the ELPF to cover a deficiency in current-year funding of the HCF. Second, bond funds that have been used to fund projects that might otherwise be funded from the ELPF and the PRA are depleted, leaving the Legislature very little maneuverability to shift projects to the bond funds to free up the ELPF or PRA for legislative priorities.

No Money Available for New Park Projects. Due to rejection by the voters of the California Park, Recreation and Wildlife Enhancement Act of 1990, and to depletion of existing bond funding sources, the Department of Parks and Recreation and the various state conservancies and boards have little money available to start any new projects in 1991-92. Any money available is earmarked for specific types of projects and specific geographical areas. This problem is mitigated to some degree because under Proposition 117, \$30 million dollars is available annually in the HCF to fund a variety of habitat acquisitions. However, HCF funds (1) for the most part, cannot be used for park development and (2) are fully scheduled in the Governor's Budget.

SECRETARY FOR RESOURCES—Continued**Water Bonds**

Based on our review of bond funding for water programs, we conclude that (1) there is very little money available to help water agencies comply with new federal drinking water regulations and (2) there are sufficient funds available in the short run to continue water supply and waste water treatment programs.

There are several bond fund programs that provide loans and grants to local water agencies to enhance water quality and water supply. These programs are (1) the safe drinking water program, (2) water supply programs, including programs for water conservation, groundwater recharge program, and the water reclamation, and (3) the waste water treatment program.

As indicated in Chart 2, the budget reflects expenditures totaling \$190.2 million under these programs. These expenditures are primarily for grants and loans to local water agencies.

Chart 2**Selected Water Bond Fund Conditions**

**Based on Governor's Budget
1991-92
(in thousands)**

Fund	Est. Total Available	Governor's Proposal	
		Total Spending	Fund Balance
California Safe Drinking Water Fund—safe drinking water	\$123,787	\$39,093	\$84,694
State Clean Water Fund—water supply	20,600	14,369	6,231
1984 State Clean Water Fund—waste water treatment	271,712	65,721	205,991
1986 Water Conservation and Water Quality Fund—water supply	92,460	41,379	51,081
1988 Clean Water and Water Reclamation Fund—water supply	33,188	13,856	19,332
Water Conservation Fund of 1988—water supply	44,192	15,807	28,385
Totals	\$585,939	\$190,225	\$395,714

Safe Drinking Water. The budget reflects expenditures of \$39.1 million in 1991-92 and a balance of \$84.7 million on June 30, 1992. The Department of Water Resources (DWR) advises, however, that of this balance it has about \$73 million in pending applications, thus it may have as little as \$12 million in unobligated funds. In addition, the need for these funds has recently increased. Specifically, as of January, 1991, the federal

Environmental Protection Agency (EPA) implemented stricter regulations that require treatment of all surface water through filtration and disinfection before delivery. Currently, many sources of surface drinking water are not treated prior to delivery. The DWR staff estimate that the state's water systems will need from \$500 million to \$1 billion to comply with these regulations.

Furthermore, the Department of Health Service (DHS) indicates that over the next few years the EPA will be adopting more drinking water regulations that will result in additional costs to the state's water system. Specifically, the EPA will be developing, among other requirements, regulations: (1) requiring groundwater that is used for drinking water to be disinfected, (2) setting standards for the acceptable levels of radon in drinking water, and (3) setting potentially more stringent standards for trihalomethanes and other by-products of disinfecting drinking water. (Trihalomethanes are carcinogenic chemicals that are formed during the chlorination of drinking water.) The costs of the regulations are unknown, because the EPA has not yet developed and completed all of these regulations. However, the DHS indicates that, depending on the final regulations adopted by the EPA, it could cost California water systems several billion dollars to comply with the new requirements.

The DWR staff indicate that if no additional bond funds are made available, many of the small water agencies and districts (ranging from five to 200 service connections) will have difficulties complying with the regulations.

Water Supply. The budget reflects \$85.4 million in expenditures for a variety of water supply programs. According to staff at the DWR and the State Water Resources Control Board (SWRCB), there is enough bond funding available to continue the existing water supply grant and loan programs in the short run. Staff further indicate that if no additional bond funds are made available in 1992, a variety of proposed projects will probably be delayed.

Waste Water Treatment. The budget indicates that the 1984 State Clean Water Fund, used to fund waste water treatment projects, will have a balance of \$206 million at the end of 1991-92. This fund has considerable money available because (1) between 1984 and 1989 it was a revolving loan program that funneled all loan repayments back to the program and (2) local agencies have applied for grants under the other clean water bond funds and have avoided asking for loans from the 1984 Clean Water Fund. However, in 1989 the state began using some of the money in this fund to meet the matching requirement for federal water pollution control capitalization grants. The SWRCB staff indicate that approximately \$140.6 million is for projects considered to be in the pipeline and the remaining \$65.4 million will be available to meet the state's matching requirement through 1994.

Governor's Office
SECRETARY FOR YOUTH AND ADULT
CORRECTIONAL AGENCY

Item 0550 from the General
 Fund

Budget p. LJE 24

Requested 1991-92.....	\$959,000
Estimated 1990-91	976,000
Actual 1989-90	877,000
Requested decrease \$17,000 (-1.7 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The Secretary for the Youth and Adult Correctional Agency coordinates the activities of and provides policy direction to the Departments of Corrections and the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, and Narcotic Addict Evaluation Authority. The agency has 10.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes \$959,000 from the General Fund for support of the Youth and Adult Correctional Agency in 1991-92. This is a decrease of \$17,000, or 1.7 percent, below estimated current-year expenditures. The net decrease results primarily from an unallocated trigger-related reduction of \$32,000. This reduction is included in the proposed budget for the Youth and Adult Correctional Agency in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The unallocated reduction is partially offset by increases in staff salaries and benefits. The budget proposes no increase in personnel-years in 1991-92.

Substance Abuse Coordinating Council Established. The agency established a Substance Abuse Coordinating Council in the current year. The council will provide substance abuse policy oversight for all of the departments within the agency. In addition to agency staff, members of the council include representatives of the Office of Criminal Justice Planning, the Department of Drug and Alcohol Programs, and the California State Sheriffs Association. In addition, the agency advises that the council may play a role in the implementation of Ch 1594/90 (SB 2000, Presley), which establishes local substance abuse community correctional centers.



OFFICE OF CALIFORNIA-MEXICO AFFAIRSItem 0580 from the General
Fund

Budget p. LJE 25

Requested 1991-92.....	\$293,000
Estimated 1990-91	290,000
Actual 1989-90	283,000
Requested increase \$3,000 (+1.0 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The Office of California-Mexico Affairs (OCMA), established by Chapter 1197, Statutes of 1982 (AB 2716, Kapiloff), consolidated two previous state agencies: the Commission of the Californias and the Southwest Border Regional Conference. Chapter 1197 consolidated the purposes, staff, and resources of the two predecessor agencies into two organizational units within OCMA.

The primary function of the 18-member Commission of the Californias is the promotion of economic, cultural and educational relations with the regional Mexican governments in Baja California and Baja California Sur. The Governor serves as chair of the California delegation to the commission; the Lieutenant Governor serves as vice-chair.

The OCMA provides staff support for California's participation in the U.S.-Mexico Border Governor's Conference (formerly known as the Southwest Border Regional Conference). The conference is composed of the Governors of California, Texas, Arizona, and New Mexico, and representatives of six Mexican border states. Its purpose is to promote international cooperation in economic, cultural, and environmental exchange across the U.S.-Mexico border.

The office has 3.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes General Fund expenditures of \$293,000 to support the activities of the OCMA in 1991-92, an increase of \$3,000, or 1.0 percent, above the current year. The proposed increase is the difference between additional personal services costs and an unallocated trigger-related reduction of \$2,000. This reduction is included in the proposed budget for OCMA in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General
Fund and various funds

Budget p. LJE 26

Requested 1991-92.....	\$2,956,000
Estimated 1990-91	2,955,000
Actual 1989-90	3,158,000
Requested increase \$1,000 (+0.03 percent)	
Total recommended reduction.....	1,000,000
Estimated General Fund revenue gain from recommendation	1,000,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0585-001-001—Transfer to California State World Trade Commission Fund	General	(\$2,103,000)
0585-001-147—Transfer to California Export Finance Fund	Unitary	(1,000,000)
0585-001-981—Support	California State World Trade Commission	2,103,000
Statutory Appropriation—Support	Export Finance	359,000
Statutory Appropriation—Support	Export Promotion Account	494,000
Total		\$2,956,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis
page*

1. **Export Loan Guarantee Funds. Delete Item 0585-001-147.**
Recommend deletion of \$1 million requested to fund loan guarantees to exporters because the need for additional funds has not been demonstrated. (Increased General Fund transfer income resulting from recommendation equals \$1 million.)

53
2. **Export Loan Guarantee Program Objectives. Recommend**
enactment of legislation to better define program objectives so as to enhance program effectiveness.

54

GENERAL PROGRAM STATEMENT

The California State World Trade Commission has several responsibilities in the area of international trade. These include (1) coordinating activities designed toward expanding international trade; (2) addressing policies that affect California's ability to trade internationally; (3) providing research in international trade; (4) administering programs designed to increase the availability of funds used to finance the overseas sales of California products; and (5) coordinating meeting arrangements, research and inquiries on behalf of foreign visitors who come to California. The 15-member commission is composed of government and business leaders, and is chaired by an appointee of the Governor. The activities of the commission are supported by 27.2 personnel-years in the current year.

MAJOR ISSUES

- Additional funding for export loan guarantees is premature.
- Export loan guarantee program goals need better focus.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$2,956,000 from various funds to support the programs of the commission during 1991-92. This amount is \$1,000, or 0.03 percent, above estimated current-year expenditures. This reflects a *net* decrease of \$26,000 for operating expenses and a *net* increase of \$27,000 for salaries and benefits.

The budget proposes to transfer \$1 million from the Unitary Fund to the Export Finance Fund in order to fund additional export loan guarantees. This amount is not reflected as an expenditure in the commission's budget, on the basis that it will be used to fund additional loan guarantee reserves.

The Governor's Budget includes an unallocated trigger-related reduction of \$9,000 in funding for the commission. This reduction is included in the proposed budget for the commission in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1 displays the personnel and funding levels for 1989-90 through 1991-92.

Table 1
California State World Trade Commission
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

<i>Program</i>	<i>Actual</i> <i>1989-90</i>	<i>Est.</i> <i>1990-91</i>	<i>Prop.</i> <i>1991-92</i>	<i>Change</i> <i>From 1990-91</i>	
				<i>Amount</i>	<i>Percent</i>
State World Trade Commission	\$2,104	\$2,114	\$2,130	\$16	0.8%
Export Finance Office	1,054	841	835	-6	-0.7
Unallocated reduction	—	—	-9	-9	— ^a
Totals	\$3,158	\$2,955	\$2,956	\$1	0.03%
Funding Sources					
<i>General Fund</i>	\$2,040	\$2,076	\$2,103	\$27	1.3%
<i>Unitary Fund</i>	—	1,000	1,000	—	—
<i>Export Finance Fund</i>	566	-621	-641	-20	— ^a
<i>Export Promotion Account</i>	553	500	494	-6	1.2
<i>California State World Trade Commission</i> <i>Fund</i>	-1	—	—	—	—
Personnel-Years	23.2	27.2	27.2	—	—

^a Not a meaningful figure.

**CALIFORNIA STATE WORLD TRADE COMMISSION—Continued
ANALYSIS AND RECOMMENDATIONS****California Export Finance Office**

The California Export Finance Office (CEFO), a unit of the California State World Trade Commission, was established in August of 1985 to administer the California Export Finance Program. The program is required to provide small- and medium-sized California exporters with information, technical assistance, and financial assistance to expand their employment and income opportunities. The program is intended to overcome problems faced by those exporters in obtaining business loans from private financial institutions. It does this by providing export loan guarantees, which help exporters secure loans from financial institutions. The CEFO is governed by the seven-member California Export Finance Board (CEFB), which is composed of government and business leaders, and is chaired by an appointee of the Governor.

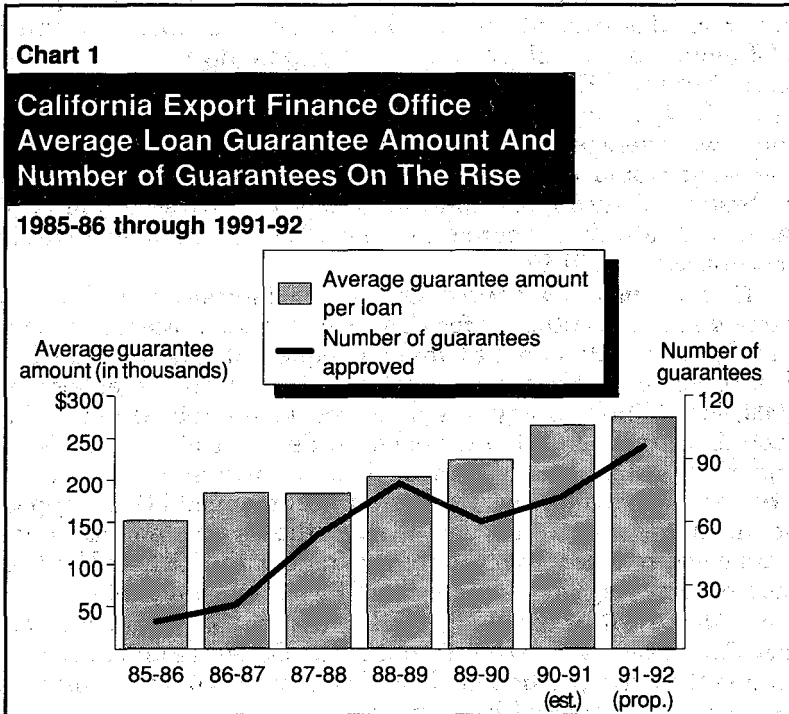
Export Loan Guarantee Financing. Guarantees are limited to 85 percent of the required financing, to a maximum amount of \$500,000. The guarantees may be used for the purchase of materials, services, and labor to prepare for an export transaction (pre-shipment guarantee) or to extend post-export payment terms to insured foreign buyers (post-shipment guarantee). The maximum terms for repayment of pre-shipment and post-shipment guarantees are one year and six months, respectively. Combination guarantees (consisting of both pre- and post-shipment) are limited to terms of 18 months. The average guarantee term is nine months.

Guarantees are supported by the Export Finance Fund (EFF). The EFF, a revolving fund, serves as collateral for the export guarantees. The fund is continuously increased by interest earnings and guarantee application fees, and reduced for administrative expenses of the CEFO and any defaults on guaranteed loans. As guarantees are approved, funds are "reserved" from the EFF to cover potential defaults. Upon the repayment of guaranteed loans, the reserved funds become available for new guarantees.

By law, each dollar in the fund can support up to \$4 in loan guarantees (a 25 percent reserve ratio), subject to approval by the CEFB. Thus, the average EFF balance of \$5.8 million in the current year could support average outstanding guarantees of up to \$23.2 million. However, the CEFB currently requires the CEFO to reserve \$1 for each \$3.50 in approved guarantees (a 29 percent reserve ratio). The CEFO asserts that the 29 percent reserve ratio cannot be reduced to 25 percent because the banking community would not continue to participate in the program if this occurred. Using this logic, the EFF can support average outstanding guarantees of only \$20.3 million in the current year.

Loan Guarantees. The CEFO has issued 262 loan guarantees to date to small- and medium-sized exporters, at an average amount of \$206,000. Chart 1 displays the number of loan guarantees approved and the

average loan guarantee amount by fiscal year. According to the CEFO, these guarantees were primarily made to small business exporters for pre-shipment purposes.



The CEFO also provides export insurance coverage on guaranteed loans through an insurance policy with the Foreign Credit Insurance Association (FCIA). This insurance protects receivables against commercial loss (buyer default or bankruptcy) and provides protection for political risks (sovereign acts, war, currency restrictions).

Export Finance Loan Guarantee Funds Adequate For Now

We recommend deletion of \$1 million in additional funding for export loan guarantees because the need for increased funding has not been demonstrated. (Delete Item 0585-001-147. Increased General Fund transfer income resulting from recommendation equals \$1 million.)

The budget proposes to transfer \$1 million from the California Unitary Fund to the EFF in order to support additional loan guarantees in 1991-92. Aside from the question of whether these Unitary Fund monies will actually be available for transfer in the budget year (please see discussion of this issue under Item 2225), we believe that the Legislature should consider whether the funds are needed to meet anticipated loan guarantee levels for 1991-92.

Status of Existing Funds. As discussed earlier, our review of the EFF indicates that the existing fund balance, which will average \$5.8 million in

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

1990-91, will provide an average guarantee authority of \$20.3 million in 1990-91. Based on the CEFO's estimates of current activity, and assuming that the prevailing trend in guarantee activity continues throughout the current year, this amount exceeds the average guarantee encumbrance of \$14.3 million by \$6 million. These estimates indicate that, on average, 29 percent of the CEFO's authority will remain unused in 1990-91.

For the budget year, our review indicates that the CEFO's guarantee authority will average \$21 million without the proposed additional funds. This amount would exceed the CEFO's estimated average guarantee encumbrance of \$19.8 million in the budget year by \$1.2 million. These estimates indicate that 6 percent of the CEFO's funds are expected to remain unused in 1991-92.

Additional Funds not Needed. Our review indicates that there will be sufficient guarantee authority for all anticipated guarantees in the budget year *without* the additional \$1 million requested. The existing funding level also will be sufficient to meet anticipated guarantee defaults of \$300,000, in addition to any unanticipated guarantee defaults of up to \$350,000. Because the CEFO is unable to demonstrate a need for funds beyond those which are now available, we recommend that further funding for the program await the identification of additional applicants. If the need for additional guarantee authority is demonstrated, the program could reduce either the reserve ratio of the EFF and/or the loan guarantee percentage to increase the EFF's leveraging ability.

Item 2225-001-147 of the Budget Bill proposes that all unappropriated Unitary Fund revenues be transferred to the General Fund in 1991-92. By decreasing the appropriation made in this item (0585), the transfer would be automatically increased by \$1 million.

Export Loan Guarantee Program Goals Need Better Focus

The objectives of the Export Loan Guarantee Program, as reflected in current practices, may limit program effectiveness. We recommend the enactment of legislation to better define these objectives.

Chapter 1693, Statutes of 1984 (SB 1196, Vuich), requires the CEFO to expand the employment and income opportunities for exporters by providing actual and potential small- and medium-sized California exporters with information, technical assistance, and financial assistance in support of export transactions. However, the legislation does not otherwise specify what objective the provision of these services is intended to achieve. As a result, program operations are conducted in a fashion which seeks only to maximize the number of loan guarantees provided.

Our review indicates that the program could more effectively utilize state funds by focusing attention on the following goals:

- Maximizing the number of program participants that graduate to private financing by developing the skills necessary to obtain private export financing.
- Maximizing the number of program participants, so as to provide better access to program opportunities.

As these goals indicate, to more effectively utilize state funds, the program should be oriented towards assisting the maximum number of exporters to ultimately obtain their own private financing. This can be accomplished by efforts aimed at improving the credit-worthiness of program participants, as well as by efforts to overcome the reluctance of private financial institutions to make these loans.

Our analysis indicates that CEFO's practices of making repetitive and concurrent guarantees may be inconsistent with these goals.

Chapter 1424, Statutes of 1989 (SB 898, Vuich), authorizes the CEFO to approve individual guarantees of up to \$500,000. However, the statutes do not prohibit the CEFO from approving more than one guarantee to any individual applicant, nor do they appear to prohibit the CEFO from approving multiple guarantees with concurrent terms for a single applicant.

Should There Be a Limit on Repeat Guarantees? Our review of the program indicates that the CEFO allows program participants to reapply to the program for an unlimited number of additional guarantees. Information provided by the CEFO shows that 51 of the 130 program participants (39 percent of the exporters) received more than one guarantee, with 3.4 loan guarantees being the average. One program participant has received 15 guarantees to date. The guarantees made to these "repeat" participants accounted for 69 percent of the number of guarantees issued.

According to the CEFO, repeat guarantees serve the program's purposes because they result in increased export sales. However, we question whether it is an effective use of state funds for the CEFO to allow program participants to receive an unlimited number of guarantees, for the following reasons:

- It is not clear that the practice results in these participants becoming able to independently obtain private financing.
- The practice reduces the amount of funding available for other potential program participants.

To use funds more effectively, we believe the CEFO should focus more of its efforts on helping existing program participants to obtain financing without state funding. This practice would enable the program to assist new applicants, and thus provide for a more equitable distribution of program resources. Accordingly, the Legislature should consider whether a limit should be imposed upon the number of repeat guarantees made to program participants. Another alternative would be to phase down the loan guarantee percentage on repeat guarantees.

Are Concurrent Guarantees an Effective Use of State Funds? As noted earlier, the CEFO allows program participants to obtain multiple guarantees for concurrent loan terms. Of the 130 program participants, 17 (13 percent) received multiple guarantees with *concurrent terms*. Our review of this practice indicates that it is an ineffective use of state funds for the following reasons:

- The practice reduces the resources available for new applicants.

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

- The practice results in guarantees to individual exporters that *exceed* the individual guarantee limit specified in Chapter 1693.

This limit was established to protect the state's financial interests and to ensure broad access to program opportunities. As a result of CEFO's practice of approving concurrent guarantees, state funds are placed at a greater degree of risk with several outstanding guarantees than with only one. Thus, these funds could instead be used in a more effective manner to assist new applicants.

Monitoring Needed to Measure Program Effectiveness. At this time, the CEFO attempts to measure program performance by measuring the total number of loan guarantees approved, the export sales generated, and the estimated number of jobs created (based on export sales). In addition, the program tracks the number of "assists," which include applicants that were able to obtain financing without receiving a loan guarantee. Assists also are considered to be directly responsible for the generation of export sales and the resulting jobs. This method of measuring program effectiveness, however, fails to identify the number of exporters that were able to independently obtain private financing subsequent to their participation in the program. It also fails to account for businesses that would have conducted some level of exporting activities without program technical assistance or loan guarantee support.

Our review indicates that the program should attempt to track the performance of program participants at three points in time: (1) when the guarantees are approved, (2) immediately after guaranteed loans have been repaid, and (3) several months after repayment. Such surveys could provide useful measurements to better evaluate program effectiveness. Specifically, such surveys could be helpful in:

- Differentiating between applicants that were able to *independently* obtain export financing following guarantee support, from those who returned to the program for additional support or discontinued export-related activities altogether.
- Distinguishing between those applicants that had *already* completed export transactions prior to receiving an export guarantee from first-time exporters.
- Measuring the level of export activity of participants *prior* to receiving program assistance, to provide an accurate base to measure any increases in export-related employment and income.

Monitoring program performance through the use of surveys would provide a better basis for assessing program effectiveness. At this time, the program fails to survey the performance of program applicants.

In order to improve the Export Loan Guarantee program's effectiveness, we recommend that legislation be enacted to (1) better define the objectives of the program, (2) require that the commission's practices be consistent with these objectives, and (3) require the monitoring of program performance on an ongoing basis.

OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General
Fund and various funds

Budget p. LJE 30

Requested 1991-92.....	\$5,383,000
Estimated 1990-91	10,261,000
Actual 1989-90	7,030,000
Requested decrease \$4,878,000 (-47.5 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0650-001-001—Support	General	\$4,492,000
0650-001-002—Support	Property Acquisition Law Account	430,000
0650-001-890—Support Reimbursements	Federal Trust	354,000
	—	107,000
Total		\$5,383,000

GENERAL PROGRAM STATEMENT

The Governor's Office of Planning and Research (OPR) assists the Governor by conducting research and making policy recommendations on a wide range of matters. In addition, it has statutory responsibilities related to state and local land use issues, environmental and federal project review procedures, and permit assistance.

The OPR has 81.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the expenditure of \$5.4 million (all funds) for support of OPR in 1991-92. This is a decrease of \$4.9 million, or 48 percent, below estimated current-year expenditures. This decrease is primarily the result of current-year expenditure of federal funds that were appropriated to OPR in prior legislation. Specifically, OPR will expend the remaining funds from the Local Jurisdiction Energy Assistance Account (\$823,000) and the Petroleum Violations Escrow Account (\$4 million) in the current year. The budget also includes an unallocated trigger-related reduction of \$97,000. This reduction is included in the proposed budget for the office in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1 shows the budget for OPR by program and funding source for 1989-90 through 1991-92.

Our review indicates that the proposed expenditures for the office are reasonable.

OFFICE OF PLANNING AND RESEARCH—Continued

Table 1
Office of Planning and Research
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

<i>Program</i>	<i>Actual 1989-90</i>	<i>Estimated 1990-91</i>	<i>Proposed 1991-92</i>	<i>Percent Change From 1990-91</i>
Education planning and policy	\$472	\$504	\$503	-0.2%
Local government affairs	846	989	991	0.2
Permit assistance	1,153	1,218	1,213	-0.4
Energy extension service	2,355	5,138	354	-93.1
Community relations	783	817	799	-2.2
Executive office and support services	1,421	1,595	1,620	1.6
Unallocated reduction	—	—	-97	— ^a
Totals	\$7,030	\$10,261	\$5,383	-47.5%
Funding Sources				
<i>General Fund</i>	\$4,448	\$4,586	\$4,492	-2.0%
<i>Property Acquisition Law Account</i>	—	430	430	—
<i>Local Jurisdiction Energy Assistance Account (federal-PVEA)</i>	866	823	—	-100.0
<i>PVEA funds (federal)</i>	1,228	4,047	—	-100.0
<i>Federal Trust Fund</i>	260	268	354	32.1
<i>Reimbursements</i>	228	107	107	—
<i>Personnel-Years</i>	75.1	81.5	79.5	-2.5%

^a Not a meaningful figure.

OPR Support for New Cabinet Post

The Governor proposes the creation of a new cabinet-level position, the Secretary for Child Development and Education. At the time this analysis was completed, the new secretary and her staff were located in the OPR Office of Education Planning and Policy. The OPR advises that this is a temporary situation until the formal plans for the new cabinet post have been completed and that the future level of support which OPR will provide the new agency is unknown at this time.

OFFICE OF EMERGENCY SERVICES

Item 0690 from the General

Fund and various other funds

Budget p. LJE 35

Requested 1991-92	\$191,602,000
Estimated 1990-91	213,250,000
Actual 1989-90	154,376,000
Requested decrease \$21,648,000 (-10.2 percent)	
Total recommended reduction	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0690-001-001—Support	General	\$18,153,000
0690-001-014—Support	Hazardous Waste Control Account	2,277,000
0690-001-029—Support	Nuclear Planning Assessment Special Account	1,085,000
0690-001-890—Support	Federal Trust	4,902,000
0690-101-001—Local assistance	General	38,574,000
0690-101-029—Local assistance		
Fixed Nuclear Power Plant Planning	Nuclear Planning Assessment Special Account	1,968,000
0690-101-890—Local assistance	Federal Trust	96,413,000
Subtotal, Budget Bill Appropriations		(\$163,372,000)
Government Code Sections 8690.02, 8690.4, 8690.5—Support	Disaster Administration Support Account, Natural Disaster Assistance	\$3,728,000
Continuous Appropriation—Support	State Assistance for Fire Equipment Account	100,000
Continuous Appropriation—Local assistance	Public Facilities and Local Agency Account, Natural Disaster Assistance	21,878,000
Continuous Appropriation—Local assistance	Street and Highway Account, Natural Disaster Assistance	1,454,000
Reimbursements		1,070,000
Total, All Funds		\$191,602,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS*Analysis
page*

1. Disaster Assistance Costs for Loma Prieta Earthquake. The administration's latest estimates of state costs of the earthquake and revenues generated by the quarter-cent sales tax indicate that a shortfall exists of \$176 million. Further, recommend that Department of Finance and Office of Emergency Services provide to the Legislature, prior to budget hearings, revised estimates of the total cost of the earthquake, and expenditures made to date, and expected costs of other disasters that have already occurred. 62
2. Legislative Oversight. Recommend enactment of legislation to reestablish the Legislature's oversight function in the state's disaster assistance program. 65

MAJOR ISSUES

- There is a shortfall of \$176 million between state costs of the Loma Prieta Earthquake and the revenues generated by the special quarter-cent sales tax.
- Legislation should be enacted to restore the Legislature's oversight function in the state's disaster assistance program.

OFFICE OF EMERGENCY SERVICES—Continued**GENERAL PROGRAM STATEMENT**

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. These responsibilities are administered through four programs — Mutual Aid Response, Plans and Preparedness, Disaster Assistance, and Administration/Executive.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$191.6 million for support of the OES and its programs, in 1991-92. This is \$21.6 million, or 10 percent, less than estimated expenditures in the current year.

The budget proposes expenditure of \$89.2 million in state funds in 1991-92, which is \$20.8 million, or 19 percent, less than estimated state expenditures in the current year. The decrease in expenditures proposed for 1991-92 is primarily due to decreases in disaster assistance expenditures provided in the current year for the Loma Prieta earthquake.

The budget also includes an unallocated trigger-related reduction of \$394,000. This reduction is included in the proposed budget for the OES in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Expenditures for OES support and local assistance are summarized in Table 1.

Table 1
Office of Emergency Services
Funding Sources
1989-90 through 1991-92
(dollars in thousands)

<i>Category/Source of Funds</i>	<i>Actual 1989-90</i>	<i>Est. 1990-91</i>	<i>Prop. 1991-92</i>	<i>Percent Change From 1990-91</i>
State Operations				
General Fund.....	\$18,306	\$21,528	\$18,153	-15.7%
Federal Funds.....	4,335	5,743	4,902	-14.6
Hazardous Waste Control Account.....	1,293	2,378	2,277	-4.2
Nuclear Planning Assessment Special Fund ..	875	1,028	1,085	5.5
Natural Disaster Assistance Fund:				
Disaster Administration Support Account ...	1,823 ^a	771 ^a	3,728	— ^b
State Assistance for Fire Equipment.....	35	100	100	—
Reimbursements.....	786	1,070	1,070	—
Subtotals.....	(\$27,453)	(\$32,618)	(\$31,315)	(-4.0%)
Local Assistance				
General Fund.....	\$46,599	\$129,101	\$38,574	-70.1%
Federal Funds.....	86,106	96,413	96,413	—
Nuclear Planning Assessment Special Ac- count.....	1,078	1,866	1,968	5.5
Natural Disaster Assistance Fund:				
Public Facilities and Local Agency Disaster Response Account ^a	-8,214	-48,787	21,878	— ^b
Street and Highway Account ^a	1,354	2,039	1,454	-28.7
Subtotals.....	(\$126,923)	(\$180,632)	(\$160,287)	(-11.3%)
Totals.....	\$154,376	\$213,250	\$191,602	-10.2%

^a Includes transfers from the General Fund for expenses already counted in General Fund totals.

^b Not a meaningful figure.

It is important to note that the amount of disaster assistance budgeted for 1991-92 is an *estimate*. The actual level of expenditure in the budget year will depend on the cost of repairing damage caused by natural disasters.

As Table 1 illustrates, the costs of state operations are proposed to decrease by \$1.3 million, or 4 percent. This slight decrease is primarily due to changes in the General Fund and the Federal Trust Fund which, in the current year, contain transfer amounts for the support of certain disaster administration accounts. The \$20.3 million, or 11 percent, decrease in local assistance in 1991-92 reflects the difference between the amount of disaster relief funds expended in the current year primarily for the Loma Prieta earthquake and the amount that is budgeted for disaster relief for that earthquake and other future disasters in the budget year.

Table 2 provides a summary of OES expenditures and personnel by program. The office has 273.7 personnel-years in the current year.

Table 2
Office of Emergency Services
Program Summary
1989-90 through 1991-92
(dollars in thousands)

<i>Program</i>	<i>Actual 1989-90</i>	<i>Est. 1990-91</i>	<i>Prop. 1991-92</i>	<i>Percent Change From 1990-91</i>
Fire and Rescue.....	\$2,660	\$3,601	\$3,351	-6.9%
Law Enforcement.....	828	922	935	1.4
Emergency Communication Systems.....	2,409	7,204	7,730	7.3
Plans and Preparedness.....	1,231	1,795	1,807	0.7
Earthquake Preparedness.....	3,401	3,443	3,722	8.1
Training.....	2,472	3,739	3,518	-5.9
Hazardous Materials and Radiological				
Planning.....	3,874	5,961	6,041	1.3
Technical Assistance to Local Governments....	1,630	1,685	1,725	2.4
Disaster Assistance.....	137,393	184,900	163,167	-11.8
Administration (distributed).....	(1,805)	(2,038)	(2,069)	1.5
Natural Disaster Reimbursements — Loma Prieta.....	-1,522	—	—	—
Unallocated reduction.....	—	—	-394	— ^a
Totals.....	\$154,376	\$213,250	\$191,602	-10.2%
<i>Personnel-Years</i>				
Fire and Rescue.....	23.6	25.7	25.7	—
Law Enforcement.....	7.6	8.6	8.6	—
Emergency Communication Systems.....	17.5	15.8	15.8	—
Plans and Preparedness.....	15.4	23.2	23.2	—
Earthquake Preparedness.....	21.5	35.3	34.6	-2.0%
Training.....	26.5	34.2	34.2	—
Hazardous Materials and Radiological				
Planning.....	32.5	50.5	50.5	—
Technical Assistance to Local Governments....	20.0	18.6	18.6	—
Disaster Assistance.....	38.1	29.0	34.9	20.3
Administration.....	40.8	32.8	32.8	—
Totals.....	243.5	273.7	278.9	1.9%

^a Not a meaningful figure.

OFFICE OF EMERGENCY SERVICES—Continued
ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes proposed in the Governor's Budget:

- Establishment of 17.1 limited-term positions and an increase in overtime services in the Disaster Assistance Division, to be funded through a redirection of funds for consultant services.
- Transfer of \$124,000 to the Office of Environmental Affairs from the Hazardous Waste Control Account for support of its activities related to the federal Superfund Reauthorization Act of 1986.

The Loma Prieta Earthquake**Significant Shortfall to Meet Earthquake Costs**

The administration's latest estimates of state costs of the Loma Prieta earthquake are \$176 million higher than the revenues from the quarter-cent sales tax.

Further, we recommend that prior to budget hearings, the Department of Finance, in conjunction with the OES, provide to the Legislature (1) an update of the total estimated costs for the Loma Prieta earthquake, by program and fund source, (2) the expenditures and encumbrances, to date, made towards these costs, and (3) a report of the number and estimated costs of other disasters that have already occurred for which state disaster assistance will be needed in the current and budget years.

In November 1989 the Governor called an Extraordinary Session of the Legislature in order to enact legislation that would address the losses incurred by state and local agencies, as well as private citizens, due to the October 17, 1989 Loma Prieta earthquake. In response to this action, 24 pieces of legislation were enacted which established new disaster assistance programs and which provided increased funding for various existing programs.

Table 3 displays the administration's estimates of costs associated with the Loma Prieta earthquake, which were updated by the Department of Finance (DOF) in December 1990. In addition, the table contains figures which reflect (1) the expected revenues to the Disaster Relief Fund from the temporary quarter-cent increase in the sales tax, enacted in Ch 13/89 (AB 48x, Areias) and Ch 14/89 (SB 33x, Mello), and (2) the projected shortfall in meeting the costs for the earthquake. The quarter-cent

increase ceased to be in effect on December 31, 1990.

We estimated the shares of cost between the federal agencies and the state for the public entities and schools programs based on total cost figures provided by the DOF. According to the DOF, it was not possible to provide extensive detail on the estimated total costs for the Loma Prieta earthquake (or other state disasters) because (1) there are difficulties involved in tracking the Loma Prieta-related cost information from the various affected state departments and (2) the OES has only recently begun to develop an automated system for tracking statewide disaster assistance information.

Table 3
Estimated Total State and Federal Costs for the
Loma Prieta Earthquake
By Program and Fund Source^a
(dollars in millions)

Program	Fund Source		Total
	State (General Fund)	Federal Funds	
Public entities	\$226.0	\$505.8	\$731.8
Schools	8.0	17.8	25.8
Highways	280.0	1,190.0	1,470.0
Individual and Family Grants Program (IFGP) ..	23.3	—	23.3
Housing	134.0	—	134.0
Small business/agriculture	7.0	—	7.0
Victims assistance	116.0	—	116.0
Parks	1.5	—	1.5
Tax relief	139.9	—	139.9
Miscellaneous state costs ^b	16.0	—	16.0
Totals	\$951.7	\$1,713.6	\$2,665.3
State Resources:			
Estimated revenues to the Disaster Relief Fund (quarter-cent sales tax)	\$775.3		
Surplus/Shortfall	-\$176.4		

^a Based on Department of Finance's estimates.

^b Includes costs for Board of Inquiry, administrative costs for collection of temporary sales tax, seismic studies, and adjustments made to total cost estimates by the Department of Finance.

As Table 3 indicates, the total costs to the state and federal governments for the Loma Prieta earthquake are estimated to be \$2.7 billion. Costs for public entities (such as state and local government buildings), highways, housing, and tax relief programs are among the largest components, making up 93 percent of the total costs. The state's share of the earthquake-related costs is \$952 million, while the remaining \$1.7 billion will be supported by federal funds. As the table indicates, the DOF estimates that projected total revenues from the increase in the sales tax will be \$775 million, leaving a shortfall of \$176 million to meet estimated state costs.

Considerations for the Budget Year and Beyond

The 1991-92 Governor's Budget includes \$641 million from the General Fund and federal funds for the support of various programs with costs

OFFICE OF EMERGENCY SERVICES—Continued

related to the Loma Prieta earthquake. Some of these expenditures would be offset by transfers from the Disaster Relief Fund, which accrued its revenues from the temporary quarter-cent increase in the sales tax.

Shortfall in Meeting Earthquake Costs. Given the magnitude of the share of costs for the Loma Prieta earthquake which are borne by the state, a shortfall of approximately \$176 million would result, as indicated in Table 3. The DOF indicates that it may propose to pay for the costs of rebuilding state buildings through a combination of bond financing and federal reimbursements.

It is important to note that DOF has excluded from the December 1990 revised estimate, (1) the costs for repairing historical buildings (approximately \$100 million), which the Federal Emergency Management Agency (FEMA) has indicated it may elect not to cover, and (2) the costs for highway bridge seismic retrofit projects (estimated at \$1.1 billion), which DOF does not consider a true cost of the Loma Prieta earthquake.

Unresolved Issues Relating to Disaster Assistance. The state's response to the Loma Prieta earthquake has raised several issues for the Legislature to consider. We discuss these issues below.

How Will the Shortfall be Met? The DOF indicates that it expects the impact of the shortfall to be felt in 1992-93, and therefore has not formulated proposals for addressing it in the 1991-92 Governor's Budget. Nevertheless, there is little doubt that a shortfall will exist that will most likely have to be funded from the General Fund.

Differing Opinions Regarding Assistance to Nonprofit Organizations. Chapter 23, Statutes of 1989 (SB 38x, Petris), and Ch 24/89 (AB 35x, Cortese), which were enacted during the Extraordinary Session, broadened the definition of "local agency" for purposes of disaster assistance to include county offices of education, community college districts, and specified private *nonprofit organizations*. The OES indicates that it has received numerous legal opinions regarding the legality of using public disaster assistance funds to support repairs of earthquake damage to the facilities of certain nonprofit organizations, such as private universities and hospitals. According to the OES, resolution of this issue could affect (1) the state's current liability for the Loma Prieta earthquake and (2) the state's past support of nonprofit organizations (in the event that the state must rescind actions on disaster assistance provided in prior disasters). To the extent that certain nonprofit organizations become ineligible for state disaster assistance, this could *reduce* the state's liability for Loma Prieta and subsequent disasters.

Assistance for Other State Disasters. In addition to the costs estimated for the Loma Prieta earthquake, the state must also consider the costs related to several other disasters, which have already occurred, such as the recent crop freezes in the central valley and the Santa Barbara fires (spring 1990). The OES reports that, on average, there is a major disaster within the state every eight months for which disaster assistance must be provided. While the department could not provide us with specific figures at the time this analysis was completed, it is important to consider

that the state's share of the costs for these disasters are borne entirely by the General Fund. We expect the department will have better cost information on these disasters prior to budget hearings.

Administration Should Provide Additional Information to Legislature. Because of the concerns outlined above regarding the tracking of cost information related to the Loma Prieta earthquake, specifically, and to state natural disasters, in general, we recommend that, prior to budget hearings, the DOF, in conjunction with the OES, provide to the Legislature (1) an update on estimated costs of the earthquake, by program and fund source, (2) data on expenditure and encumbrances, to date, to meet these costs, and (3) a report of the number and estimated costs of other disasters that have already occurred for which state disaster assistance will be needed in the current and budget years.

Legislative Involvement Needed in Disaster Assistance

We recommend that legislation be enacted to reestablish the Legislature's oversight function in the state's disaster assistance program.

Background. Immediately following the occurrence of a natural disaster, the state begins its *response* activities. These activities generally include emergency protective measures for the preservation of life or property, or activities that are necessary for the resumption of regular state and local government operations and services. Following the response activities, the state begins *recovery* activities. These activities generally involve major reconstruction or restoration of facilities and infrastructure which may take many months or years.

During the 1989 Extraordinary Session, the Legislature enacted Ch 1/89 (AB42x, Vasconcellos) and Ch 2/89 (SB 1x, Mello). These measures removed the Legislature from an important part of the disaster assistance process by granting complete authority to the Director of Finance to transfer monies from the General Fund for disaster *response* and *recovery* activities, without legislative review. Prior to the 1989 Extraordinary Session, the law required that the Legislature be notified before transfers to the various disaster assistance accounts could be made. This notification period allowed the Legislature to review the proposed uses of state funds, thereby providing the opportunity to (1) determine the priority of certain expenditures and (2) track the costs for disaster assistance programs.

Legislative Oversight. Our analysis indicates that legislative involvement and oversight is particularly important because, although the state plays a major role in disaster assistance to individuals, businesses, and local entities, the state has no clearly defined policy governing the extent of this assistance. No policy exists, for example, regarding an acceptable or desired level of recovery and restoration after a natural disaster that will be borne by the state versus individuals and businesses. In addition, no single agency has the leadership role in establishing priorities or setting guidelines for state and local agencies regarding *recovery* activities. Instead, each agency, operating independently, has responsibility for specific activities following a disaster.

OFFICE OF EMERGENCY SERVICES—Continued

Following the Loma Prieta earthquake, which resulted in such high costs to the state and requires a significant recovery period, the need to reexamine the state's policy is clear. Legislative involvement is critical in determining (1) the level of disaster assistance that the state can feasibly support for large disasters and (2) the priorities among the various disaster assistance programs to appropriately meet the needs of the state.

The administration maintains a position regarding state disaster assistance that stresses the importance of providing such assistance as quickly as possible following a disaster, particularly one of the magnitude of the Loma Prieta earthquake. According to the administration, allowing the Director of Finance to make transfers to the disaster assistance accounts without delay is crucial to the state's ability to meet emergency response needs.

While we do not disagree with the importance of meeting the state's obligations for disaster *response* activities expeditiously, we believe that legislative oversight and priority setting is essential, particularly in the mechanism for supporting ongoing disaster *recovery* measures for extraordinarily large disasters. For example, the *response* phase of the Loma Prieta earthquake was completed several months after the October 1989 disaster. The state, however, is continuing its *recovery* activities without the Legislature's involvement in setting priorities for the use of limited funds. The administration has sole authority to set priorities regarding financial assistance among housing programs, transportation programs, and nonprofit organizations, among others.

Recommendation. In order to ensure that the state's disaster assistance programs are directed to the highest priority activities, we recommend that legislation be enacted to reestablish the Legislature's oversight function in the provision of disaster assistance, particularly for disasters with recovery periods that are anticipated to extend for long periods of time and result in extraordinarily significant costs.

USES OF THE DISASTER RELIEF FUND

Item 0695 from the Disaster
Relief Fund

Budget p. LJE 44

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes language that would allow the Disaster Relief Fund to be used to reimburse the General Fund for tax revenue losses incurred as a result of the Loma Prieta earthquake. The Department of Finance estimates this amount at \$12.5 million in the budget year.

Chapter 13, Statutes of 1989 (AB 48x, Areias), and Ch 14/89 (SB 33x, Mello), enacted during the November 1989 Extraordinary Session, established the Disaster Relief Fund. Revenue to this fund accrued from a

quarter-cent increase in sales taxes that was effective for 13 months. During the session, the Legislature also enacted legislation to allow individual and corporate taxpayers to carry forward all of their excess casualty and operating losses related to the earthquake for up to five years, with one-half of any remaining excess losses deductible over the subsequent 10 years. In addition, corporations, as well as individuals, could carry back their losses to the prior year.

Our analysis indicates that the proposed language is consistent with similar language adopted by the Legislature in the 1990 Budget Act.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General

Fund

Budget p. LJE 47

Requested 1991-92.....	1,697,000
Estimated 1990-91	1,670,000
Actual 1989-90	1,657,000
Requested increase \$27,000 (+1.6 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0750-001-001—Support	General	\$1,627,000
Reimbursements		70,000
Total		\$1,697,000

GENERAL PROGRAM STATEMENT

The Lieutenant Governor assumes the responsibilities of chief executive in the absence of the Governor. He also serves as the presiding officer of the Senate, voting only in the case of a tie vote. In addition, the Lieutenant Governor serves on numerous commissions and boards, and performs special tasks as assigned by the Governor.

The Lieutenant Governor's Office has 25.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$1,697,000 for the support of the Lieutenant Governor's Office during 1991-92. This amount, which includes \$1,627,000 from the General Fund and \$70,000 from reimbursements, is an increase of \$27,000, or 1.6 percent, over estimated current-year expenditures. The proposed increase is the difference between increased personal services costs and an unallocated trigger-related reduction of \$14,000. This reduction is included in the proposed budget

OFFICE OF THE LIEUTENANT GOVERNOR—Continued

for the Lieutenant Governor's Office in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

DEPARTMENT OF JUSTICE

Item 0820 from the General
Fund and various funds

Budget p. LJE 48

Requested 1991-92.....	\$285,586,000
Estimated 1990-91	291,470,000
Actual 1989-90	265,329,000
Requested decrease \$5,884,000 (-2.0 percent)	
Recommended current-year reduction.....	1,000,000
Recommended budget-year reduction.....	400,000
Total recommended reduction.....	1,400,000
Recommendation pending	1,373,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0820-001-001—Support	General	\$177,766,000
0820-001-012—Antitrust	Attorney General's Antitrust Account, General	486,000
0820-001-014—Toxic substance	Hazardous Waste Control Account, General	1,759,000
0820-001-017—Fingerprints	Fingerprint Fees, General	17,514,000
0820-001-044—Data center support	Motor Vehicle Account, State Transportation	16,446,000
0820-001-455—Toxic substance	Hazardous Substance Account, General	1,328,000
0820-001-460—Handgun control	Dealers' Record of Sale Special Account, General	5,767,000
0820-001-469—Law enforcement	Narcotics Assistance and Relin- quishment by Criminal Offender, General	529,000
0820-001-477—Gaming registration	Gaming Registration Fee Account, General	296,000
0820-001-890—Support	Federal Trust	10,141,000
0820-001-942—Support	Federal Asset Forfeiture Account, Special Deposit	1,765,000
0820-011-012—Antitrust	Transfer from Antitrust Account, General Fund	(600,000)
0820-011-942—Support	State Asset Forfeiture Account, Special Deposit	340,000
0820-101-001—Local assistance	General	592,000
Political Reform Act (Item 8640-001-001)	—	229,000
Reimbursements	—	50,628,000
Total		\$285,586,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONSAnalysis
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|--|----|
| 1. Civil Law Reduction. Recommend the Department of Justice (DOJ) report to the fiscal committees on (a) projected legal services still required by state agencies that have had services reduced and (b) plans to absorb additional reductions in 1991-92. Further recommend that during budget hearings fiscal committees review departments' plans to meet legal service needs. | 72 |
| 2. Medical Board and Toxics Legal Services. Withhold recommendation on (a) \$573,000 in reimbursements for specified legal services provided on behalf of the Medical Board and (b) \$800,000 from special funds for services on behalf of Department of Health Services, pending receipt of additional, specified workload information. | 74 |
| 3. <i>Crack Down Task Force Program. Reduce Item 0820-001-001 by \$400,000 and Add Reversion Item to Budget Bill to Revert \$1 Million in Current Year.</i> Recommend the DOJ revert savings from reduced lease costs to the General Fund. | 75 |
| 4. Assault Weapons Registration. Recommend the department report to the fiscal committees during budget hearings on the implementation of the assault weapons registration program. | 77 |

GENERAL PROGRAM STATEMENT

Under the direction of the Attorney General, the Department of Justice (DOJ) enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. Its functions presently are carried out through six programs — Executive and Administration, Executive Programs, Civil Law, Criminal Law, Public Rights, and Law Enforcement.

The department's legal programs are carried out in three divisions. The Civil Law Division provides legal representation for most state agencies, boards, and commissions. The Criminal Law Division represents the state in all criminal matters before the Supreme Court and courts of appeal. The Public Rights Division provides legal services in the areas of civil rights and charitable trust, natural resources, environmental law, anti-trust, land law, and consumer law.

The department's largest program is law enforcement support. It (1) provides investigative assistance and training to local law enforcement agencies, (2) suppresses traffic in narcotics, (3) operates a system of criminalistics laboratories throughout the state, (4) maintains centralized criminal history records and fingerprint files, and (5) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

The department has a total of 3,893 personnel-years in the current year.

DEPARTMENT OF JUSTICE—Continued
OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$285.6 million from the General Fund, various special funds, federal funds, and reimbursements for the DOJ in 1991-92. This is \$5.9 million, or 2 percent, less than estimated current-year expenditures.

The proposed General Fund appropriations for the department in 1991-92 total \$178.6 million. This is a decrease of \$5.9 million, or 3 percent, below estimated current-year expenditures. The Governor's Budget includes an unallocated trigger-related reduction of \$3.6 million in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The principal budget-year requests are workload adjustments to support legal services in the Public Rights and Civil Law Divisions and fingerprint applicant and arrest report programs, and (2) an augmentation to the Bureau of Narcotic Enforcement.

Table 1 summarizes the department's spending program for 1991-92, by funding source. Table 2 presents a summary of the department's total expenditures, by program.

Table 1
Department of Justice
Funding Source Summary
1989-90 through 1991-92
(dollars in thousands)

<i>Funding Source</i>	<i>Actual 1989-90</i>	<i>Est. 1990-91</i>	<i>Prop. 1991-92</i>	<i>Percent Change From 1990-91</i>
General Fund	\$177,378	\$184,577	\$178,358	-3.4%
Attorney General's Anti-Trust Account	417	481	486	1.0
Hazardous Waste Control Account	1,119	1,161	1,759	51.5
Fingerprint Fees Account	15,040	17,911	17,514	-2.2
Motor Vehicle Account (State Transportation Fund)	15,498	16,323	16,446	0.8
Hazardous Substance Account	1,607	1,651	1,328	-19.6
Dealers' Record of Sale Account	1,250	6,681	5,767	-13.7
NARCO Fund Account	505	521	529	1.5
Gaming Registration Account	296	293	296	1.0
Federal Trust Fund	10,680	9,787	10,141	3.6
Federal Asset Forfeiture Account, Special Deposit Fund	2,575	2,137	1,765	-17.4
State Asset Forfeiture Account, Special Deposit Fund	431	1,482	340	-77.1
Reimbursements	38,230	48,465	50,628	4.5
Natural Disaster Reimbursements — Loma Prieta Earthquake	303	—	—	—
Political Reform Act ^a	(340)	(224)	229	2.2
Total Funding	\$265,329	\$291,470	\$285,586	-2.0%

^a Amounts in parentheses for 1989-90 and 1990-91 are included in the General Fund amount shown in the first line of the table.

Table 2
Department of Justice
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
Executive/Administration ^a	670.0	688.7	679.0	(\$46,084)	(\$50,859)	(\$53,026)	4.3%
Executive programs	52.3	45.4	45.1	5,795	6,102	6,182	1.3
Civil Law	289.1	274.1	270.0	38,622	39,872	39,021	-2.1
Criminal Law	436.0	421.1	426.5	45,035	46,638	47,550	2.0
Public Rights	186.6	165.6	169.3	22,345	22,169	23,094	4.2
Law Enforcement	2,020.6	2,298.5	2,359.0	153,532	176,689	173,323	-1.9
Unallocated reduction	—	—	—	—	—	-3,584	— ^b
Totals	3,654.6	3,893.4	3,948.9	\$265,329	\$291,470	\$285,586	-2.0%

^a Amounts in parentheses are distributed to other programs.

^b Not a meaningful figure.

Table 3
Department of Justice
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund ^a	Special Funds ^b	Federal Funds	Reimburse- ments	Total
1990-91 Expenditures (Revised)	\$184,577	\$48,641	\$9,787	\$48,465	\$291,470
Workload Adjustments					
Criminal fingerprint evaluation	—	1,656	—	—	1,656
Optical character reader	—	1,014	—	—	1,014
Applicant fingerprint evaluation	—	590	—	—	590
Natural resources litigation	—	—	—	338	338
Environment toxics litigation	—	1,159	—	—	1,159
Blood alcohol testing	—	—	—	300	300
Subtotals	(\$184,577)	(\$53,060)	(\$9,787)	(\$49,103)	(\$296,527)
Cost Adjustments					
One-time cost reductions	—\$986	—\$6,771	—	—\$214	—\$7,971
Limited-term programs	—2,260	—2,129	—	—	—4,389
Employee compensation	3,439	527	185	770	4,921
Pro rata/SWCAP adjustments	—	51	169	—	220
Full-year cost of Ch 9/90 (AB 497)	—	948	—	—	948
SPU base adjustment	132	—	—	—	132
Other base adjustments	—224	—	—	—	—224
Expiring legislation	—3,493	—285	—	—	—3,778
Cal-ID central expansion base adjust- ment	986	829	—	—	1,815
Unallocated reduction	—3,584	—	—	—	—3,584
Subtotals	(—\$5,990)	(—\$6,830)	(\$354)	(\$556)	(—\$11,910)
Program Adjustments					
Narcotics enforcement augmentation	—	—	—	396	396
Medical quality enforcement	—	—	—	573	573
Subtotals	(—)	(—)	(—)	(\$969)	(\$969)
1991-92 Expenditures (Proposed)	\$178,587	\$46,230	\$10,141	\$50,628	\$285,586
Changes from 1990-91					
Amount	—\$5,990	—\$2,411	\$354	\$2,163	—\$5,884
Percentage	—3.2%	—5.0%	3.6%	4.5%	—2.0%

^a Includes amounts appropriated for the Political Reform Act.

^b Includes special accounts in the General Fund.

DEPARTMENT OF JUSTICE—Continued

Table 3 identifies (by funding source) the changes in the department's expenditure levels proposed for 1991-92.

ANALYSIS AND RECOMMENDATIONS**LEGAL DIVISIONS**

For 1991-92, the department's legal divisions (which include executive programs, civil law, criminal law, and public rights), request a net decrease of \$1.1 million under estimated current-year expenditures. Workload increases total approximately \$1.5 million. This increase is offset by one-time cost reductions and expiration of limited-term positions.

Reduction in Civil Law Program Could Result in Greater Costs to State

We recommend that the DOJ report to the Legislature's fiscal committees on (1) the projected legal services still required by state agencies that have had services reduced in the current year and (2) its plan to absorb additional reductions in the budget year. We further recommend that during budget hearings the fiscal committees review the department's plans to meet legal service needs.

The 1990 Budget Act included an unallocated reduction of \$1.6 million to the department's Civil Law Division. The Governor's Budget requests an additional reduction of \$1.7 million, or 11 percent in the budget year, for support of the division.

The Civil Law Division provides legal services to most state agencies and Constitutional Officers. The department's General Fund appropriation supports legal services for other state agencies that are primarily supported by the General Fund. Agencies that are supported by special funds reimburse the department for legal services.

Current-Year Reduction in Services. As a result of the reduction in the current year, the department was unable to provide the same level of legal support services to state agency clients that it had provided previously. The Attorney General established a revised expenditure plan that called for elimination of all services to some clients and a reduction in services to others. Table 4 identifies the state departments that have been affected in the current year, the total attorney hours provided by the DOJ prior to the reduction, the hours reduced in the current year, and the savings resulting from these reductions. Estimates of savings are based on the DOJ's rate of \$75.40 per hour for attorney services.

Plans for the Budget Year. The department has not determined how it will absorb its department-wide \$3.6 million unallocated trigger-related reduction, although it is likely that funding for the Civil Law Division would be reduced. Thus, legal services for state agencies could be reduced even further.

The Department of Corrections requests an augmentation of \$146,000 to its budget for 1991-92 for additional legal services. The Governor's Budget does not request additional funds for legal services in any of the other departments shown in Table 4. Presumably, the other departments

will absorb the loss of services and extra costs within existing budgets in both the current and the budget years.

Table 4
Department of Justice
Legal Service Reductions
1990-91

<i>Department</i>	<i>Estimated Base Attorney Hours</i>	<i>Attorney Hours Reduced</i>	<i>Estimated Dollar Savings</i>
California State University.....	13,722	9,289	\$700,391
Corrections.....	21,200	8,176	616,471
Youth Authority.....	2,750	861	64,919
Judicial Council and Courts of Appeal.....	783	783	59,038
Parks and Recreation.....	1,000	470	35,438
Forestry.....	700	470	35,438
Secretary of State.....	600	313	23,600
Education.....	235	235	17,719
Industrial Relations.....	2,000	235	17,719
Board of Equalization.....	235	235	17,719
Other.....	500	235	17,719
Total.....	43,725	21,302	\$1,606,171

Source: Department of Justice

Analyst's Concerns. It is quite possible that some of the reductions in legal services would have little or no adverse impact on state programs and costs. However, we are concerned about the loss of legal services for two reasons.

First, loss of legal services provided by the DOJ may result in state agencies having to hire more expensive private legal services. These services may be more costly to the state because private firms that are hired on an hourly basis are likely to charge higher hourly rates and have a greater incentive to prolong the time it takes to complete a case. These additional state costs could outweigh the current- and budget-year savings to the DOJ.

Second, state agencies may receive inconsistent legal advice. Other providers of legal services may not have a history of litigating on behalf of the state, and may take an approach to such cases that may not be comparable to the DOJ's approach in terms of expediency and cost-effectiveness. These conditions could result in a lack of consistency in the state's position in similarly litigated matters. These consequences would also result in higher costs to the state in the long run.

Given our concern regarding the potential for higher long-run costs to the state resulting from the decrease in Attorney General legal services to state agencies, we recommend that the DOJ provide the Legislature's fiscal committees with an estimate of the projected need for legal services to state agencies that have received a reduction in such services in the current year. In addition, we recommend that the DOJ outline its plan to absorb additional reductions in the Civil Law Division in the budget year. Finally, we recommend that during budget hearings the fiscal committees review the department's plans to meet legal service needs.

DEPARTMENT OF JUSTICE—Continued**Additional Information Needed on Legal Service Requests for Medical Board and Toxics Programs**

We withhold recommendation on requests for additional staff to handle legal work on behalf of the Medical Board (\$573,000 in reimbursements) and the Department of Health Services (DHS) (\$800,000 from the Hazardous Waste Control Account and the Hazardous Substance Account), pending receipt of additional, specified workload information from the DOJ.

The department requests \$573,000 in reimbursements for 5 attorney positions and 3.2 stenographers for the new Health Quality Enforcement Section to provide legal services on behalf of the Medical Board. In addition, the department requests \$800,000 from the Hazardous Waste Control Account and the Hazardous Substance Account for 5 attorney positions, 1 paralegal, and 4.2 stenographers to provide legal services on behalf of the DHS.

Legal Services for the Medical Board. The Health Quality Enforcement Section was created by Ch 1597/90 (SB 2375, Presley), to litigate cases within the jurisdiction of the Medical Board and to provide ongoing review and investigation of activities conducted in support of prosecutions. The legislation provides that the Attorney General appoint a senior assistant attorney general to the section. It further provides that the senior assistant attorney general assign attorneys to assist the division and the Medical Board in investigations and direct discipline-related prosecutions. The department estimates workload of 9,100 attorney-hours for the section. Based on a workload standard of 1,820 hours per attorney, the department requests five attorney positions.

Legal Services for DHS. In the request for services on behalf of the DHS, the department states it has had a substantial growth in toxic litigation workload over the last few years, and identifies an increase in referrals of 62 percent between 1988-89 and 1989-90. It further estimates additional growth in referrals of 10 percent in the current year and an additional 10 percent in the budget year. The department also indicates there will be workload increases caused by the initiation of a new program to enforce state hazardous waste laws.

Estimates are Unsupported. Our analysis indicates that the department has not provided any supporting data or information on how it determined the projected workload needs or what types of legal work will be required for either request. Without such support it is difficult to identify how much, if any additional attorney services will be needed, or if the workload could be handled by additional paralegals or support staff at less cost.

Thus, we withhold recommendation on the department's request for additional attorney positions and support staff on behalf of the Medical Board and the DHS, pending receipt of the following information prior to the budget hearings:

- Types of legal services required to assist each agency.

- Attorney hours needed in similar legal services provided by the DOJ to agencies in the past.
- Number of annual cases handled by the DOJ in providing legal services for the agency on these type of cases in the past.
- Types of staff used to provide services in the past.
- Services and workload produced from initial referrals in the DHS program.
- Background data on how workload estimates were derived.

This information should allow the Legislature to better evaluate the need for the requested additional attorney services.

DIVISION OF LAW ENFORCEMENT

The Division of Law Enforcement requests a net decrease of \$3.4 million below estimated current-year expenditures for 1990-91. Workload increases and program adjustments totaling \$3.9 million. These augmentation increases are offset by reductions caused by expiring legislation and limited-term positions.

We recommend approval of the following significant program changes which are not discussed elsewhere:

- A total of \$3.3 million requested from the Fingerprint Fees Account for processing workload increases in applicant and arrest fingerprint information and for the purchase of optical scanning equipment to automate key data entry of fingerprint records.
- \$396,000 requested to increase the spending authority for the Bureau of Narcotics Enforcement to provide full funding of current drug task force enforcement operations in the 1991-92 fiscal year.
- \$300,000 requested to increase the spending authority for the Blood Alcohol Reimbursement Program to pay for overtime costs created by workload increases and for the purchase of breath testing replacement equipment.

Savings From Crack Down Program Should Go To General Fund

Because of lower-than-estimated lease costs for the Crack Down on Cocaine Task Force Program, we recommend that the Legislature (1) revert estimated savings of \$1 million in the current year (add a reversion item to the Budget Bill), and (2) reduce the budget-year request by \$400,000 (Reduce Item 0820-001-001 by \$400,000).

The Crack Down and Crank-Up Task Force Programs. Chapter 1453, Statutes of 1989 (SB 1661, Roberti), established the Crack Down on Cocaine Task Force Program. The program is designed to coordinate state and local law enforcement efforts against cocaine networks formed by Colombian drug cartels and southern California street gangs. The aim is to reduce cocaine trafficking and distribution. The budget provides \$20.9 million in General Fund and federal funds for the operation of the program in 1991-92.

Chapter 1417, Statutes of 1990 (SB 2031, Presley), established the Crank-Up Task Force Program. This program is designed to coordinate state and local law enforcement efforts in the investigation and enforce-

DEPARTMENT OF JUSTICE—Continued

ment of statutes dealing with the clandestine lab activities. The program targets the reduction of illicit manufacture of methamphetamines in California. Chapter 1417 reappropriated \$3 million for operation of this program from the \$22.4 million appropriated for the Crack Down Task Force Program in the 1990 Budget Act.

Current-Year Savings for Crack Down on Cocaine Program. In the process of implementing Chapter 1453 in the current year, the DOJ planned to acquire new office space in Los Angeles to house staff. The 1990 Budget Act provided \$1.6 million for lease costs, based on estimates provided by the department. The amount budgeted and subsequently committed for lease costs resulted in the following:

- On September 28, 1990 the Joint Legislative Budget Committee (JLBC) received a lease proposal from the Director of General Services for office space in Los Angeles for the DOJ's Crack Down Task Force Program. The actual lease costs were significantly less than the amount originally estimated in the 1990 Budget Act.
- On November 30, 1990, the Chairman of the JLBC requested the Director of Finance to revert the current-year savings resulting from the lower lease to the General Fund and adjust the department's budget-year base budget accordingly.
- On December 24, 1990, the Director of Finance provided a response to the Chairman of the JLBC, confirming a savings to the General Fund caused by the lower-than-estimated lease amount. The savings was estimated at \$1 million in the current year and \$400,000 in subsequent years. The Director indicated that the savings would not be reverted to the General Fund, however, but transferred for the implementation of Chapter 1417, the methamphetamine enforcement program, as part of a \$3 million permanent transfer consistent with his understanding of Chapter 1417.

Operation Funds Were Overappropriated. Our analysis indicates that the funds for the cocaine enforcement program were overappropriated for rent by \$1 million in the current year. The amount overappropriated should be reverted to the General Fund as a savings. This would reduce the amount for the cocaine program in the current year to \$21.4 million. This recommendation fully funds the cocaine program as approved by the Legislature.

Chapter 1417 provides that \$3 million from the General Fund be reappropriated from the cocaine enforcement program to fund the methamphetamine enforcement program. To apply the savings of \$1 million from the cocaine enforcement program to fund Chapter 1417 rather than reverting the funds to the General Fund as the administration proposes, would result in a program level not contemplated by the Legislature.

Revert Current-Year Savings, Reduce Budget-Year Request. In order to reflect the Legislature's intent and properly account for the savings resulting from lower-than-estimated lease costs, we recommend that the Legislature (1) revert the current-year savings of \$1 million and (2)

reduce the 1991-92 budget request by \$400,000. In order to accomplish this, the Legislature should amend the Budget Bill to add the following reversion item:

“Item 0820-495—Reversion, Department of Justice.

As of June 30, 1991, the savings resulting from lower lease costs for the Department of Justice’s Los Angeles facility that houses the Crack Down on Cocaine Task Force Program shall revert to the unappropriated surplus of the General Fund.”

In addition, we recommend that the Legislature reduce the amount requested in the 1991 Budget Bill by \$400,000.

Assault Weapon Registrations Far Below Estimates

We recommend that the department report during budget hearings on (1) reasons why the number of assault weapons registered is so far below estimates, (2) further actions it plans to take to encourage registration and enforce the law, and (3) steps it is taking to implement other recent firearms legislation.

Chapter 18, Statutes of 1989 (SB 292, Roberti), and Ch 19/89 (AB 357, Roos), also known as the Roberti-Roos Assault Weapons Control Act of 1989, required each Californian who owned a firearm that is defined as an assault weapon, to register the firearm with the DOJ by January 1, 1991. The act required the DOJ to issue and renew permits. Refusal to register an assault weapon can result in a fine, incarceration, or both.

At the time the Legislature was considering the measures, the DOJ estimated that there were approximately 300,000 citizen-owned assault weapons in California. This estimate was supported by various other local and private agencies. As of January 16, 1991, however, the DOJ had registered only about 12,500 weapons. With a backlog of last minute registrations still uncounted, the DOJ estimates that in total, approximately 20,000 weapons will be registered, or less than 7 percent of the original estimate. If the preliminary estimates were correct, this would indicate that there are still about 280,000 unregistered weapons.

Fiscal Effect on DOJ. Chapters 18 and 19 authorize the DOJ to collect a processing fee of up to \$20 for each registered weapon to cover the department’s processing costs. In an effort to manage the workload and keep expenditures associated with the processing of registration as low as possible, the department is following a policy of hiring staff only when workload needs exist. Our review of current workload levels found that the DOJ has adequately staffed the registration process and has not filled positions beyond workload needs.

Why are Actual Registrations So Far Below Estimates? Although it is difficult at this time to determine why the actual number of registrants falls so far below the preliminary estimates, we can offer three possible explanations:

- The DOJ grossly overestimated the actual number of assault weapons owned by citizens.
- Citizens who own assault weapons have deliberately chosen not to comply with the new legislation.

DEPARTMENT OF JUSTICE—Continued

- Citizens were not aware of the new registration requirements.

In order to better evaluate the implementation of this firearms policy, we recommend that the department report to the Legislature during budget hearings on identifiable reasons why the number of actual registered weapons does not correspond to original estimates of owned assault weapons. The department should also report on what further actions it will take to encourage citizens to register their assault weapons and what measures the department will take to enforce the legislation. Finally, the DOJ should report on what steps it is taking to implement other recent firearms control legislation, such as Ch 9/90 (AB 497, Connelly). This measure, which went into effect on January 1, 1991, provides for a 15-day waiting period to allow a check of registration requirements of applicants who purchase firearms qualified as long guns.

At the time this analysis was prepared, legislation had been introduced (SB 155, Rogers) to extend to January 1, 1992 the period for registration of assault weapons.

Capital Outlay

The Governor's Budget proposes an appropriation of \$250,000 in Item 0820-301-460 for capital outlay expenditures in the Department of Justice. Please see our analysis of that item in the capital outlay section of this *Analysis*, which is in the back portion of this document.

STATE CONTROLLER

Item 0840 from the General
Fund and various funds

Budget p. LJE 68

Requested 1991-92.....	\$107,347,000
Estimated 1990-91	103,926,000
Actual 1989-90	99,698,000
Requested increase \$3,421,000 (+3.3 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0840-001-001—Support	General	\$74,867,000
0840-001-061—Support	Motor Vehicle Fuel Account, Transportation Tax	2,699,000
0840-001-062—Support	Highway Users' Tax Account	403,000
0840-001-344—Support	State School Building Lease- Purchase	555,000
0840-001-739—Support	State School Building Aid	120,000
0840-001-890—Support	Federal Trust	1,840,000
0840-001-903—Support	Assessment	634,000
0840-001-988—Support	Retail Sales Tax	167,000
Reimbursements	—	26,062,000
Total		\$107,347,000

GENERAL PROGRAM STATEMENT

The State Controller is a constitutional officer whose responsibilities include those expressed in the Constitution, those implied by the nature of his office, and those assigned to him by statute. Specifically, the Controller is responsible for (1) the receipt and disbursement of public funds, (2) reporting on the financial condition of the state and local governments, (3) administering certain tax laws and collecting amounts due the state, and (4) enforcing the unclaimed property laws. The Controller is also a member of various boards and commissions, including the Board of Equalization, the Franchise Tax Board, the Board of Control, the Commission on State Mandates, the State Lands Commission, the Pooled Money Investment Board, and assorted bond finance committees.

The Controller has 1,406 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$107.3 million for support of the Controller's Office in 1991-92. This amount consists of \$79.4 million from the General Fund and from various special funds, \$1.8 million in federal funds, and \$26.1 million in reimbursements. The Governor's Budget

Table 1
State Controller's Office
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
Fiscal control	1,032.3	1,112.8	1,157.6	\$77,264	\$78,591	\$82,289	4.7%
Tax administration	50.1	58.2	58.3	2,866	3,204	3,285	2.5
Administration							
Distributed to other programs .	(46.2)	(46.1)	(46.1)	(2,635)	(2,635)	(2,635)	—
Undistributed	305.3	235.0	237.5	19,568	22,131	22,593	2.1
Unallocated reduction.....	—	—	—	—	—	-820	—
Totals.....	1,387.7	1,406.0	1,453.4	\$99,698	\$103,926	\$107,347	3.3%
Funding Sources							
General Fund				\$73,616	\$72,139	\$74,867	3.8%
Aeronautics Account, State Transportation Fund.....				35	—	—	—
Motor Vehicle Fuel Account, Transportation Tax Fund.....				2,514	2,629	2,699	2.7
State School Building Lease Purchase Fund.....				265	544	555	2.0
State School Building Aid Fund				345	117	120	2.6
Public Employees Health Care Fund				1,205	—	—	—
Federal Trust Fund				946	1,794	1,840	2.6
Assessment Fund.....				143	625	634	1.4
Retail Sales Tax Fund.....				160	163	167	2.5
Contractor's License Fund.....				—	10	—	-100.0
Highway Users' Tax Fund.....				—	200	403	101.5
Reimbursements.....				20,469	25,705	26,062	1.4

STATE CONTROLLER—Continued

includes an unallocated trigger-related reduction of \$820,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The proposed expenditure level represents an increase of \$3.4 million, or 3.3 percent, above estimated current-year expenditures.

Table 1 identifies the proposed level of expenditures and personnel-years for each of the major programs administered by the Controller's Office in the prior, current, and budget years.

Table 2 identifies significant changes in the proposed budget for the Controller's Office in 1991-92. The largest components of the proposed increase are: (1) additional positions to meet increased workload in the unclaimed property area as a result of a change in the escheat period pursuant to Ch 450/90 (SB 57, Lockyer) (70 personnel-years, \$3.4 million); (2) additional audit positions to comply with the audit requirements of Ch 627/90 (SB 2829, Kopp), which were made operative by Proposition 111, approved by the voters at the June 1990 election (7 personnel-years, \$403,000); (3) funding for increased workload related to the Surplus Money Investment Fund (\$250,000); and (4) additional positions to meet increased workload associated with unclaimed property returned to the state by the interstate unclaimed property clearinghouse

Table 2
State Controller's Office
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>All Other Funds</i>	<i>Reimbursements</i>	<i>Total</i>
1990-91 Expenditures (Revised)	\$72,139	\$6,082	\$25,705	\$103,926
Baseline Adjustments:				
Delete one-time costs	-1,306	-210	-265	-1,781
Pro rata	—	24	—	24
Employee compensation	1,154	119	349	1,622
Board of Control claims	1	—	—	1
Subtotals, baseline adjustments	(\$151)	(\$67)	(\$84)	(\$134)
Proposed Changes:				
Surplus Money Investment Fund	—	—	\$250	\$250
Proposition 111 audits	—	403	—	403
Redevelopment agency audits	75	—	—	75
Leave accounting	—	—	211	211
Change of escheat period	3,396	—	—	3,396
Investigator position	—	—	29	29
Estate tax audits	54	—	—	54
Clearinghouse workload	174	—	—	174
Welfare audit reduction	—	—	-217	-217
Unallocated reduction	-820	—	—	-820
Subtotals, proposed changes	(\$2,879)	(\$403)	(\$273)	(\$3,555)
1991-92 Expenditures (proposed)	\$74,867	\$6,418	\$26,062	\$107,347
Change from 1990-91:				
Amount	\$2,728	\$336	\$357	\$3,421
Percent	3.8%	5.5%	1.4%	3.3%

(6 personnel-years, \$174,000). The increased costs of the proposed workload and program changes are partially offset by cost reductions from elimination of one-time costs (\$1.8 million) and the unallocated trigger-related reduction of \$820,000.

We have reviewed the proposed changes and they appear reasonable.

STATE BOARD OF EQUALIZATION

Item 0860 from the General
Fund and various funds

Budget p. LJE 76

Requested 1991-92.....	\$205,251,000
Estimated 1990-91	192,270,000
Actual 1989-90	177,508,000
Requested increase \$12,981,000 (+6.8 percent)	
Total recommended increase	2,522,000
Recommendation pending	2,500,000
Estimated potential revenue gain from recommendations ..	9,798,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0860-001-001—Support	General	\$121,487,000
0860-001-014—Support	Hazardous Waste Control Account, General	3,908,000
0860-001-022—Support	Emergency Telephone Number Special Account, General	513,000
0860-001-061—Support	Motor Vehicle Fuel Account, Transportation	6,203,000
0860-001-086—Support	Cigarette Tax	8,465,000
0860-001-230—Support	Cigarette and Tobacco Products Surtax	447,000
0860-001-320—Support	Oil Spill Prevention Administration Fund	396,000
0860-001-387—Support	Integrated Waste Management Account, Solid Waste Management	150,000
0860-001-435—Support	Solid Waste Disposal Site and Maintenance Account, Solid Waste Management	278,000
0860-001-439—Support	Underground Storage Tank Cleanup Fund, General	550,000
0860-001-455—Support	Hazardous Substance Account, General	418,000
0860-001-465—Support	Energy Resources Programs Account, General	88,000
0860-001-702—Support	Consumer Affairs	163,000
0860-001-965—Support	Timber Tax	2,549,000
Reimbursements	—	59,636,000
Total		<u>\$205,251,000</u>

STATE BOARD OF EQUALIZATION—Continued

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	<i>Analysis page</i>
1. <i>Unallocated Reduction. Increase Item 0860-001-001 by \$2,522,000.</i> Recommend augmentation to offset unallocated funding reduction. (Potential increase in General Fund revenue of \$9.8 million in 1991-92.)	86
2. Withhold recommendation on funding from reimbursements pending revised sales tax revenue estimates to be made available in May.	88

GENERAL PROGRAM STATEMENT

The Board of Equalization (the board) is one of the state's two major tax collection agencies. It collects state and local sales and use taxes and a wide variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, insurance, cigarettes, alcoholic beverages, electricity, hazardous wastes and solid wastes. The board also oversees the administration of the property tax by county assessors and assesses public utility property in order to allocate value to each taxing jurisdiction.

There are five board members: the State Controller and four members who are elected from geographic districts. The chairmanship of the board rotates annually among the members. The chairman also serves as an *ex officio* member of the Franchise Tax Board, the state's other major tax

Table 1
State and Local Revenue
Collected by the Board of Equalization
1989-90 through 1991-92
(dollars in millions)

<i>Tax or Fee</i>	<i>Actual 1989-90</i>	<i>Estimated 1990-91</i>	<i>Projected 1991-92</i>	<i>Change From 1990-91</i>	
				<i>Amount</i>	<i>Percent</i>
State sales and use tax ^a	\$13,918	\$14,367	\$16,963	\$2,596	18.1%
Local sales and use tax.....	5,128	5,452	6,504	1,052	19.3
Insurance tax.....	1,168	1,270	1,325	55	4.3
Motor vehicle fuel tax (gasoline).....	1,190	1,764	2,213	449	25.5
State cigarette and tobacco tax.....	787	756	802	46	6.1
Use fuel tax (diesel).....	159	254	324	70	27.6
Alcoholic beverage tax.....	129	127	325	198	155.9
Local cigarette tax.....	65	62	66	4	6.5
Hazardous waste taxes and fees.....	79	90	100	10	11.1
Energy resources surcharge (electricity) ...	39	40	41	1	2.5
Timber yield tax.....	21	26	26	—	—
Private railroad car tax.....	4	4	4	—	—
Solid waste disposal site fees ^b	9	48	57	9	18.8
Totals.....	\$22,696	\$24,260	\$28,750	\$4,490	18.5%
Local revenues.....	\$5,193	\$5,514	\$6,570	\$1,056	19.2%
State revenues.....	17,503	18,746	22,180	3,434	18.3

^a Includes the temporary quarter-cent sales tax enacted for earthquake relief.

^b Solid waste disposal (landfill) fees were established by Ch 1318/87; the first fee payments were due in July 1990.

collection agency, which administers the personal income and bank and corporation taxes. Finally, the BOE also hears appeals of decisions by the Franchise Tax Board and resolves disputes concerning the assessment of property owned by a city or county outside its boundaries.

The board's headquarters are in Sacramento. It has field offices throughout California, as well as in New York, Chicago and Houston. The board has 3,342 personnel-years in the current year. Table 1 summarizes the revenues collected by the board under its various programs.

MAJOR ISSUES

- Unallocated reduction costs more than it saves.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$205 million for the board in 1991-92, an increase of \$13 million, or 6.8 percent from estimated current-year expenditures. About 75 percent of this increase is attributable to baseline adjustments in the board's budget, with the remaining 25 percent attributable to proposed program changes. The budget includes an unallocated trigger-related reduction of \$2,522,000 in funding for the board. This reduction is included in the proposed budget for the board in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 2 summarizes the staffing and expenditures for the board from 1989-90 through 1991-92. It shows that the budget proposes to increase the board's staff by 81.6 personnel-years.

Table 2
Board of Equalization
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual	Est.	Proposed	Actual	Est.	Proposed	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
County assessment standards.....	99.4	101.9	101.9	\$6,054	\$6,486	\$7,087	9.3%
State-assessed property.....	97.2	109.8	114.0	5,536	6,603	7,006	6.1
Timber tax.....	35.2	35.8	36.0	2,191	2,371	2,549	7.5
Sales and Use Tax:							
Taxpayer registration.....	529.0	540.9	554.9	24,250	25,233	28,460	12.8
Return processing.....	563.5	628.0	681.6	34,652	39,807	44,806	12.6
Audits.....	1,217.0	1,224.4	1,221.8	70,184	72,693	76,237	4.9
Collections.....	367.1	413.5	416.3	18,396	21,453	22,175	3.4
Subtotals.....	(2,676.6)	(2,806.8)	(2,874.6)	(\$147,482)	(\$159,186)	(\$171,678)	(7.8%)

STATE BOARD OF EQUALIZATION—Continued

Table 2—Continued
Board of Equalization
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Proposed 1991-92	Actual 1989-90	Est. 1990-91	Proposed 1991-92	
Hazardous substances taxes	72.4	76.3	74.6	3,854	3,793	4,326	14.1
Alcoholic beverage tax	33.6	34.5	34.5	1,612	1,679	1,756	4.6
Cigarette and tobacco products tax	34.2	31.8	29.9	2,852	3,135	3,116	-0.6
Gasoline and jet fuel taxes	13.9	17.6	23.4	791	866	1,202	38.8
Diesel fuel tax	71.5	74.0	76.9	4,141	4,534	5,001	10.3
Other special taxes and fees	18.3	32.3	36.6	1,281	1,696	2,130	25.6
Appeals of Franchise Tax Board decisions.....	22.2	21.4	21.4	1,384	1,674	1,675	0.1
Administration (undistributed) ...	—	—	—	330	247	247	0.0
Unallocated Reduction	—	—	—	—	—	-2,522	—
Totals	3,174.5	3,342.2	3,423.8	\$177,508	\$192,270	\$205,251	6.8%
Funding Sources							
General Fund				\$113,437	\$115,768	\$121,487	4.9%
Hazardous Waste Control Account				3,516	3,431	3,908	13.9
State Emergency Telephone Special Account				428	486	513	5.6
Motor Vehicle Fuel Account				4,932	5,400	6,203	14.9
Cigarette Tax Fund				1,759	7,709	8,465	9.8
Cigarette and Tobacco Products Surtax Fund				568	468	447	-4.5
Oil Spill Prevention and Administration Fund				—	350	396	13.1
Integrated Waste Management Account				116	141	150	6.4
Solid Waste Disposal Site and Maintenance Account				251	241	278	15.4
Underground Storage Tank Cleanup Fund				250	244	550	125.4
Hazardous Substance Account				338	362	418	15.5
Energy Resources Programs Account				79	86	88	2.3
Consumer Affairs Fund				—	101	163	61.3
Timber Tax Fund				2,191	2,371	2,549	7.5
Reimbursements				49,643	55,112	59,636	8.2

Table 3 shows the proposed budget changes, by funding source, for 1991-92. As noted earlier, much of the increase in total expenditures reflected in Table 3 is for adjustments to the board's base budget, such as the full-year cost of employee salary and benefit increases granted in the current year as well as increased equipment and rent costs. In addition, the increase also covers the costs associated with administering five new local taxing jurisdictions and the costs of redesigning and relocating both the business tax registration system and the board's state-assessed property roll to the state's Teale Data Center. The board expects to implement the unallocated reduction by reductions in its audit and collections programs.

Table 3
Board of Equalization
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>General Fund and Reimbursements</i>	<i>Special Funds</i>	<i>Totals</i>
1990-91 Expenditures (Revised)	\$170,880	\$21,390	\$192,270
Baseline Adjustments:			
Full-year cost of 1989-90 employee compensation increases	\$4,012	\$509	\$4,521
Merit salary adjustments	2,039	352	2,391
Price increase for operating expenses	1,498	674	2,172
Department of Motor Vehicles contract, workload growth	353	—	353
Board of Control adjustment	1	—	1
Subtotals, baseline adjustments	(\$7,903)	(\$1,535)	(\$9,438)
One-time Costs in 1990-91:			
Administer solid waste disposal site cleanup law (Ch 1319/87)	—	\$-244	\$-244
Register out-of-state retailers (Ch 1145/87)	\$-88	—	-88
Planning for consolidation of Sacramento headquarters	—	-101	-101
Development of new accounts receivable database	-307	-9	-316
Use tax collections on auto sales and customs declarations	-227	—	-227
Administer hazardous waste fees (Ch 269/89 and Ch 1032/89)	—	-150	-150
Administer temporary sales tax for earthquake relief	-988	—	-988
Administration of new local taxing jurisdictions	-241	—	-241
Other one-time costs	-51	-198	-249
Subtotals, one-time costs	(\$-1,902)	(\$-702)	(\$-2,604)
Program and Policy Changes:			
Sales and Use Tax			
Collect additional local taxes approved in November 1990	\$4,015	—	\$4,015
Taxpayer registration workload growth	390	—	390
Register out-of-state mail order firms	88	—	88
Planning for migration of information systems applications to Teale	642	\$325	967
Redesign business taxes registration system	1,385	139	1,524
Human resources workload growth	168	19	187
Planning for consolidation of Sacramento headquarters	—	163	163
Other Programs			
Redesign board roll (state-assessed property) system	—	233	233
Administer gasoline and deisel fuel tax increases	—	396	396
Other	76	630	706
Unallocated reduction	-2,522	—	-2,522
Subtotals, program and policy changes	(\$4,242)	(\$1,905)	(\$6,147)
1991-92 Expenditures (Proposed)	\$181,123	\$24,128	\$205,251
Change from 1990-91:			
Amount	\$10,243	\$2,738	\$12,981
Percent	6.0%	12.8%	6.8%

STATE BOARD OF EQUALIZATION—Continued

The Governor's Budget includes several new proposals to eliminate exemptions from the sales and use tax, including proposals to eliminate the exemption for candy and for newspapers and periodicals. These proposals, if approved by the Legislature, will result in additional workload and costs for the board. No additional funding to offset the cost of these proposals has been included in the budget.

ANALYSIS AND RECOMMENDATIONS

Sales and Use Taxes

The board collects and administers both the state and local portions of the sales and use tax. The state imposes a sales and use tax of 4.75 percent. In addition, a uniform local sales tax of 1.25 percent is imposed by cities and counties, so that the combined rate is at least 6 percent (6 cents per dollar of sales) everywhere in California. Also, local voters may approve additional countywide "transactions and use" taxes up to a maximum of one cent per dollar of sales. Legislation adopted in 1990, Ch 1707/90 (AB 3670, Farr) and Ch 318/90 (AB 3322, Filante), allows transactions and use taxes to be set at $\frac{1}{4}$ percent, $\frac{1}{2}$ percent or 1 percent. Consequently, there is now the potential for five different total tax rates to apply in any local jurisdiction: either 6 cents, 6.25 cents, 6.5 cents, 6.75 cents, or 7 cents per dollar of sales. Generally, the revenue from these local transactions and use taxes is allocated to a special district and dedicated to a specific purpose, typically transportation programs. For example, Alameda County has a 7-cent rate, of which 6 cents is the uniform statewide rate, one half-cent is for the Bay Area Rapid Transit District (BART) and the other half-cent funds the Alameda County Transportation Authority.

Unallocated Reduction "Costs" More than it "Saves"

We recommend an augmentation of \$2,522,000 to offset an unallocated reduction included in the proposed budget, because the unallocated reduction will cost far more than it saves. (Potential increase in General Fund revenue of \$9.8 million).

As described earlier, the board's proposed budget includes an unallocated reduction of \$2,522,000. As is the case with other state agencies, the decision on how programs will be cut back to achieve the savings has been delegated to the board.

How Will the Board Cut Back its Programs? Most of the programs administered by the board involve a *mandatory* workload. For example, the board *must* open and file tax returns, respond to taxpayer queries, cash checks and issue reimbursements, as well as open and close taxpayer accounts. The two main *discretionary* activities performed by the board involve auditing taxpayer returns and collecting delinquent accounts receivable. Therefore, the unallocated reduction included in the budget will, of necessity, result in reduced expenditures for auditing and collections activities.

Reduced Expenditures in Audit and Collection Activities will have a Negative Impact on State Revenues. The Department of Finance (DOF)

as well as the board have historically assumed that for every dollar reduced from the board's budget for audit and collection activities, 5.3 dollars of state and local revenue are lost. Based on our past analysis of the productivity of new board audit staff, we agree that the unallocated reduction included in the budget would result in a significant loss of state and local revenues, although we anticipate that the ratio of revenue lost for every dollar reduced will be lower than 5.3 to 1 in 1991-92. This is because the historical 5.3 to 1 assumption has not adequately accounted for the extra training and supervisory costs of new audit positions. However, the benefit-cost ratio would probably grow closer to 5 to 1 in subsequent years. Assuming a 5.3 to 1 ratio, restoration of the unallocated reduction would lead to an increase of \$9.8 million in General Fund revenues and \$3.6 million in local revenues. In order to prevent a significant loss of state revenues, we recommend an augmentation of \$2,522,000.

The revenue estimates included in the Governor's Budget reflect an offset to anticipated state sales tax revenues of \$19.5 million as a result of the unallocated reduction in the board's budget. These estimates appear to be based on the assumption that the unallocated reduction would reflect a 4 percent cut in the board's expenditures. In fact, the unallocated reduction reflected in the budget only represents a 2 percent cut in expenditures. As a result, the reduction reflected in the budget overstates the actual likely impact on state revenues from the unallocated reduction.

Local Taxes

New local taxes approved. At the November 1990 election, new local transactions and use taxes were approved by voters in five counties. Three of those counties had no existing special local rate. All of these new taxes will be effective April 1, 1991. Table 4 shows the specific changes approved in the 1990 election.

Table 4
Additional Local Transactions and Use Taxes
Approved by Voters in 1990
(cents per dollar)

<i>County</i>	<i>Approved Tax Rate Increase</i>	<i>New Total Tax Rate</i>
Los Angeles.....	0.5	7.0
Orange.....	0.5	6.5
San Joaquin.....	0.5	6.5
Santa Cruz.....	0.5	7.0
Sonoma.....	0.25	6.25

New Legislation Reduces Local Reimbursement Rate. Before the board distributes sales tax revenues to local agencies, it deducts an amount to cover a portion of its administrative costs. This amount equals a fixed percentage (set by statute) of the local revenues produced by the tax. Chapter 1077, Statutes of 1990 (SB 17, Lockyer) reduced the amount the board may charge cities and counties for administering local taxes effective July 1, 1991. The budget requests \$3.3 million to compensate the

STATE BOARD OF EQUALIZATION—Continued

board at this reduced reimbursement rate. The current rates the board charges cities and counties for the administration of the 1.25-cent uniform local sales tax is an amount equal to 0.79 percent of the revenue from the uniform tax. In addition, for the administration of transactions and use taxes set at one-half cent, the board imposes a rate of 1.49 percent of the revenue collected. When two half-cent transactions and use tax districts exist within a county the board may only charge 1.30 percent of the revenues generated by each taxing district. These charges are included in the board's budget as reimbursements and reduce, on a dollar-for-dollar basis, the amount of General Fund support needed by the board.

The Reimbursement Level in the Budget is Potentially Understated

We withhold recommendation on funding from reimbursements pending revised sales and use tax estimates that will be available in May.

The board's proposed funding in 1991-92 includes \$59 million in reimbursements from local sales tax revenues. This figure was prepared by the board and was predicated on its "baseline" forecast of state sales tax revenue. There is a small difference between the "baseline" estimate of sales tax receipts in the Governor's Budget and the sales tax receipts estimated by the board. That difference may result in the board's having underestimated reimbursements by \$590,000 when measured against expected reimbursements from the administration's sales tax estimate. The level of expected reimbursements also could be affected by legislation proposed in the budget.

New Revenue Estimates will be Available in May. The DOF will present revised sales tax revenue estimates to the Legislature in May as part of its May revision of the budget. These revenue estimates will take into account more recent economic trends and tax collection data than the estimates included in the January budget.

Accordingly, we withhold recommendation on \$59 million in funding from reimbursements pending revised sales and use tax estimates that will be available in May.

SECRETARY OF STATE

Item 0890 from the General
Fund

Budget p. LJE 92

Requested 1991-92.....	\$31,476,000
Estimated 1990-91	35,879,000
Actual 1989-90	31,222,000
Requested decrease \$4,403,000 (-12.3 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0890-001-001—Support	General	\$26,636,000
Transfer from Political Reform Act (Item 8640)—Support	General	718,000
Reimbursements	—	4,122,000
Total		\$31,476,000

GENERAL PROGRAM STATEMENT

The Secretary of State has statutory responsibility for examining and filing financial statements and corporate-related documents for the public record. The Secretary also administers and enforces election law and campaign disclosure requirements. In addition, the Secretary appoints notaries public and manages the state's archival function. The activities necessary to carry out these responsibilities are conducted in eight program units: (1) Corporate Filing, (2) Elections, (3) Political Reform, (4) Uniform Commercial Code, (5) Notary Public, (6) Archives, (7) Limited Partnerships, and (8) Management Services.

OVERVIEW OF THE BUDGET REQUEST

Table 1 displays the Secretary of State's staffing and funding for the prior, current and budget years. Table 2 shows the proposed budget changes for 1991-92.

Table 1
Secretary of State
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual	Est.	Pro-posed	Actual	Est.	Pro-posed	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
Corporate Filing.....	129.3	141.7	139.4	\$8,731	\$9,584	\$9,672	0.9%
Limited Partnership.....	25.4	26.3	25.9	1,341	1,380	1,409	2.1
Elections.....	15.3	17.1	16.8	10,906	14,110	9,413	-33.3
Political Reform.....	20.1	25.4	25.0	1,249	1,451	1,472	1.4
Uniform Commercial Code.....	63.8	64.9	63.9	4,300	4,191	4,741	13.1
Notary Public.....	15.5	15.7	15.4	1,686	2,052	2,027	1.2
Archives.....	20.2	20.3	20.0	1,516	1,691	1,649	2.5
Administration (undistributed)....	17.1	15.3	15.0	1,493	1,420	1,424	0.3
Administration (distributed).....	80.7	79.9	79.2	(6,306)	(6,919)	(7,470)	8.0
Unallocated reduction.....	—	—	—	—	—	-331	—
Totals.....	387.4	406.6	400.6	\$31,222	\$35,879	\$31,476	-12.3%
Funding Sources							
General Fund.....				\$28,304	\$32,051	\$26,636	-16.9%
Transfer from Political Reform Act (General Fund).....				(700)	(706)	(718)	1.7
Reimbursements.....				2,918	3,828	4,122	7.7

SECRETARY OF STATE—Continued

Table 2
Secretary of State
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>All Funds</i>
1990-91 Expenditures (Revised)	\$35,879
<i>Baseline Adjustments:</i>	
Ballot pamphlet deficiency	-\$7,263
Uniform Commercial Code: automated system costs	-196
Facilities increase	-159
Notary fingerprint processing	-200
Corporate filing automation study	-100
Add salary and benefits increase	371
Subtotal, baseline adjustments	(-\$7,547)
<i>Program Changes:</i>	
Uniform Commercial Code: automated system costs	\$657
Rent increase	100
Notary fingerprint processing	200
Elections ballot pamphlet printing and mailing expenses	2,518
Unallocated reduction	-331
Subtotal, program changes	<u>\$3,144</u>
1991-92 Expenditures (Proposed)	\$31,476
Change from 1990-91:	
Amount	\$4,403
Percent	-12.3%

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes total expenditures of \$31,476,000 for support of the Secretary of State's Office in 1991-92. This is \$4,403,000, or 12 percent, below estimated expenditures in the current year. The proposed expenditures consist of an appropriation of \$26.6 million from the General Fund, reimbursements of \$4.1 million from special handling fees, and \$718,000 under the Political Reform Act. The reduction in the budget year is due to the substantial one-time cost of the 1990 ballot pamphlets in the 1990-91 fiscal year.

The Governor's Budget includes an unallocated trigger-related reduction of \$331,000 in funding for the Secretary of State's Office. This reduction is included in the proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

STATE TREASURER

Item 0950 from the General
Fund

Budget p. LJE 105

Requested 1991-92.....	\$16,104,000
Estimated 1990-91	14,817,000
Actual 1989-90	13,537,000
Requested increase \$1,287,000 (+8.7 percent)	
Total recommended reduction.....	None

The State Treasurer has a number of different responsibilities related to the management of the state's financial assets. Her specific responsibilities include:

- Providing custody for all money and securities belonging to or held by the state.
- Investing temporarily idle funds.
- Paying warrants and checks drawn by the State Controller.
- Preparing, selling, and redeeming the state's general obligation and revenue bonds.
- Preventing the issuance of unsound securities by irrigation, water storage, and certain other districts.

The State Treasurer has 217.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$16,104,000 from the General Fund and reimbursements to support the State Treasurer's Office in 1991-92. This amount is \$1,287,000, or 8.7 percent, more than expenditures

Table 1
State Treasurer
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Pro- posed 1991-92	Actual 1989-90	Est. 1990-91	Pro- posed 1991-92	
Investment Services.....	9.1	10.5	11.4	\$1,025	\$1,132	\$1,280	13.1%
Cash Management	17.8	17.5	17.5	1,772	1,728	1,860	7.6
Trust Services	68.1	77.3	79.1	6,153	7,073	7,728	9.3
District Securities Division.....	5.2	6.7	6.7	564	693	726	4.8
Centralized Banking Services.....	35.4	37.0	39.5	3,018	3,016	3,310	9.8
Administration (net).....	66.4	68.4	73.3	1,005	1,175	1,297	10.4
Unallocated Reduction.....	—	—	—	—	—	-97	—
Totals.....	202.0	217.4	227.5	\$13,537	\$14,817	\$16,104	8.7%
Funding Sources							
General Fund.....				\$6,272	\$6,599	\$6,740	2.1%
Reimbursements.....				\$7,265	\$8,218	\$9,364	13.9%

STATE TREASURER—Continued

for the current year. The budget request consists of \$6,740,000 from the General Fund, an increase of \$141,000 or 2.1 percent; and \$9,364,000 in reimbursements, an increase of \$1,146,000 or 14 percent. The Governor's Budget includes an unallocated trigger-related reduction of \$97,000 in funding for the State Treasurer's Office. This reduction is included in the proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1 displays the State Treasurer's staffing and funding for the prior, current and budget years.

Table 2 identifies the changes in the proposed budget for the Treasurer's Office in 1991-92. As shown in the table, the majority of the additional funds are for workload changes. The proposed budget includes \$513,000 and 10.1 personnel-years for additional staff and \$383,040 for an increase of 21,000 square feet of office space.

Table 2
State Treasurer
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>All Funds</i>
1990-91 Expenditures (Revised)	\$14,817
<i>Baseline Adjustments:</i>	
Add back one-time Board of Control claim payment in 1990-91	121
Salary and benefits increase	257
Subtotal, baseline adjustments	(\$378)
<i>Workload Adjustments:</i>	
Investment services	107
Cash management	57
Trust services	324
Centralized banking services	173
Administration	384
Less 1990-91 facilities operation increase	-136
Subtotal, workload adjustments	(\$909)
1991-92 Expenditures (Proposed)	\$16,104
Change from 1990-91:	
Amount	\$1,287
Percent	8.7%

Total funding for the Treasurer's Office comes from both General Fund appropriations and reimbursements from special funds or accounts. Since 1987-88, however, General Fund appropriations for the Treasurer's Office have fallen from 53 percent of total funding to a proposed 42 percent in 1991-92. The shift in funding support has occurred in response to the state's fiscal condition, as increased General Fund support has been more difficult to obtain than increased reimbursement funding. Because these increased reimbursements are primarily derived from "fees" charged by the Treasurer, which in reality are the proceeds of state bond issues, this practice has the effect of shifting current state operating costs to future years. For a more extensive discussion of state practices regarding the use of bond funds, please see *The 1991-92 Budget: Perspectives and Issues*, Part IV.

Our analysis indicates that the proposed expenditures for the State Treasurer's Office are reasonable, and accordingly we recommend approval.

Capital Outlay

The Governor's Budget proposes an appropriation of \$942,000 in Item 0950-301-036 for capital outlay expenditure in the Treasurer's Office. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0956 from the California
Debt Advisory Commission
Fund

Budget p. LJE 110

Requested 1991-92.....	\$1,364,000
Estimated 1990-91	1,329,000
Actual 1989-90	1,100,000
Requested increase \$35,000 (+2.6 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Debt Advisory Commission (CDAC) was established by Ch 1088/81 (AB 1192, Costa) to provide advisory assistance to state agencies and local governments in the areas of debt issuance and management. The commission has nine members, including the State Treasurer (Chairperson), the Governor or Director of Finance, the Controller, two local government finance officers, two members of the Assembly, and two members of the Senate.

The general activities of the CDAC are supported by notification fees imposed on the issuance of bonds. Under the terms of Ch 293/83 (SB 146, Craven), the fees are paid by the lead underwriter or purchaser of the bonds. Currently, the commission's fee is set at one-hundredth (1/100) of 1 percent of the principal amount of the issue, up to a maximum fee of \$1,500. Short-term debt (such as tax and revenue anticipation notes) is subject to a fixed fee of \$100 per issue, while debt issues of less than \$1 million are exempt from the fee requirement. The revenues from the fees are deposited into the CDAC Fund.

The commission has 13 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$1,364,000 from the California Debt Advisory Commission Fund for support of the commission in 1991-92. This is \$35,000, or 2.6 percent, more than estimated expenditures

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

in the current year. The proposed increase reflects an increase in personal services, facilities operation and consultant contracts. Our analysis indicates that the proposed expenditures for the commission are reasonable.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Item 0959 from the California
Debt Limit Allocation
Committee Fund

Budget p. LJE 111

Requested 1991-92.....	\$428,000
Estimated 1990-91	399,000
Actual 1989-90	288,000
Requested increase \$29,000 (+7.3 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Debt Limit Allocation Committee (CDLAC) was established in 1984 in order to ensure the state's compliance with the Federal Tax Reform Acts of 1984 and 1986. Chapter 943, Statutes of 1987 (SB 114, Leroy Greene), provided continuing authority for the committee's operation.

The Tax Reform Acts of 1984 and 1986 limited the amount of tax-exempt "private activity" bonds which may be issued in a state during a given year. "Private activity" bonds generally include bonds issued for private industrial and commercial development projects, single and multi-family housing, for-profit hospitals and educational facilities, and student loans. Under the Tax Reform Act of 1986, the volume of these bonds that may be issued by each state after 1987 is limited to \$50 per resident, or \$150 million, whichever is greater. In 1991, California's ceiling is estimated to be \$1.49 billion. The committee is responsible for allocating the ceiling amount among state and local agencies.

In addition, the CDLAC reviews (1) requests for transferring portions of the state's allocation to local authorities and (2) applications by state agencies to receive an allocation of the state's portion of the bond limit.

The committee is composed of the State Treasurer (Chairperson), the Governor or the Director of Finance, and the State Controller. The committee has four personnel-years in the current year.

Pursuant to Chapter 943, the committee charges fees to the lead underwriter of bond issues. These fees are deposited in the CDLAC Fund and are used to support the activities of the committee.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$428,000 from the California Debt Limit Allocation Committee Fund for support of CDLAC during 1991-92. This is an increase of \$29,000, or 7.3 percent, above estimated current year expenditures. This increase in the committee's budget is attributable primarily to increases in personal services and facilities operation. Our analysis indicates that proposed expenditures for the committee are reasonable.

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION**

Item 0965 from the Industrial
Development Fund

Budget p. LJE 113

Requested 1991-92.....	\$476,000
Estimated 1990-91	444,000
Actual 1989-90	375,000
Requested increase \$32,000 (+7.2 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 (AB 74, Lockyer) for the purpose of evaluating industrial development bonds (IDBs) issued by local development authorities. The proceeds of the bonds assist private businesses with the construction or purchase of certain industrial facilities. The CIDFAC is responsible for reviewing all proposed IDB issues to ensure that they comply with disclosure regulations, have proper security, and satisfy certain public policy requirements.

Current state law provides a tax exemption for the interest on IDBs. Provisions of federal law which also provide a federal tax exemption for IDB interest were due to expire on October 1, 1990, however, the exemption has been extended until December 31, 1991. The state and federal exemptions on IDB interest allow businesses to obtain financing for qualified projects at rates below conventional financing. Chapter 1264, Statutes of 1989 (AB 1872, Farr), provides that authorities may not undertake projects through the issuance of bonds on or after January 1, 1995, although bonds may be issued after January 1, 1995 to refund bonds issued prior to this date. Chapter 1264 also eliminated the commission's January 1, 1990 sunset date, thereby extending the operation of the commission indefinitely.

The amount of IDBs issued each year is determined by three factors: (1) state authorization limits on IDBs, (2) a federal volume cap on "private activity" bonds in general, and (3) the demand for IDBs. The state is authorized by Ch 816/86 (AB 3175, Farr) to issue up to \$350 million per year in federally tax-exempt IDBs and by Ch 1109/87 (AB

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued

1456, Farr) to issue an additional \$350 million per year in bonds which are federally taxable, but not taxable by the state. Thus far, the volume of IDBs issued each year has not approached these state authorization limits.

The federal volume cap on "private activity" bonds in general and the demand for IDBs are the major factors determining the amount of IDBs issued. Each year, CIDFAC is allocated a portion of the state's federal volume cap by the California Debt Limit Allocation Committee. The 1990 allocation for IDBs was approximately \$100 million. In 1990, the commission received applications for IDBs totaling approximately \$58.5 million, all of which were approved. In 1991, the demand for IDBs and the "private activity" bond volume cap are likely to again determine the amount of IDBs issued.

The commission consists of the State Treasurer, the State Controller, the Director of Finance, the Director of the Department of Commerce, and the Commissioner of Corporations. In the current year, the commission has four personnel-years.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$476,000 from the Industrial Development Fund for the support of the CIDFAC in 1991-92. This is an increase of \$32,000, or 7.2 percent, over the estimated current-year expenditures, and is attributable to increases in personal services and facilities operation. Our analysis indicates that the proposed expenditures for the commission are reasonable.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Item 0968 from the General Fund, Mortgage Bond and Tax Credit Allocation Fee Account

Budget p. LJE 114

Requested 1991-92.....	\$1,421,000
Estimated 1990-91	1,170,000
Actual 1989-90	1,030,000
Requested increase \$251,000 (+21.5 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Mortgage Bond Allocation Committee was established by Chapter 1097, Statutes of 1981 (AB 1618, Costa), to allocate to state and local entities the amount of tax-exempt mortgage revenue bonds that may be issued in California to finance housing loans. Chapter 658, Statutes

of 1987 (SB 113, Leroy Greene), changed the name of the committee to the Mortgage Bond and Tax Credit Allocation Committee (MBTCAC) and gave it the responsibility of allocating state and federal tax credits to developers of qualified low-income rental projects. Chapter 943, Statutes of 1987 (SB 114, Leroy Greene), allowed the California Debt Limit Allocation Committee (CDLAC) to take over the responsibility for allocating the amount of mortgage revenue bonds that may be issued. The CDLAC assumed this responsibility during 1988-89. Therefore, the MBTCAC became responsible only for allocating available state and federal low-income housing tax credits. Accordingly, Chapter 166, Statutes of 1990 (SB 1085, Leroy Greene) changed the name of the committee to the California Tax Credit Allocation Committee.

The seven-member committee is composed of the State Treasurer who acts as the chair, the Governor (or in the Governor's absence, the Director of Finance), the State Controller, the Director of the Department of Housing and Community Development, the Executive Director of the California Housing Finance Agency, and two representatives of local government.

The committee has 13.6 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

As shown in Table 1, the budget proposes an appropriation of \$1.4 million from the Mortgage Bond and Tax Credit Allocation Fee Account to support the committee in 1991-92. This is an increase of \$251,000, or 21.5 percent, over estimated current-year expenditures.

Table 1
Tax Credit Allocation Committee
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>Mortgage Bond and Tax Credit Allocation Fee Account</i>
1990-91 Expenditures (Revised)	\$1,170
<i>Baseline Adjustments</i>	
Employee compensation adjustment	\$13
Expiration of limited-term position	-67
Miscellaneous adjustments	35
Subtotals, baseline adjustments	(- \$19)
<i>Workload Changes</i>	
Financial feasibility analysis consultant services	\$200
Permanent establishment of support staff position	70
Subtotals, workload changes	(\$270)
1991-92 Expenditures (Proposed)	\$1,421
Change from 1990-91:	
Amount	\$251
Percent	21.5%

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE—Continued

The increase primarily reflects the committee’s proposal to contract out for additional financial feasibility analyses of tax credit applicants and the permanent establishment of a limited-term support staff position that is expiring at the end of the current year. The committee plans to contract out for financial feasibility analyses to the extent that committee staff are unable to perform analyses of all applications received during 1991-92.

The committee’s budget is supported entirely by fees from developers who apply for federal tax credits. The proposed increase in expenditures in 1991-92 will be funded from surplus fee revenues.

Our analysis indicates that the expenditures proposed for the committee are reasonable.

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY

Item 0971 from the California
Alternative Energy Authority
Fund

Budget p. LJE 117

Requested 1991-92.....	\$181,000
Estimated 1990-91	173,000
Actual 1989-90	80,000
Requested increase \$8,000 (+4.0 percent)	
Recommended reduction.....	181,000
Recommended transfer to General Fund	84,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis
page*

1. *Delete Funding for the CAESFA. Eliminate Item 0971-001-731 because (1) there is no demand for the program and (2) the authority is not generating sufficient fees to support its operations.* Further recommend the transfer of the remaining program fund balance (about \$84,000) to the General Fund and the enactment of legislation to formally eliminate the CAESFA.

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GENERAL PROGRAM STATEMENT

The California Alternative Energy Source Financing Authority (CAESFA) was created by Ch 908/80 (AB 2324, Hayes), for the purpose of issuing up to \$200 million of revenue bonds to finance alternative energy projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydro-

electric projects, as well as energy conservation projects that reduce the use of fossil and nuclear fuels. As of September 30, 1990, the authority had about \$105 million in bonds outstanding, with \$95 million in remaining authorization.

The authority consists of five state officers: the State Treasurer, who is chair, the Director of Finance, the Chair of the Energy Commission, the President of the Public Utilities Commission, and the State Controller. Ongoing support is provided from the California Alternative Energy Authority Fund (CAEAF), which derives its revenue from application and other fees paid to the authority. The CAESFA is authorized two personnel-years during the current year.

MAJOR ISSUES

- The Legislature should eliminate funding for CAESFA because it has not financed any new projects or issued any bonds during the past four years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$181,000 from the CAEAF for support of the authority in 1991-92. This is an increase of \$8,000 or 4 percent, over the current-year budget and results from increased salary and operating costs. The requested appropriation would be funded from reserve balances in the CAEAF because the authority does not anticipate receiving fee revenues in 1991-92.

ANALYSIS AND RECOMMENDATIONS

We recommend (1) the deletion of funding for the CAESFA because there is no demand for the program and the authority is not generating sufficient fees to support its operations (Eliminate Item 0971-001-731) and (2) the transfer of the remaining program fund balance (about \$84,000) to the General Fund. We further recommend the enactment of legislation to formally eliminate CAESFA.

Background. Chapter 908 established the CAESFA in 1980 to provide financial support for the development of alternative energy sources. The measure authorized the CAESFA to issue up to \$200 million in tax-exempt revenue bonds for this purpose. The principal and interest costs of these bonds were to be repaid by energy savings generated by the alternative energy projects.

During the period 1982-83 through 1986-87 the program issued approximately \$127 million in bonds. Since that time, however, economic conditions have changed and the CAESFA has not issued any additional bonds.

No Demand for CAESFA Funds. During the last four years, the CAESFA has not funded any new projects. Three factors appear to explain the absence of activity in this program: (1) a decline in electricity

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY—Continued

prices, (2) the elimination of federal and state alternative energy tax credits and (3) a lack of outreach to local governments and businesses.

- **Decline in Electricity Prices.** Most projects funded through the CAESFA have been small electric generation projects (mostly natural gas cogeneration projects). The amount of revenues (energy savings) generated by these projects and available to repay CAESFA bonds varies with electricity prices. In the early and mid-1980s, electricity prices were projected to increase significantly resulting in high projected energy savings and making many alternative energy projects appear financially feasible. Actual electricity prices, however, have been significantly lower than projected. Consequently, many projects financed through the CAESFA have experienced financial difficulties and there has been little new demand for CAESFA projects.
- **Elimination of Tax Credits.** The federal Tax Reform Act of 1986 and subsequent conforming state legislation repealed both the federal and state alternative energy tax credits. The repeal of these tax credits effectively increased the costs of alternative energy equipment and further reduced demand for CAESFA funding.
- **Lack of Outreach.** Finally, since 1987 CAESFA has made no significant outreach efforts to make local governments and businesses aware of the CAESFA funding. The CAESFA indicates that this factor also may have contributed to a decline in applications.

Possible Funding Deficiency in 1991-92. Chapter 908 provided for the program's ongoing administrative costs to be funded from various project fees. The CAESFA currently charges an application fee of between \$250 and \$5,000 depending on the size of the bond issue and an administrative fee of between three-tenths and six-tenths of 1 percent of the bond issue.

Table 1 shows the fee revenues, expenditures, and fund balance for the authority from 1985-86 through 1991-92. Due to the decline in program activity, CAESFA has not generated enough fee revenues in the last four years to cover its administrative expenses. Instead, as detailed in Table 1,

Table 1
California Alternative Energy Source Financing Authority
Fee Revenues and Expenditures
1985-86 through 1991-92
(in thousands)

	<i>Fee Revenue</i>	<i>Expenditures</i>	<i>Fund Balance</i>
1985-86.....	388	71	375
1986-87.....	29	66	338
1987-88.....	40	65	292
1988-89.....	—	65	313
1989-90.....	—	80	168
1990-91.....	— ^a	84 ^a	84 ^a
1991-92.....	— ^a	88 ^a	-4 ^a

^a LAO Estimate. This estimate assumes (1) that no new applications are received and (2) a 5 percent increase in 1989-90 actual expenditures in the current and budget years.

the program has used the balance in the CAEAF to cover these expenses. This fund balance will be exhausted in 1991-92 even though the CAESFA is only expecting to support one of its two authorized staff positions from this funding source in the current and budget year. Consequently, the program may require General Fund support for its operations beginning in 1991-92.

Recommendation. Our analysis indicates that the demand for financing through the CAESFA does not exist due, primarily, to declines in electricity prices. Moreover, based on projections made by the California Energy Commission these prices are not expected to increase significantly in this decade. Our analysis also shows that the program will deplete fund balances available for its support by the end of 1991-92. Based on these findings, we recommend that the Legislature (1) delete funding for the CAESFA (Eliminate Item 0971-001-731) and (2) transfer the remaining CAEAF balance (about \$84,000) to the General Fund. In addition, we recommend that the Legislature enact legislation formally eliminating the CAESFA. The legislation should also provide for the transfer of administrative responsibility for outstanding bonds to the State Treasurer's Office.
