

**LEGISLATIVE
JUDICIAL
EXECUTIVE**

Overview of Legislative, Judicial, and Executive

Expenditures for legislative, judicial, and executive departments and programs are proposed to decrease in the budget year, primarily due to the timing of assistance payments from the Office of Emergency Services (OES) for recovery activities related to the 1989 Loma Prieta Earthquake.

Expenditures for legislative, judicial, and executive programs are proposed to total \$1.7 billion, which is approximately 3 percent of all state funds and about 3.5 percent of General Fund expenditures proposed in the Governor's Budget for 1992-93. This level of expenditures is a decrease of \$74 million, or 4.2 percent, below the level of expenditures estimated for the current year.

Chart 1 shows that legislative, judicial, and executive program expenditures have more than doubled since 1985-86, but have remained a relatively small percentage of total General Fund spending. The chart also shows that when adjusted for inflation, expenditures for these programs increased by about 79 percent since 1985-86, which represents an average annual increase of 8.7 percent.

Spending by Major Programs

Chart 2 shows expenditures for the four major programs from 1989-90 through 1992-93. As the chart shows, changes in funding for each of the programs has varied substantially over this time period. The largest program — trial court funding, which provides state assistance to local trial courts — increased dramatically in 1991-92, due to enactment of the trial court "realignment" in July 1991. In addition, the decline in legislative expenditures is due to implementation of Proposition 140, which significantly reduced expenditures for support of the Senate and the Assembly.

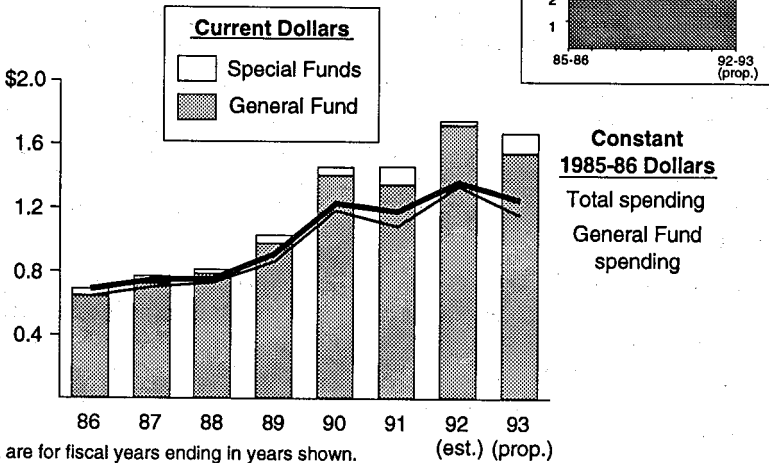
Factors Driving Program Costs

The most significant factor responsible for changes in legislative, judicial, and executive program expenditures in recent years has been state policy changes. For example, the implementation of the Trial Court Funding Program in 1988-89 resulted in a significant increase in state costs because of state assumption of major responsibility for funding the operations of the trial courts. In addition, "realignment" of trial court costs in 1991-92, in which the Legislature enacted legislation to increase the state's share of costs from 38 percent to 50 percent in the current year, increased costs further.

Chart 1

Legislative, Judicial, and Executive Expenditures Current and Constant Dollars 1985-86 through 1992-93^a

General Fund (in billions)



Another, though less significant, factor is natural disasters. For example, the Loma Prieta Earthquake resulted in significantly increased costs for disaster assistance through programs operated by the OES.

LAO Assessment of Major Budget Issues

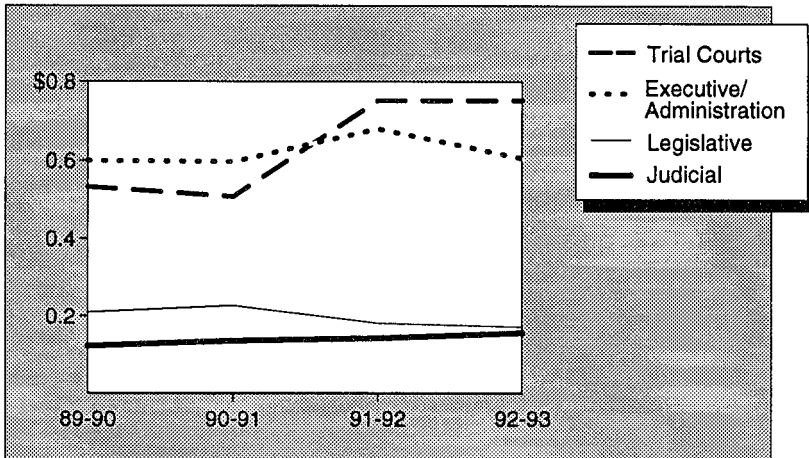
In this section, we identify some of the major issues contained in the Governor's Budget. A fuller discussion of these issues is contained in our analysis of the affected department or program, which follows this overview.

- **Trial Court Funding Proposal.** Although the Legislature has expressed its intent to pay for about 55 percent of the costs of trial courts in 1992-93, the budget proposes to pay for about 45 percent of the costs. In order to pay for 55 percent of trial court costs, the budget would have to be augmented by at least \$143 million. (See Item 0450, State Block Grants for Trial Court Funding.)
- **Trial Court Funding Block Grants.** The method for distributing \$565 million of block grants to counties will need to be specified in the Budget Bill or in separate legislation. (See Item 0450, State Block Grants for Trial Court Funding.)

Chart 2

Legislative, Judicial, and Executive Expenditures By Major Program 1989-90 through 1992-93

All State Funds (in billions)



- Judges' Retirement System Costs.** Contributions by active members are insufficient to pay the cost of their retirement and are used exclusively to pay for retirement benefits of current retirees. The General Fund costs of the system will continue to grow, unless the Legislature takes steps to shift costs to other revenue sources or reduce retirement benefits for judges. (See Item 0390, Contributions to the Judges' Retirement Fund.)
- Disaster Assistance for East Bay Fire.** The budget does not reflect current-year or budget-year costs for disaster assistance related to the October 1991 East Bay fire, even though such costs are being incurred and may have to be supported from the General Fund. (See Item 0690, Office of Emergency Services.)
- Board of Equalization Audit Staff.** The budget proposes a significant audit staff expansion in the Board of Equalization at a revenue-to-cost ratio (3.9 to 1) that is less than what the Legislature has required in the past (5 to 1). Alternative deployment of additional staff could result in more revenue for the state. (See Item 0860, State Board of Equalization.)

Legislature Items 0110 and 0120

Expenditures

Requested 1992-93	\$118,281,000
Estimated 1991-92	115,172,000
Actual 1990-91	171,505,000
Requested increase \$3,109,000 (+2.7 percent)	

Fiscal Recommendations

Total recommended reduction	None
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General Program Statement

The California Constitution grants to the Legislature the legislative powers of the state, except for the powers of initiative and referendum, which are reserved for the people. Under this authority, the Legislature enacts laws, makes appropriations, and levies taxes. The Legislature consists of a Senate with 40 members who are elected for four-year terms, and an Assembly with 80 members who are elected for two-year terms.

Overview of the Budget Request

The proposed budget for the Legislature continues the current-year funding level as adjusted by the change in the appropriations limit.

The budget proposes expenditures of \$118.3 million for the Legislature in 1992-93. This amount includes \$117.1 million for operational support and \$1.2 million for contributions to the Legislators' Retirement System (which is discussed below). The total expenditures in the budget year are about \$3.1 million, or 2.7 percent, more than estimated current-year expenditures.

Proposition 140. Proposition 140, which was passed by the voters in the November 1990 election, places limits on the total number of terms that Members of the Legislature and certain other elected officials may serve, and imposes limits on legislative expenditures. Specifically, the measure resulted in the total expenditures for salaries and operating expenses being reduced significantly in 1991-92. Beginning in 1992-93, and each year thereafter, the measure limits expenditure growth to an amount equal to the percentage change in the state's appropriations limit.

LEGISLATURE—Continued

CONTRIBUTIONS TO THE LEGISLATORS' RETIREMENT FUND

The Legislators' Retirement Fund provides benefits to legislators, constitutional officers, and legislative statutory officers, as well as their survivors. The fund is administered by the Public Employees' Retirement System and will provide \$4.8 million in retirement and death benefits in 1992-93.

The state's contribution to the Legislators' Retirement System is set at 18.81 percent of members' salaries, and is continuously appropriated by statute from the General Fund. In addition, the fund receives member contributions of 4 percent (members enrolled prior to March 4, 1972) and 8 percent (members enrolled after March 4, 1972).

The budget proposes a contribution of \$1.2 million from the General Fund, representing the state's 18.81 percent contribution for active members. This contribution amount is the same as was made in the current year.

Proposition 140 would have restricted the accrual of pension benefits for Members of the Legislature after November 7, 1990. The California Supreme Court has since ruled that the pension restrictions of Proposition 140 are unconstitutional as applied to legislators who were elected prior to the effective date of the measure. In light of this decision, the budget reflects the restoration of full funding of benefits earned by those legislators who were members of the system on November 6, 1990. Legislators elected for the first time on or after that date, however, are not eligible for state retirement benefits as a result of Proposition 140.

**Legislative Counsel Bureau
Item 0160**

Expenditures

Requested 1992-93	\$53,077,000
Estimated 1991-92	53,281,000
Actual 1990-91	44,355,000
Requested decrease \$204,000 (-0.4 percent)	

Fiscal Recommendations

Total recommended reduction	None
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General Program Statement

The Legislative Counsel Bureau drafts bills, provides legal opinions and legal counsel, and supplies attorney support for legislative committee hearings. The bureau also operates the Legislative Data Center.

Overview of the Budget Request

The budget proposes funding the Legislative Counsel Bureau at the current-year level, except for a 5 percent salary reduction for supervisors.

The budget requests \$53 million for the Legislative Counsel Bureau in 1992-93. This is \$204,000, or 0.4 percent, less than estimated expenditures in the current year and reflects a 5 percent salary reduction for supervisors.

Judicial Item 0250

Expenditures

Requested 1992-93	\$158,028,000
Estimated 1991-92	144,633,000
Actual 1990-91	137,246,000
Requested increase \$13,395,000 (+9.3 percent)	

Fiscal Recommendations

Total recommended reduction	\$1,629,000
Recommendation pending	3,535,000

MAJOR ISSUES

- ▶ **Workers' Compensation Claims for Municipal Court Judges.** The budget proposes an augmentation to fund the workers' compensation claims of municipal court judges. However, funds provided through Trial Court Funding block grants should cover these costs.

Continued

JUDICIAL—Continued

- **Audits of Trial Courts.** The Judicial Council lacks sufficient expertise to audit local trial court finances. The State Controller is a more appropriate agency to undertake this task.

Findings and Recommendations*Analysis
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| 1. Workers' Compensation Costs for Municipal Court Judges Already Funded. Reduce Item 0250-001-001 by \$961,000. Recommend the Legislature (a) delete \$961,000 and (b) direct Judicial Council to amend Rules of Court to specifically indicate that workers' compensation benefits shall be paid from Trial Court Funding block grants. | 14 |
| 2. Auditor Positions Not Justified. Reduce Item 0250-001-001 by \$668,000. Recommend deletion of \$668,000 and nine positions requested to audit trial court expenditures. | 16 |
| 3. Facilities Operations Request Needs Review. Withhold recommendation on \$934,000, pending receipt of additional information. | 16 |
| 4. Library Operations Request Needs Clarification. Withhold recommendation on \$2.6 million, pending receipt of additional information. | 17 |

General Program Statement

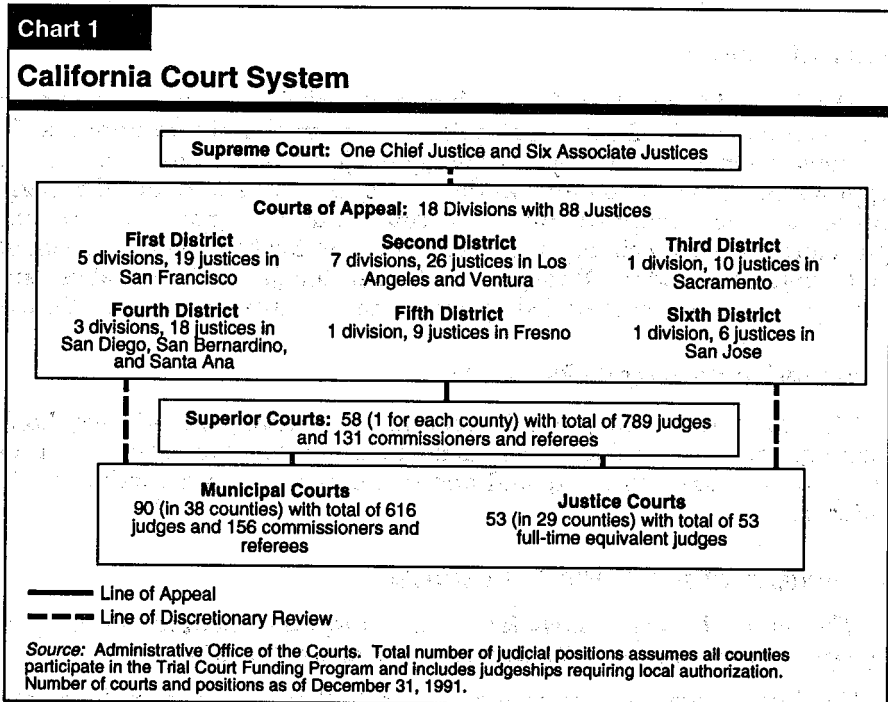
The California Constitution vests the state's judicial power in the Supreme Court, the courts of appeal, and the superior, municipal and justice courts. The Supreme Court and the courts of appeal hear appeals from the trial courts, and have original jurisdiction over certain writs, such as habeas corpus.

The Supreme Court and the six courts of appeal are entirely state-supported. Under the Trial Court Funding Program, the state also provides a significant amount of funding for the trial courts in participating counties, while the counties bear the remainder of the costs.

State expenditures for support of trial courts (superior, municipal, and justice) are partially offset by fines, fees, and forfeitures collected by the courts. These fines, fees, and forfeitures, once collected by the trial courts, are then distributed among counties, cities, special districts, and the state, as

required by law. Fees collected by the courts of appeal and the Supreme Court are deposited in the state's General Fund.

Chart 1 displays the structure of the California court system. The chart also shows the lines of appeal and review within the courts.



Trial Court Funding Program

Under the Trial Court Funding Program, as modified by the Trial Court Realignment and Efficiency Act of 1991 (Ch 90/91, AB 1297, Isenberg), the state has declared its intent to assume a larger responsibility over the next five years for funding the operations of the trial courts in counties that choose to participate in the program.

The Governor's Budget requests total state expenditures for the program of \$747.7 million in 1992-93. This is the same amount appropriated for this program in the current year. There are three items within the Governor's Budget that comprise funding for the Trial Court Funding Program: (1) Contributions to the Judges' Retirement Fund (Item 0390), (2) Salaries for Superior Court Judges (Item 0420), and (3) State Block Grants for Trial Court

JUDICIAL—Continued

Funding (Item 0450). We discuss the Governor's Budget proposals for the total state funding of trial courts, as well as implementation of the Trial Court Realignment and Efficiency Act, in more detail in Item 0450, and in *The 1992-93 Budget: Perspectives and Issues*.

Judicial Council

The Judicial Council has 21 members and is chaired by the Chief Justice. As required by the State Constitution, the council seeks to improve the administration of justice by (1) surveying judicial business; (2) making appropriate recommendations to the courts, the Governor, and the Legislature; and (3) adopting rules for court administration, practice and procedure. The council also provides education for both newly appointed and continuing judges through the Center for Judicial Education and Research. The council is staffed by the Administrative Office of the Courts.

Commission on Judicial Performance

The Commission on Judicial Performance receives, investigates, holds hearings on, and makes recommendations to the Supreme Court on complaints relating to the qualifications, competency, and conduct of the judiciary.

Overview of the Budget Request

The Judicial budget includes several program changes resulting in significant increases over the agency's current-year funding level.

The budget proposes appropriations of \$158 million (\$157 million from the General Fund, \$123,000 from the State Transportation Fund, and \$665,000 in reimbursements) for support of judicial functions in 1992-93. This is an increase of \$13.4 million, or 9.3 percent, above estimated current-year expenditures.

This budget, along with the budget of many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 6.4 percent from the General Fund in 1991-92. These reductions are not carried over into 1992-93.

Table 1 shows the budget program for judicial functions in the prior, current, and budget years.

Table 1

State Judicial Functions Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Supreme Court	\$15,561	\$15,818	\$17,139	8.4%
Courts of appeal	94,750	100,257	108,488	8.2
Judicial Council	25,806	27,079	31,089	14.8
Commission on Judicial Performance	1,129	1,379	1,302	-5.6
Local assistance	—	100	10	-90.0
Totals	\$137,246	\$144,633	\$158,028	9.3%
<i>General Fund</i>	<i>\$135,734</i>	<i>\$144,188</i>	<i>\$157,240</i>	<i>9.1%</i>
<i>Special funds</i>	<i>1,414</i>	<i>123</i>	<i>123</i>	<i>—</i>
<i>Reimbursements</i>	<i>98</i>	<i>322</i>	<i>665</i>	<i>206.5</i>
Personnel-Years	995.3	970.8	1,014.3	4.5%

Table 2 identifies (by funding source) the changes in the judiciary's expenditure levels for 1992-93.

As Table 2 indicates, program adjustments represent \$6.5 million, or 48 percent, of the net change in the proposed Judicial budget. Most of the increase in program adjustments is the result of the judiciary's proposal to restore a portion of its current-year unallocated reductions by reducing its salary savings requirement. This has the effect of making additional funding available for personnel expenses. Table 2 also shows an increase of \$5.8 million in workload adjustments for the Court-Appointed Counsel Program.

JUDICIAL—Continued

(dollars in thousands)				
	General Fund	Special Funds	Reimbursements	Total
1991-92 Expenditures (rev.)	\$144,188	\$123	\$322	\$144,633
<i>Workload and cost adjustments</i>				
Appointed counsel	\$5,823	—	—	\$5,823
Facilities operations	934	—	—	934
Library operations	307	—	—	307
Subtotals	(\$7,064)	(—)	(—)	(\$7,064)
<i>Program adjustments</i>				
Salary savings reduction	\$2,564	—	—	\$2,564
Trial Court Funding	1,381	—	—	1,381
Municipal court workers' compensation	961	—	—	961
Family law and court services	644	—	—	644
Information systems	590	—	—	590
Other adjustments	—	—	343	343
Subtotals	(\$6,140)	(—)	(\$343)	(\$6,483)
1992-93 Expenditures (prop.)	\$157,240	\$123	\$665	\$158,028
Change from 1991-92				
Amount	\$13,052	—	\$343	\$13,395
Percent	9.1%	—	206.5%	9.3%

Analysis and Recommendations**Workers' Compensation Costs for
Municipal Court Judges Already Funded**

We recommend that the Legislature delete \$961,000 requested from the General Fund to pay for workers' compensation claims for municipal court judges because the state provides sufficient funds to counties through the Trial Court Funding Program to pay for these costs. (Reduce Item 0250-001-001 by \$961,000.)

Further, we recommend that the Legislature direct the Judicial Council to amend its Rules of Court to specifically indicate that workers' compensation benefits shall be paid from Trial Court Funding block grants.

The budget requests \$961,000 from the General Fund for the payment of workers' compensation claims to municipal court judges for injuries and disabilities arising from their employment. No funding was explicitly budgeted in the current year for this expenditure.

Background. As a result of a 1990 California appellate court decision in *County of Sonoma v. Workers' Compensation Appeals Board, Judicial Council, et. al.*, municipal court judges are now considered state employees for the purpose of workers' compensation claims. Prior to this decision, municipal court judges were considered county employees and were compensated through the employing county's workers' compensation benefits program. The decision now requires the state to assume responsibility for the payment of workers' compensation claims to municipal court judges. As the administrative arm of the courts, the Judicial Council is requesting funds to pay the claims on behalf of the state. Thus, the effect of the council's request is to shift \$961,000 in workers' compensation costs from the counties to the state.

In our view, the state already provides sufficient financial assistance to municipal courts to cover the costs of workers' compensation benefits and the Legislature should, therefore, deny this request.

State Payments Under Trial Court Funding Program. Under the Trial Court Funding Program, the state pays for a significant portion of the operating costs of the trial courts (approximately 50 percent in the current year and 45 percent in the budget year) from block grants provided to each county (see Item 0450 for more details). These costs, which are defined by Rules of Court, include salaries and benefits of municipal court judges and other operating expenses of the courts.

We believe that the state already provides sufficient assistance to counties to cover any costs related to workers' compensation for judges, and that an appropriation to the Judicial Council for this purpose is not warranted. In addition, we believe that approval of the council's request may have the effect of reducing the incentive of the counties to maintain adequate workplace conditions that reduce the likelihood of claims.

For these reasons, we recommend that the Legislature (1) deny the council's request for \$961,000 and (2) direct the council to amend its Rules of Court to specifically indicate that workers' compensation benefits shall be paid from Trial Court Funding block grants.

JUDICIAL—Continued**Trial Court Funding Auditing Positions Not Justified**

We recommend a General Fund reduction of \$668,000 and nine auditor positions because the positions are not justified. (Reduce Item 0250-001-001 by \$668,000.)

The budget proposes \$1.2 million for 15 positions to perform administrative duties related to the Trial Court Funding Program. Currently, the Judicial Council has six temporary analyst positions to analyze trial court data and prepare reports required under Ch 90/91. The budget requests that these six positions be made permanent and that nine auditor positions be added to conduct financial audits of trial courts. Our review indicates that the analyst positions should be approved, but that the auditor positions should be deleted.

Our analysis indicates that the Judicial Council does not have sufficient expertise to perform financial audits of local trial courts. Such a function represents a significant change to the council's current activities.

In addition, the budget requests 15 positions in the State Controller's Office (SCO) to audit trial court finances. Our conversations with the SCO and the Judicial Council indicate that the two offices would perform essentially the same auditing functions. Given that the SCO currently audits local government finances and can use that expertise to audit trial court finances, we believe that this function is more appropriately placed in the SCO (we have recommended approval of the SCO's request in Item 0840). We know of no reason that the audit information collected by the SCO cannot be used by the council to carry out the council's fiscal oversight and reporting responsibilities regarding this program.

For these reasons, we recommend that the nine auditor positions be deleted for a General Fund savings of \$668,000.

Facilities Operation Request Needs Further Review

We withhold recommendation on \$934,000 requested from the General Fund for facilities operations, pending receipt of additional information.

The budget requests \$14.1 million for facilities operation costs for the judiciary in 1992-93. This is an increase of \$934,000, or 7.1 percent, above estimated expenditures for the current year. The council advises that the additional funds are needed primarily to cover increased costs for privately leased space. We have identified the following uncertainties with this request, which the council should resolve prior to budget hearings.

- **Lease Inflation Rates May Be Too High.** As a means of calculating the increase in costs for privately leased space, the council used a flat 6 percent increase to approximate the Consumer Price Index (CPI).

However, the average rate of increase in the CPI for the past five years is approximately 4.6 percent, and the Department of Finance has projected the CPI to rise 4.3 percent in 1992-93. Applying these lower rates would result in lease costs that would be about \$144,000 lower than the amount requested.

- ***Cost of Support Services May Be Overstated.*** A portion of the request includes an increase for support services in state-owned facilities. However, the Department of General Services has frozen the costs of certain services provided to state agencies at the 1991-92 level. Thus, it is likely that a portion of the amount requested will not be needed in the budget year.
- ***Minor Alterations and Repair May Be Overbudgeted.*** The requested amount includes continuation of \$225,000 for minor alterations and repairs that was provided in the current year. However, many of these costs were one-time in nature or are covered in the terms and conditions of the lease agreements and should not be included in the judiciary's baseline expenditures.

For these reasons, we withhold recommendation on the requested increase for facilities operations, pending receipt and review of a revised proposal from the Judicial Council.

Library Operations Request Needs Clarification

We withhold recommendation on \$2,601,000 from the General Fund for library operations, pending receipt of further cost information for the operation of the judicial library facilities and the replacement and acquisition of materials.

The budget requests \$2.6 million from the General Fund for library operations. This is an increase of \$307,000, or 13 percent, over 1991-92 expenditures. The majority (\$1.8 million) of the expenditure is attributed to the ongoing costs for books and bindings.

Our review of the judiciary's library operations budget indicates that it was developed using historical expenditure data from only one year — 1990-91. This information was used as a baseline and was adjusted for the budget year to account for projected cost increases.

We are concerned that using only one year of data may not typify historical expenditures. For example, data from a single year may include various one-time expenditures and may not reflect expected ongoing costs for judicial library operations. We have requested additional historical cost information for and expected costs for the acquisition and replacement of library materials. At the time this analysis was prepared, the council had not been able to provide us with this information.

JUDICIAL—Continued

Thus, we withhold recommendation on this request, pending receipt and review of the additional information.

**Contributions to the Judges' Retirement Fund
Item 0390**

Expenditures

Requested 1992-93	\$58,483,000
Estimated 1991-92	47,972,000
Actual 1990-91	39,632,000
Requested increase \$10,511,000 (+29.1 percent)	

Fiscal Recommendations

Total recommended reduction	None
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MAJOR ISSUES

- ▶ **System Underfunded.** Contributions by active members of the Judges' Retirement System are insufficient to pay the cost of their retirement and are used exclusively to pay for retirement benefits of current retirees.
- ▶ **General Fund Subsidy.** The General Fund cost of the Judges' Retirement System will continue to grow unless the Legislature takes steps to shift costs to other revenue sources or reduce retirement benefits for judges.

Findings and Recommendations

*Analysis
Page*

1. **Retirement System Continues to be Underfunded.** The payments made by current members of the Judges' Retirement System (JRS) and their employers are insufficient to pay the full cost of their retirement benefits. Moreover, these contributions go directly to pay benefits to current retirees. 21
2. **General Fund Subsidy Continues to Grow.** In order to honor 1992-93 benefit payments to current retirees, the budget 22

includes a subsidy of \$45.7 million from the General Fund — an increase of 28 percent over the current-year subsidy.

3. **Retirement Systems Will Not Achieve Actuarial Soundness by Deadline.** Without statutory changes to the JRS, the system will fail to meet its legal obligation to become fully funded and actuarially sound by the year 2002. 23
4. **Legislative Options for Addressing JRS Funding Problem.** In considering the pending report of the task force convened to recommend alternatives for fully funding the JRS, the Legislature should consider a full range of options for addressing the actuarial soundness of the system. 25

General Program Statement

The Judges' Retirement Fund (JRF) provides benefits for those justice, municipal, superior, appellate, and supreme court judges, and their survivors, who are members of the JRS. This system is administered by the Public Employees' Retirement System (PERS).

The primary revenues deposited in the fund come from the following sources:

- *Active members' contributions*, equal to 8 percent of members' actual salaries.
- *Fees on civil suits* filed in municipal and superior courts.
- *State General Fund appropriations*, which are equivalent to: (1) 8 percent of judicial salaries of authorized positions, *plus* (2) any amount necessary to cover the cost of JRS benefit payments made in a given year.

Members of the JRS earn retirement benefits equal to a percentage (up to 75 percent) of the current salary of the judicial office last held. The JRS will pay an estimated \$74 million in benefits to 1,264 annuitants in the budget year. This amount is \$11 million (17 percent) more than the estimated payments in the current year.

Overview of the Budget Request

The budget contains the employer contributions of Supreme and Appellate Court Justices as well as additional funds as required to provide for the solvency of the Judges' Retirement Fund.

The budget proposes General Fund appropriations totaling \$58.5 million as the state's contribution to the JRS in 1992-93. This amount includes \$12.5 million (equivalent to 8 percent of judicial salaries) in statutory contributions and \$46.0 million in Budget Bill appropriations needed to meet the cost of projected benefit payments and administrative costs in 1992-93. Without the latter amount, the JRF — which is estimated to end the current fiscal year

CONTRIBUTIONS TO THE JUDGES' RETIREMENT FUND—Continued

with a reserve of \$3.6 million — would be insolvent. This is because receipts anticipated from all other revenue sources will finance only about 39 percent of the \$74 million in benefit payments projected for the budget year.

Table 1 shows the revenues and expenditures for the JRF in the prior, current, and budget years.

Table 1				
Judges' Retirement Fund Budget Summary 1990-91 through 1992-93				
(dollars in thousands)				
	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Beginning Reserves	\$1,117	\$2,978	\$3,623	21.7%
Revenues				
State contributions				
Statutory 8 percent of salaries	\$11,397	\$11,888	\$12,483	5.0%
Budget Act	27,960	35,807	45,728	27.7
Budget Act (Administration)	275	277	272	-1.8
Subtotals	(\$39,632)	(\$47,972)	(\$58,483)	(21.9%)
Nonstate contributions				
Judges' contributions	\$11,211	\$11,400	\$11,570	1.5%
Other ^a	4,979	4,800	4,875	1.6
Subtotals	(\$16,190)	(\$16,200)	(\$16,445)	(1.5%)
Total Revenues	\$55,822	\$64,172	\$74,928	16.8%
Expenditures				
Benefit and others (net)	\$53,686	\$63,250	\$74,250	17.4%
Administrative costs	275	277	275	-0.7
Total Expenditures	\$53,961	\$63,527	\$74,525	17.3%
Ending Resources	\$2,978	\$3,623	\$4,026	11.1%

^a Includes filing fees, investment income, and contributions from employers.

The funds provided in this item for superior and municipal court judges' retirement, along with Item 0420 (Salaries of Superior Court Judges) and Item 0450 (State Block Grants for Trial Court Funding) constitute total state funding for the support of trial courts in 1992-93. We discuss the Governor's Budget proposals for total state funding of trial courts, as well as implementation of the Trial Court Funding Realignment and Efficiency Act of 1991 (Ch 90/91, AB 1297, Isenberg) in more detail in Item 0450.

Analysis and Recommendations

The JRS is the only statewide public retirement system that is funded on a "pay-as-you-go" basis. In other words, all revenues collected by the system are used each year to pay benefits to those members who are already retired — none of the contributions from the active members goes toward their own retirement. In contrast, all other state-administered retirement systems provide for annual revenues to be invested in a trust fund so as to ensure that resources are available in the future to pay benefits to currently active members over the course of their retirement (referred to as "pre-funding").

Retirement System Continues to be Underfunded

We find that the payments made to the Judges' Retirement System by its members and their employers are insufficient to pay the full cost of their retirement benefits. Moreover, these contributions go directly to pay benefits to current retirees.

Active members of the JRS earn retirement benefits over the course of their judicial careers. The annual costs of ensuring that these benefits will be available upon retirement is called the normal cost. Because the normal cost for the JRS has been historically underfunded, there are insufficient funds to pay benefits previously earned by active and retired members, thereby creating an unfunded liability.

Based on the most recent (1990) actuarial valuation of the JRS, contributions totaling 36.25 percent of the payroll of active members are required in order to fund the future cost of their retirement benefits. Current employer and employee contributions, however, provide only 16 percent of payroll to the fund. The difference represents the system's normal cost deficit. In 1992-93, this shortfall is approximately \$32 million.

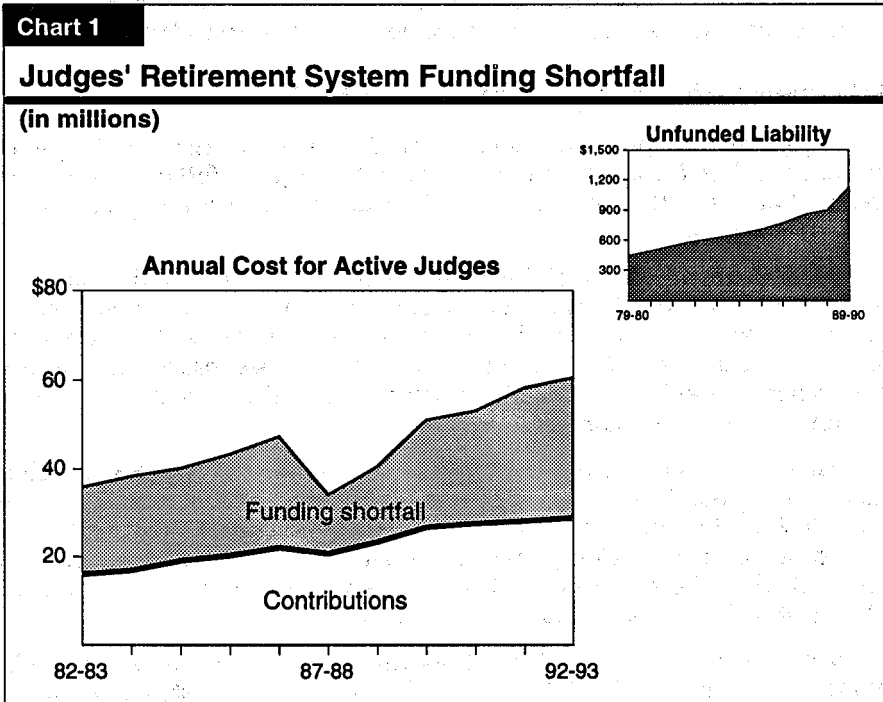
Each year that the cost of benefits earned by active members is not fully funded, the unfunded liability of the JRS increases. The system's unfunded liability as of June 30, 1990 was \$1.1 billion, and represents an increase of \$233 million, or 26 percent, over the prior year. If contributions continue at current levels, the unfunded liability of the JRS will grow indefinitely.

Current law requires full funding of the JRS by the year 2002. In order to meet this requirement, the current unfunded liability would need to be paid for over the next 10 years. This would require budget-year payments into the system totaling \$196 million, or over 125 percent, of the active members' payroll. Total revenues provided to the system in 1992-93, however, will fall short of this amount by \$121 million.

Chart 1 displays the funding requirements of the JRS compared to the actual contributions provided over the period from 1982-83 to 1992-93. The continued underfunding of active members' benefits (\$32 million in 1992-93) results in the rapid growth of the unfunded liability as shown in the inset

CONTRIBUTIONS TO THE JUDGES' RETIREMENT FUND—Continued

of Chart 1. In 1982-83, the annual cost to amortize the unfunded liability by the year 2002 would have been 89 percent of payroll, or \$68 million. Because the state has not contributed to the amortization of the unfunded liability, the annual cost has grown to over 125 percent of payroll, or \$196 million in 1992-93.



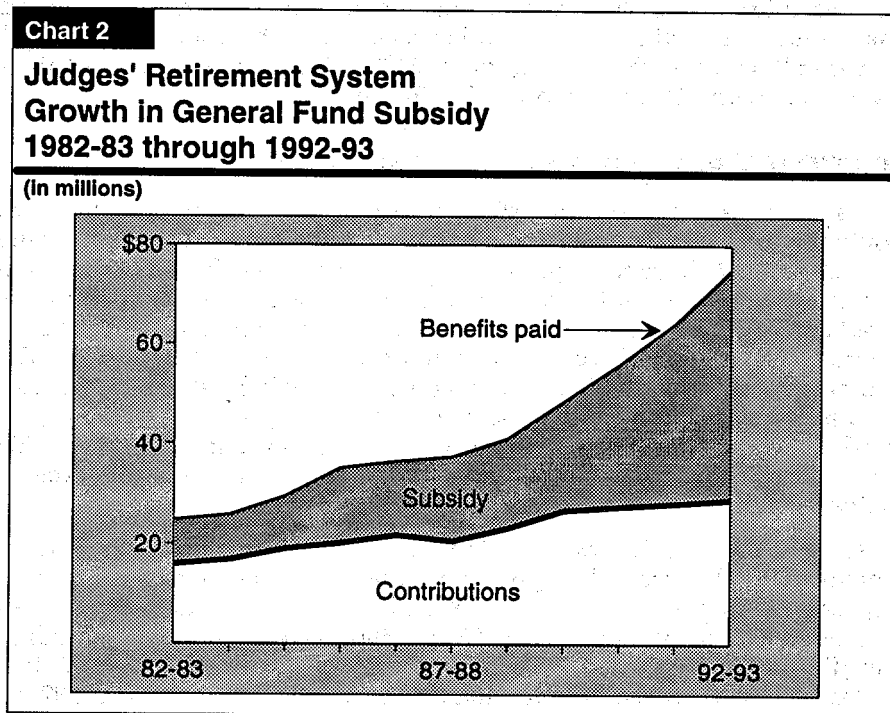
General Fund Subsidy Continues to Grow

We find that, in order to honor 1992-93 benefit payments to current retirees, the budget includes a subsidy of \$45.7 million from the General Fund — an increase of 28 percent over the current-year subsidy.

State law requires the Legislature to appropriate in the annual Budget Act enough monies to the JRF to pay all obligations of the system that become due in the ensuing fiscal year. Because no funds are accumulated in the JRF to pay for benefits as members retire, each year the General Fund contributes increasing amounts so that funds are available to make benefit payments to retirees in that year. The 1992-93 subsidy is budgeted at \$45.7 million. This

amount, when combined with employee/employer contributions, provides the \$74 million needed in 1992-93 to make these payments.

Chart 2 shows the growth in the General Fund subsidy from 1982-83 to 1992-93. Unless the Legislature takes steps to address the fundamental normal cost funding shortfall of the JRS, the General Fund subsidy can be expected to continue to grow at the current rate of roughly 20 percent to 30 percent per year. Under this scenario, the General Fund *subsidy* in 2001-02 would be about \$300 million.



Retirement System Will Not Meet Statutory Deadline for Full Funding

We find that without statutory changes to the JRS, the system will fail to meet the legal mandate to become actuarially sound by the year 2002.

As discussed above, in order to meet the requirement that the system be fully funded and actuarially sound by the year 2002, the state would have to contribute an additional \$121 million to the JRS in the budget year, with slightly increasing annual amounts through the year 2002. Given the current fiscal situation facing the state, it is unlikely that the system will receive the

CONTRIBUTIONS TO THE JUDGES' RETIREMENT FUND—Continued

level of funding required in order to be actuarially sound by the legal deadline.

If the Legislature chose to begin making contributions toward the unfunded obligation of the JRS, the existing amortization period for the unfunded liability could be extended from the current 10-year period to 20, 30, or 40 years. The longer the amortization period, the lower the contribution required in each year. For example, if the amortization period for the current unfunded liability were extended to 40 years (an industry standard maximum), the additional contribution required in the budget year would be \$38 million rather than the additional \$121 million that would be required using the present 10-year amortization formula.

Legislature Should Consider Pre-Funding the JRS

As we have indicated, the JRS as a "pay-as-you-go" retirement system continues to be underfunded and is not likely to be actuarially sound by the year 2002. We believe that "pre-funding" the system — that is, funding the annual cost of retirement benefits as they are earned by active members — would satisfy the policy objective of paying for retirement benefits as they accrue. In so doing, the Legislature would maximize the extent to which the retirement cost of currently active judges will be paid by them, rather than by future generations of JRS members and taxpayers. In addition, pre-funding would limit the growth of the system's unfunded liability. This liability could then be addressed without drawing from the contributions of active judges.

Finally, on a cash-flow basis, the General Fund cost of the JRS is minimized in the future through pre-funding the system versus the current practice of "pay-as-you-go." For example, if the JRS did not have an unfunded liability, the state's 1992-93 contribution to continue fully funding the JRS would have been 28 percent of payroll, or roughly \$44 million. Instead, the state will contribute a total of \$58.4 million to the JRS in 1992-93. Whereas, in the past, the state saved money by choosing to not fully fund the JRS, the annual cost of the "pay-as-you-go" funding approach now exceeds the annual cost of the JRS had it been pre-funded all along. Of course, to begin full funding of the JRS today would require greater annual contributions because of the system's unfunded liability. However, in the long run, these annual payments would again fall below the annual cost of the "pay-as-you-go" approach.

Legislature's Options for Addressing the JRS Funding Problem

The Legislature's options for addressing the funding problem of the JRS are limited to providing additional revenues to the JRS, reducing the benefits available to retired judges, or some combination of these two approaches.

As discussed above, in order to fully fund the JRS in the budget year, the Legislature would need to provide an additional \$121 million in revenues. Alternatively, if the Legislature acted to extend the amortization period of the unfunded liability to 40 years, the additional revenues required to fully fund the JRS in 1992-93 would fall to \$38 million.

Additional revenues could be generated from three sources: (1) an increase in the General Fund subsidy, (2) an increase in employer/employee contributions, and (3) an increase in civil court filing fees. (Currently, a portion of these fees is dedicated to the JRS.)

The Legislature also could choose to address the cost component of the JRS by reviewing the benefits provided to retired judges. These benefits significantly exceed those provided to other state employees. For example, the maximum benefit that can be paid to a retired judge is an allowance equal to 75 percent of the *current* salary of the last judicial post held by the judge. In effect, any judge who retired before 1986, and who qualified for the maximum benefit, currently receives a retirement benefit payment that exceeds the salary that they earned in their final year of active service. In comparison, members of most PERS programs earn maximum benefits equal to 75 percent of their final compensation, and members of the PERS Miscellaneous Tier I could receive 75 percent at age 63 if they had worked 31 years.

In accordance with the *Supplemental Report of the 1991 Budget Act*, the PERS has convened a task force to develop options to fully fund the JRS. At the time this analysis was prepared, the report had not yet been completed. In considering the task force's report, we recommend that the Legislature consider the full range of options available to address the actuarial soundness of the system.

SALARIES OF SUPERIOR COURT JUDGES

Salaries of Superior Court Judges

Item 0420

Expenditures	
Requested 1992-93	\$74,848,000
Estimated 1991-92	74,816,000
Actual 1990-91	70,287,000
Requested increase \$32,000 (+0.04 percent)	
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The state provides roughly 90 percent of the salaries, plus the full cost of health benefits, to the state's superior court judges. Each county contributes \$5,500, \$7,500, or \$9,500 per year toward each of its superior court judge's \$99,297 salary, depending on the county's population, and the state pays the balance. The counties' share of total salary cost has not changed since 1955, when the program began.

Overview of the Budget Request

The budget essentially proposes funding at the current-year level.

The budget proposes expenditures of \$74.9 million (\$73.9 million from the General Fund and \$1 million from reimbursements) for the salaries and benefits for 789 superior court judgeships. This is an increase of \$32,000, or less than 1 percent, above estimated current-year expenditures. The increase in expenditures for 1992-93 primarily reflects an increase in the state's cost to provide benefits.

The funds provided in this item, along with Item 0390 (Contributions to the Judges' Retirement Fund for superior and municipal court judges) and Item 0450 (State Block Grants for Trial Court Funding) constitute total state funding for the support of trial courts in 1992-93. We discuss the Governor's Budget proposals for total state funding of trial courts, as well as implementation of the Trial Court Funding Realignment and Efficiency Act of 1991 (Ch 90/91, AB 1297, Isenberg) in more detail in Item 0450.



State Block Grants for Superior Court Judgeships Item 0440

Expenditures	
Requested 1992-93	\$1,000
Estimated 1991-92	NA
Actual 1990-91	NA
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The State Block Grants for Superior Court Judgeships Program provides for state payment of annual \$60,000 block grants for superior court judgeships. These block grants are in addition to the funds the state provides for the salaries and benefits of superior court judgeships in Item 0420.

As a condition of participating in the Trial Court Funding Program, counties must forgo state payment of annual superior court block grants. (We discuss the Trial Court Funding Program in Item 0450.)

Overview of the Budget Request

The budget proposes a minimal appropriation for superior court block grants in order to provide a vehicle for future funding in the event a county decides not to participate in the Trial Court Funding Program.

The budget proposes expenditures of \$1,000 for the State Block Grants for Superior Court Judgeships Program in 1992-93. According to the Department of Finance, the amount is necessary so that, if any counties decline to participate in the Trial Court Funding Program in the budget year, this budget item can be used to fund the superior court block grants counties would be eligible to receive from the state.

STATE BLOCK GRANTS FOR TRIAL COURT FUNDING

**State Block Grants for Trial Court Funding
Item 0450**

Expenditures

Requested 1992-93	\$618,636,000
Estimated 1991-92	629,017,000
Actual 1990-91	397,901,000
Requested decrease \$10,381,000 (-1.7 percent)	

Fiscal Recommendations

Total recommended reduction	None
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MAJOR ISSUES

- ▶ **Proposed Budget.** The proposed budget will provide about 45 percent of trial court costs in 1992-93. Should the Legislature wish to fund 55 percent, as previously expressed in legislative intent, the budget would have to be augmented by about \$143 million.
- ▶ **Block Grant Allocations.** The method for distributing \$565 million of trial court block grant funds to counties will need to be specified in the Budget Bill or in separate legislation.

Findings and Recommendations

- | | <i>Analysis</i> |
|--|-----------------|
| | <i>Page</i> |
| 1. Budget Falls Short of Legislative Intent. Although the Legislature expressed its intent to support 55 percent of trial court costs in 1992-93, the proposed budget will support only about 45 percent. In order to fund the program at the 55 percent level, the budget would have to be augmented by about \$143 million. | 32 |
| 2. Block Grant Allocation Formula Needs to be Specified. It is not clear how \$565 million in proposed block grants for trial courts will be distributed to counties. The Legislature will | 33 |

need to modify the Budget Bill or enact separate legislation to specify the allocation formula.

General Program Statement

The Trial Court Funding Program, enacted by Ch 945/88 (SB 612, Presley), the Brown-Presley Trial Court Funding Act, requires the state to assume primary responsibility for funding the operations of the trial courts in counties that choose to participate in the program. Chapter 90, Statutes of 1991 (AB 1297, Isenberg), the Trial Court Realignment and Efficiency Act of 1991, significantly modified the program and increased the state's financial participation in funding trial courts.

Under Chapter 945, the state provided block grants to counties for the salaries and operating costs of superior, municipal, and justice court judgeships, and superior and municipal court commissioners and referees. The program also provided block grant supplements to qualifying counties for additional judgeships created by Ch 1211/87 (SB 709, Lockyer). As a condition of participating in the program, counties were required to forgo previous state funding for certain judgeships. In addition, the counties had to waive reimbursement for existing and future state-mandated costs relating to the trial courts and all other state-mandated costs for which they had not submitted claims by September 16, 1988.

Chapter 90 maintains the essential components of the Trial Court Funding Program established by Chapter 945, but eliminates state funding for block grant supplements. It significantly increases state funding for trial court operations, requires counties to transfer to the state a portion of fines, fees, and forfeitures collected by the trial courts, and requires trial courts to institute a number of changes intended to substantially reduce the future growth in trial court costs. (We discuss the changes in more detail below and in our companion document, *The 1992-93 Budget: Perspectives and Issues*.)

Overview of the Budget Request

The budget proposes the same total level of state support for trial courts in the current and budget years. The slight decrease in this item is offset by program increases elsewhere.

The budget proposes expenditures of \$619 million from the General Fund to provide block grants for trial court operations. This is a decrease of \$10.4 million, or 1.7 percent, below estimated expenditures for the current year. The reason for this decrease is the administration's decision to provide the same *total* level of state support for trial courts in the budget year as was provided in the current year. (As we discuss below, total state support includes several other items of appropriation in this budget, which are estimated to increase while this item is proposed to decrease, resulting in the

STATE BLOCK GRANTS FOR TRIAL COURT FUNDING—Continued

same total level of state support for trial courts in the current and budget years.)

The Governor's Budget assumes that all 58 counties will participate in the Trial Court Funding Program in 1992-93, and is based on an estimate of 1,745 judicial positions statewide, as follows:

- 789 superior court judgeships.
- 131 superior court commissioners and referees.
- 616 municipal court judgeships.
- 156 municipal court commissioners and referees.
- 53 justice court judgeships.

Table 1 displays expenditures for the block grants for the prior, current, and budget year, by category.

Table 1				
Block Grants for Trial Court Funding General Fund 1990-91 through 1992-93				
(dollars in thousands)				
	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Block Grants				
Trial courts	\$340,727	\$577,720	\$565,201	-2.2%
Supplement for new judgeships	5,758	—	—	—
Salaries of municipal court judges	47,288	47,148	49,113	4.2
Salaries of justice court judges	4,128	4,149	4,322	4.2
Totals	\$397,901	\$629,017	\$618,636	-1.7%

Other Elements of Trial Court Funding. The block grants provided in this item comprise the largest part of the state's support for trial courts. In addition, other budget items include state payment of Salaries for Superior Court Judges (Item 0420) and Contributions to the Judges' Retirement System (Item 0390). Table 2 shows *total* state funding for support of trial courts in the current and budget years. As the table shows, the Governor's Budget proposes *total* state funding for trial courts of \$748 million, which is the same amount provided in the current year.

Table 2

Total State Funding for Support of Trial Courts 1991-92 and 1992-93

(dollars in millions)

	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures			
Salaries of Judges			
Superior court (Item 0420)	\$73.9	\$73.9	—
Municipal court (Item 0450)	47.1	49.1	4.2%
Justice court (Item 0450)	4.1	4.3	4.2
Trial Court Funding Block Grants (Item 0450)	577.7	565.2	-2.2
Contributions to Judges' Retirement System (Item 0390)	44.8	55.2	23.1
Totals^a	\$747.7	\$747.7	—

^a Details may not add to totals due to rounding.

Unallocated Reductions. This program, along with many other programs, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 4 percent from the General Fund in 1991-92. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various programs.

General Fund Revenues. As a result of changes made by trial court realignment, the budget estimates that counties will transfer about \$508 million in trial court-related revenues to the General Fund in 1992-93. This amount is \$72 million, or 17 percent, more than estimated revenue transfers for the current year. During our site visits and discussions with trial court and local officials last fall, we found a number of reasons why revenues are likely to fall short of projected levels for the current and budget years. We discuss this issue in more detail in *The 1992-93 Budget: Perspectives and Issues*.

Analysis and Recommendations

Trial Court Funding "Realignment"

Last summer, the Legislature enacted major legislation to provide substantially increased state funding for trial courts, generate additional revenue to the state, and make a number of changes to court operations. The

STATE BLOCK GRANTS FOR TRIAL COURT FUNDING—Continued

principal pieces of legislation — Chapter 90 and a companion measure, Ch 189/91 (AB 544, Isenberg) — contained a number of changes, including:

- **Increased Funding for Trial Courts.** Chapter 90 increased the state's share of funding for trial courts (including judicial salaries, block grants, and retirement) in 1991-92 from about 38 percent to 50 percent. In addition, Chapter 90 expressed legislative intent to increase the state's share of funding for trial courts by 5 percent each year until the state's share is 70 percent in 1995-96.
- **Transfers of Local Court Revenues.** Prior to Chapter 90, court-related fine and forfeiture revenues were divided between counties and cities, based on the location of the violation of law that resulted in the fine. In order to offset the additional costs of state funding for trial courts, Chapters 90 and 189 reduced the city and county share of nonparking fines by transferring 50 percent of the cities' share and 75 percent of the counties' share to the state, beginning in 1991-92. The Legislature also enacted several new revenue sources for the General Fund, the largest of which was an increase in penalty assessments on criminal fines and forfeitures.
- **Enhanced Collections of Fines, Penalties, and Forfeitures.** Chapters 90 and 189 established a number of new mechanisms to assist local governments in collecting unpaid fines, penalties, and forfeitures. These changes were partially designed to generate additional revenues to the state to cover the costs of additional state funding of trial courts.
- **Court Efficiencies and Savings.** Chapter 90 includes a number of changes to increase the efficiency of the trial courts. The most significant change requires all superior and municipal courts to coordinate their operations.

Budget Falls Short of Legislative Intent

Although Chapter 90 expresses the Legislature's intent to support 55 percent of total trial court costs in 1992-93, the proposed budget will support only about 45 percent of these costs. If the Legislature wishes to fund the program at the 55 percent level, the budget would have to be augmented by about \$143 million.

As indicated above, Chapter 90 specified the Legislature's intent to increase state funding for trial court operations from 50 to 55 percent in 1992-93. The budget, however, provides no increase in total funding for trial courts above the amounts provided in the current year. The budget indicates that funding was held at the 1991-92 level as part of the administration's proposal to balance the budget.

As Table 2 shows, the budget proposes a small increase for judicial salaries, a 23 percent increase for judicial retirement, and a small decrease in block grants for trial courts. The increase in judicial retirement is due primarily to increases in General Fund subsidies needed to enable the program to meet projected benefit payments in the budget year. Funding for the block grants was reduced in order to maintain total funding for the budget year at the current-year level.

\$143 Million Needed to Meet Previous Intent. Based on information provided by the Judicial Council, we estimate that total costs to support the trial courts in 1992-93 will be at least \$1.6 billion. Thus, the total proposed budget (\$748 million, as shown in Table 2) will support about 45 percent of estimated statewide trial costs in the budget year. If the Legislature wishes to carry out the intent of Chapter 90 to fund 55 percent of court costs, the budget would need to be increased to at least \$890 million, or \$143 million more than the requested amount.

Block Grant Allocation Formula Needs to Be Specified

It is not clear how \$565 million for block grants will be distributed to counties in the budget year. The Judicial Council will recommend an allocation methodology in March, and the Legislature will need to modify the Budget Bill or enact separate legislation to specify the allocation formula.

The budget requests \$565 million for block grants to trial courts. Our review indicates that the method of allocating these funds to counties is unclear. Thus, it is not possible to conclude how much block grant money each county will receive in 1992-93.

Current-Year Distribution. In the current year, funds for block grants to trial courts were appropriated in two pieces of legislation — the 1991 Budget Act and Ch 331/91 (SB 21, no author) — and allocated as follows:

- The 1991 Budget Act distributed funds to counties based on a flat amount (\$202,248) for each judicial position.
- Chapter 331 appropriated a specific additional amount of funds for each county.

Budget-Year Distribution. Chapter 189 repealed the provisions of law that specified the distribution of the block grants to counties. Thus, there is no statutory direction on how the grants should be distributed in 1992-93 and in future years.

Legislature Will Need to Address Allocation Question. Chapter 90 requires the Judicial Council to report to the Legislature by March 1 on various fiscal provisions of the Trial Court Realignment and Efficiency Act, including allocation of state funds appropriated to support trial court operations. At the time this analysis was prepared, the council had developed a draft proposal for allocating the state funds and was seeking

STATE BLOCK GRANTS FOR TRIAL COURT FUNDING—Continued

comments from the courts, county officials, and other interested parties. Following receipt of the council's report, the Legislature will need to adopt a specific methodology for distributing the trial court block grants, either through the Budget Bill or in separate legislation.

Governor's Office

Item 0500

Expenditures

Requested 1992-93	\$8,425,000
Estimated 1991-92	8,250,000
Actual 1990-91	8,717,000
Requested increase \$175,000 (+2.1 percent)	

Fiscal Recommendations

Total recommended reduction	None
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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.

Overview of the Budget Request

The proposed budget for the Governor's Office continues the current-year funding level, except for an increase in operating expenses.

The budget proposes expenditures of \$8.4 million from the General Fund for the Governor's Office in 1992-93. This is \$175,000, or 2.1 percent, more than the estimated current-year expenditures. This increase is due to the expansion of two existing offices (Los Angeles and San Francisco), the establishment of two new offices (Fresno and San Diego), and the upgrading of computer equipment.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. This

reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Secretary for State and Consumer Services Item 0510

Expenditures

Requested 1992-93	\$1,206,000
Estimated 1991-92	1,258,000
Actual 1990-91	837,000
Requested decrease \$52,000 (-4.1 percent)	

Fiscal Recommendations

Total recommended reduction	None
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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

California Afro-American
Museum

Department of Consumer Affairs

Department of Fair Employment
and Housing

Fair Employment and Housing
Commission

Office of the State Fire Marshal
Franchise Tax Board

Department of General Services

State Personnel Board

Public Employees' Retirement
System

State Teachers' Retirement System

Department of Veterans Affairs

Overview of the Budget Request

The budget proposes no net workload or program changes for the agency.

The budget proposes an appropriation of \$754,000 from the General Fund for support of the State and Consumer Services Agency in 1992-93. Total agency expenditures in 1992-93, including reimbursements, are budgeted at \$1,206,000, a decrease of \$52,000, or 4.1 percent below total estimated current-year expenditures. The current-year expenditures of \$1,258,000 represent an increase of \$421,000 from 1990-91, reflecting the establishment,

SECRETARY FOR STATE AND CONSUMER SERVICES—Continued

within this item, of the Office of Insurance Advisor which is funded through a reimbursement from the Insurance Fund.

This agency, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

**Secretary for Business, Transportation
and Housing
Item 0520**

Expenditures

Requested 1992-93	\$1,636,000
Estimated 1991-92	1,947,000
Actual 1990-91	1,680,000
Requested decrease \$311,000 (-15.9 percent)	

Fiscal Recommendations

Total recommended reduction	None
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General Program Statement

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

Business and Regulatory Agencies

- Alcoholic Beverage Control
- State Banking
- Corporations
- Commerce
- Major Risk Medical Insurance Board
- Office of Real Estate Appraisers
- Real Estate
- Savings and Loan
- Stephen P. Teale Data Center

Transportation Agencies

- California Highway Patrol
- Motor Vehicles
- Transportation
- Traffic Safety

Housing Agencies

- Housing and Community Development
- California Housing Finance Agency

Overview of the Budget Request

The budget proposes no workload or program changes for the agency.

The proposed 1992-93 expenditure level of \$1.6 million is \$311,000, or about 16 percent, below estimated current-year expenditures. The decrease is the result of the elimination of a one-time current-year expense of \$314,000 for the 1992 World Exposition and an increase of \$3,000 in other support expenses.

The agency, along with other departments and agencies, has been subject to a variety of reductions over the past several years. Among these are unallocated reductions of 11 percent of the agency's General Fund support in 1991-92. (This reduction is less than 1 percent of the agency's total budget from all funds.) These reductions are proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Secretary for Health and Welfare

Item 0530

Expenditures

Requested 1992-93	\$1,972,000
Estimated 1991-92	1,970,000
Actual 1990-91	4,018,000
Requested increase \$2,000 (+0.1 percent)	

Fiscal Recommendations

Total recommended reduction	None
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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

SECRETARY FOR HEALTH AND WELFARE—Continued

human services area. The Secretary is also responsible for the operations and fiscal management of the following departments and offices:

Aging	Mental Health
Alcohol and Drug Programs	Office of Statewide Health
Developmental Services	Planning and Development
Emergency Medical Services,	Rehabilitation
Authority and Commission	Social Services
Employment Development	Health and Welfare Agency
Health Services	Data Center

Overview of the Budget Request

The proposed budget for the HWA is essentially a workload budget.

The budget proposes total expenditures of \$2 million in 1992-93, consisting of \$1.4 million from the General Fund and \$530,000 in reimbursements. Proposed General Fund expenditures are \$149,000, or 12 percent, above estimated current-year expenditures. This is due almost entirely to a proposed increase to compensate for an anticipated reduction in federal funds pursuant to the State Legalization Impact Assistance Grant for implementation of the Immigration Reform and Control Act. The General Fund augmentation would be used to continue support for administration of the program.

This agency, along with many other departments and agencies, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. (This reduction is 12 percent of the agency's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Secretary for Resources

Item 0540

Expenditures

Requested 1992-93	\$2,030,000
Estimated 1991-92	4,340,000
Actual 1990-91	2,049,000
Requested decrease \$2,310,000 (-53.2 percent)	

Fiscal Recommendations

Total recommended reduction	None
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General Program Statement

The Secretary for Resources is responsible for general policy formulation to manage and preserve California's natural, recreational, and wildlife resources. The Secretary is responsible for the operation of the following departments and organizations:

Conservation
 Fish and Game
 Forestry and Fire Protection
 Parks and Recreation
 Boating and Waterways
 Water Resources
 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

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. In addition, Ch 1027/91 (AB 205, Farr) transferred from the Secretary for Environmental Protection (Cal-EPA) to the Secretary for Resources the ongoing responsibility for management of the state's Coastal Resources and Energy Assistance program.

SECRETARY FOR RESOURCES—Continued

Overview of the Budget Request

The proposed budget for the Secretary for Resources fails to reflect the costs of responsibilities transferred in the current year from the Cal-EPA to the Resources Agency.

The budget proposes the expenditure of \$2 million for the Secretary for Resources in 1992-93. This is \$2.3 million, or 53 percent, lower than estimated current-year expenditures, primarily because the budget does not reflect expenditures for responsibilities transferred to the agency pursuant to Ch 1027/91. This act authorizes, among other things, the agency to award grants to coastal cities and counties for offshore development activity. Presumably, this is an error which the administration will correct later through a Department of Finance budget amendment letter.

Specifically, the budget proposes:

- A decrease of \$2.2 million from the Offshore Energy Assistance Fund (\$1.5 million), the Outer Continental Shelf Lands Act Section 8(g) Revenue Fund (\$451,000), and the Local Coastal Program Improvement Fund (\$216,000) for the administration of (1) the Coastal Resources and Energy Assistance Act grant program, (2) the Local Marine Fisheries Impact Program, and (3) the Ocean Resources Management Task Force. This decrease is offset partially by an increase of \$197,000 from the Section 8(g) Revenue Fund for three positions (2.8 personnel-years) to administer the programs.
- A reduction of \$261,000 from the Public Resources Account due to completion of various projects.
- A decrease of \$61,000 in reimbursement expenditure authority from various departments in the agency. The agency's reimbursement expenditure authority was increased by \$475,000 in 1991-92 to offset the effect of unallocated General Fund reductions. The 1992-93 budget proposes to continue the reimbursements at a reduced level.

The agency, along with many departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. (This reduction is 13 percent of the agency's total budget from all funds, including reimbursements.) As discussed above, this reduction was offset in 1991-92 by increasing reimbursements from the agency's major departments. The budget proposes to continue this practice in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Secretary for the Youth and Adult Correctional Agency

Item 0550

Expenditures

Requested 1992-93	\$853,000
Estimated 1991-92	853,000
Actual 1990-91	931,000

Fiscal Recommendations

Total recommended reduction	None
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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.

Overview of the Budget Request

The budget proposes funding for the agency at the current-year level without any workload or program changes.

The budget proposes an appropriation of \$853,000 from the General Fund for support of the agency in 1992-93, which is the same amount as the estimated current-year expenditures.

This agency, along with many other agencies and departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

SECRETARY FOR ENVIRONMENTAL PROTECTION

Secretary for Environmental Protection
Item 0555

Expenditures	
Requested 1992-93	\$2,833,000
Estimated 1991-92	4,749,000
Actual 1990-91	NA
Requested decrease \$1,916,000 (-40.3 percent)	
Fiscal Recommendations	
Total recommended increase	\$689,000
Total recommended reduction	1,584,000

MAJOR ISSUES

- ▶ **Agency Funding.** The agency proposes to apportion its costs among the departments and boards that it oversees in a manner that bears no relationship to the amount of oversight provided by the agency. As a consequence, contrary to constitutional restrictions, it overcharges the Motor Vehicle Account by about \$1.4 million.

Findings and Recommendations

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1. **Allocation of Costs to Departments.** There is no analytical basis for the proposed distribution among fund sources of the agency's 1992-93 expenditures. 44
2. **Motor Vehicle Account (MVA) Used Disproportionately.** Reduce Item 0555-001-014 by \$1,380,000. Recommend (a) a reduction of \$1.4 million from the MVA to reflect a more reasonable allocation of costs to the account, consistent with the state's Constitution and (b) the Secretary submit a plan for allocating costs among fund sources in a reasonable manner. 46

3. **Transfer of Program Funding Premature. Increase reimbursement schedule for Item 0555-001-044 by \$689,000.** 47
Recommend an increase of \$689,000 from reimbursements (and a corresponding reduction in Item 3980), because it is premature to transfer funding for two programs from the agency to the Office of Environmental Health Hazard Assessment.
4. **Contracts Unjustified. Recommend a technical reduction of \$204,000 from various funds for contracts because the agency has not justified the request.** 47

General Program Statement

The Secretary for Environmental Protection heads the California Environmental Protection Agency (Cal-EPA). The Secretary is responsible for overseeing and coordinating the environmental regulatory activities of the following departments and organizations:

Air Resources Board (ARB)
Department of Pesticide
Regulation (PRD)
Department of Toxic
Substances Control (DTSC)

Integrated Waste Management
Board (IWMB)
State Water Resources Control
Board (SWRCB)
Office of Environmental Health
Hazard Assessment (OEHHA)

Overview of the Budget Request

The budget proposes a significant reduction in funding for the Secretary for Environmental Protection due primarily to (1) the transfer of various programs to the OEHHA, and (2) the elimination in 1992-93 of one-time current-year expenditures.

The budget proposes the expenditure of \$2,833,000 for the Secretary for Environmental Protection in 1992-93. This is \$1.9 million, or 40 percent, less than estimated current-year expenditures. The net reduction is primarily the result of (1) the proposed transfer of \$689,000 in reimbursements from the Secretary for Environmental Protection to the OEHHA for the implementation of two programs, and (2) a reduction of approximately \$1 million from various funds to eliminate in 1992-93 one-time costs funded in the current year.

SECRETARY FOR ENVIRONMENTAL PROTECTION—Continued

Analysis and Recommendations**Distribution of Costs Among Funds Is Unjustified**

We find that there is no analytical basis for the proposed distribution among fund sources of the 1992-93 expenditures for the Cal-EPA.

The budget proposes total expenditures of \$2.8 million for support of the Secretary for Environmental Protection in 1992-93. Of this amount, \$255,000 is to fund the Hazardous Substance Arbitration Panel (HSAP) during the first six months of 1992-93 and the remaining \$2.6 million is for the general support of the Cal-EPA to oversee and coordinate the activities of the environmental regulatory boards and departments. (The budget proposes to seek authority to transfer the HSAP to the OEHHA on January 1, 1993.) Table 1 shows the proposed 1992-93 budget by fund source for the general support of the Secretary for Environmental Protection.

Table 1

**Secretary for Environmental Protection
Proposed Expenditures by Fund for General Support^a
1992-93**

(dollars in thousands)

	Proposed 1992-93	Percent of Total Proposed Expenditures
Funding Sources		
Motor Vehicle Account	\$1,742	67.6%
Integrated Waste Management Account	526	20.4
Hazardous Waste Control Account	35	1.3
Reimbursements:		
Department of Pesticide Regulation ^b	170	6.6
State Water Resources Control Board ^c	105	4.1
Totals	\$2,578	100.0%

^a Does not include \$255,000 in reimbursements for support of the Hazardous Substance Arbitration Panel through December 31, 1992.

^b Department of Pesticide Regulation Fund.

^c Waste Discharge Permit Fund.

The budget proposes to distribute the costs of the Secretary among a number of funds that support the environmental regulatory boards and departments overseen by the Secretary. As shown in Table 1, this is proposed to be accomplished through two means. First, the budget proposes

reimbursements from the SWRCB and the PRD for support of Cal-EPA. These reimbursements total \$275,000 from two funds. Second, the budget proposes to appropriate to the Cal-EPA a total of \$2.3 million from funds that are used to support particular boards or departments under the agency's jurisdiction. For example, the budget proposes \$1.7 million from the Motor Vehicle Account (MVA) for support of the Secretary. The MVA is the primary funding source for the ARB.

As shown in Table 1, the amount proposed in the budget from each fund varies considerably. The budget proposes to fund the majority (68 percent of total proposed expenditures) of Cal-EPA activities from the MVA, while little funding is proposed from the other funding sources such as the Waste Discharge Permit Fund (4.1 percent of total proposed expenditures) or the Hazardous Waste Control Account (1.3 percent of total proposed expenditures). Moreover, a number of funds used to support the boards and departments overseen by the Cal-EPA would pay no share of the cost of the agency's operation. These excepted funds include, among others, the General Fund, (PRD, OEHHA, and SWRCB), the Hazardous Substance Account (DTSC), and the Underground Storage Tank Clean-up Fund (SWRCB). It is our understanding that this approach is based primarily on assumed availability of monies within each fund.

We have two concerns with this approach to covering the agency's costs. Specifically, this approach:

- ***Bears No Relationship to the Level of Program Oversight.*** Our review indicates that there is no apparent relationship between the proposed distribution of the costs of the Secretary's office among the environmental regulatory boards and departments, and the proposed level of service to be provided to each of the programs. For example, although the budget proposes to fund 68 percent of the costs of the Secretary's office from the MVA, the Secretary does *not* propose to provide any greater level of service to the ARB than any other environmental regulatory program.

Moreover, the State Constitution requires that MVA funds be spent on programs or projects related to state highway users. In the case of Cal-EPA, these expenditures probably would be related to mobile source air pollution control. Since the Cal-EPA does not propose to provide a level of oversight to ARB programs commensurate with the level of funding received from the MVA, the proposed 1992-93 budget for the Secretary does not conform to constitutional restrictions on the use of funds.

- ***Avoids Setting Program Priorities.*** By proposing to use funds from sources where there are assumed to be significant resources available, the agency avoids answering the tough question of whether scarce resources are better spent on *program implementation* by boards and

SECRETARY FOR ENVIRONMENTAL PROTECTION—Continued

departments or on broad *program oversight* and *policy development* at the agency level.

Toward A More Reasonable Distribution of Costs

We recommend that the Legislature reduce funding to the agency to reflect a more reasonable apportionment of its costs to the MVA. (Reduce Item 0555-001-014 by \$1,380,000.)

We further recommend that the agency submit prior to budget hearings a specific proposal for offsetting this loss of MVA expenditure authority by using alternative methodologies to apportion the agency's costs to member boards and departments.

Our analysis indicates that the MVA should support no more than 14 percent of the agency's costs in 1992-93, unless the Secretary can demonstrate that the level of agency activity concerning mobile sources of pollution or other programs related to the state's highway users will exceed 14 percent of the agency's budget in 1992-93. Consequently, in the absence of this justification, we recommend that the budget be reduced by \$1.4 million from the MVA to reflect a more reasonable apportionment of costs to this fund. Since this reduction represents 54 percent of the agency's proposed expenditures, we further recommend that the Secretary submit, prior to budget hearings, an alternative proposal for funding these costs.

Two Alternative Approaches to Apportioning Agency Costs. Our analysis indicates that the costs of the agency should be distributed among the environmental regulatory boards and departments it oversees in a manner that roughly represents the level of services or oversight provided to these programs, rather than based on the availability of funds. As an alternative to the proposed distribution, the Legislature could instead distribute the costs of the agency among environmental regulatory departments based on one or a combination of the following:

- ***Expenditures by Board or Department.*** The Legislature could allocate the costs of the agency's budget among environmental boards and departments in proportion to the total proposed expenditures from each department. This presumes that there is a relationship between the level of expenditures by a department and the level of oversight provided by the Secretary's office. Under this type of distribution system, each department would have the flexibility to allocate its share of the Secretary's activities among the fund sources used to support the program.
- ***Expenditures by Fund for Environmental Programs.*** The Legislature could allocate the costs of the agency's budget based on the total expenditures for environmental programs from each fund source,

regardless of the board or department involved. This option presumes that there is a relationship between the level of expenditures from a fund and the level of activity by the Secretary's office. Under this option, boards and departments would have no flexibility in allocating among funds the costs of the Secretary's programs.

Transfer of Program Funding is Premature

We recommend an increase of \$689,000 and 2.2 personnel-years from reimbursements (and a corresponding reduction in reimbursements in Item 3980) because it is premature to transfer funding for the Environmental Assessors Program and the Hazardous Substance Arbitration Panel from the Secretary for Environmental Protection to the OEHHA prior to the enactment of authorizing legislation. (Increase reimbursement schedule for Item 0555-001-044 by \$689,000.)

The budget proposes to transfer from the Secretary for Environmental Protection to the OEHHA \$689,000 in reimbursements and 2.2 personnel-years to (1) implement a program to register environmental assessors and (2) support the operations of the HSAP.

Under current law, the Secretary for Environmental Protection, not the OEHHA, is responsible for registering environmental assessors and supporting the operations of the HSAP. The Administration indicates that it intends to seek legislation to transfer from the Secretary for Environmental Protection to the OEHHA the responsibility for implementing these programs.

Our analysis indicates that the proposal to shift the *funding* for these programs from the Secretary to OEHHA prior to enactment of legislation authorizing the transfer of *responsibility* for implementing these programs is premature. Instead, any changes in funding that result from changes in legislation should be included in the legislation seeking to transfer responsibility. Accordingly, we recommend an increase of \$689,000 and 2.2 personnel-years from reimbursements and a corresponding reduction from reimbursements in Item 3980.

Contracts Proposal Unjustified

We recommend a technical reduction of \$204,000 from various fund sources requested for program evaluations, because the agency has not provided information to justify the request. (Reduce Item 0555-001-014 by \$3,000, Item 0555-001-044 by \$138,000, Item 0555-001-387 by \$42,000, and reimbursements by \$21,000.)

The budget proposes \$204,000 from various funds to contract out for evaluations of programs that are implemented by departments and boards that are under the Secretary for Environmental Protection. The agency

SECRETARY FOR ENVIRONMENTAL PROTECTION—Continued

indicates that it intends to contract for four separate program evaluations. However, the agency has provided no information on (1) the programs that it intends to evaluate, (2) the need for the program evaluations, or (3) the basis for the amounts requested.

Without this information, the Legislature has no basis to determine whether the program evaluations are needed or whether the amounts requested for the program evaluations are reasonable. Accordingly, we recommend a technical reduction of \$204,000 from various funds for program evaluation contracts because the agency has not justified the request.

Secretary for Child Development and Education Item 0558

Expenditures	
Requested 1992-93	\$7,021,000
Estimated 1991-92	1,808,000
Actual 1990-91	None
Requested increase \$5,213,000 (+288 percent)	
Fiscal Recommendations	
Total recommended reduction	\$5,000,000

Findings and Recommendations

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1. **Legislation Should Fund New Program.** Recommend deletion of \$5 million proposed to fund new Volunteer Mentor Program. 49

General Program Statement

The Secretary for Child Development and Education serves as the Governor's advisor and advocate for children's and education issues, and is his liaison with all other state agencies involved in the provision of children's services.

Overview of the Budget Request

The budget proposed for the Secretary for Child Development and Education is essentially a workload budget, with the exception of a \$5 million increase proposed to fund the new Volunteer Mentor Program.

The budget proposes General Fund expenditures of \$7 million for the Secretary in 1992-93. This is \$5.2 million, or 288 percent, more than estimated current-year expenditures. This increase primarily reflects the addition of \$5 million to fund local assistance grants under the proposed new Volunteer Mentor Program. The rest of the increase reflects full-year funding for positions that were approved for only a portion of the current year.

The budget assumes that the Legislature will approve legislation in 1992 to statutorily establish the Secretary. Accordingly, the budget proposes to appropriate funds to support the costs of the Secretary during the first half of 1992-93 through the Governor's Office of Planning and Research, where it is funded in the current year. Funds for support of the Secretary after January 1, 1993 are proposed to be appropriated in a new budget item.

The Secretary was subject to an unallocated reduction of 8.3 percent in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of unallocated reductions on various departments.

Analysis and Recommendations

Legislation Should Fund Proposed New Mentor Program

We recommend deletion of \$5 million proposed to fund local assistance grants under the proposed new Volunteer Mentor Program, because funding for the program should be provided in legislation establishing the program. (Delete Item 0558-490.)

The budget proposes to reappropriate \$5 million from the General Fund to provide grants under a new Volunteer Mentor Program. This amount was appropriated in the 1991 Budget Act pending passage of legislation establishing the program. However, such legislation has not passed and the budget does not anticipate expenditure of any of these funds in the current year.

It remains uncertain whether legislation establishing the program will be enacted or how the details of the program will be affected by legislative debate.

Given this uncertainty, we believe that funding for the program should be provided in the bill rather than the budget. Therefore, we recommend

SECRETARY FOR CHILD DEVELOPMENT AND EDUCATION—Continued

deletion of the \$5 million reappropriation proposed in the budget for the Volunteer Mentor Program.

**Office Of California-Mexico Affairs
Item 0580**

Expenditures	
Requested 1992-93	\$261,000
Estimated 1991-92	261,000
Actual 1990-91	286,000
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The primary function of the Office of California-Mexico Affairs is the promotion of economic, cultural and educational relations with regional Mexican governments in Baja California and Baja California Sur. The office also provides staff support for California's participation in the U.S.-Mexico Border Governor's Conference (formerly known as the Southwest Border Regional Conference).

Overview of the Budget Request

The budget proposes no workload or program changes for the office.

The budget proposes an appropriation of \$261,000 from the General Fund to support the office in 1992-93. This represents no net increase above current-year expenditures.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of about 12 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

California State World Trade Commission Item 0585

Expenditures	
Requested 1992-93	\$2,669,000
Estimated 1991-92	2,607,000
Actual 1990-91	3,188,000
Requested increase \$62,000 (+2.4 percent)	
Fiscal Recommendations	
Total recommended reduction	\$300,000

MAJOR ISSUES

▶ **Loan Guarantee.** Proposal to use General Fund as security for loan guarantees appears unconstitutional and raises oversight concerns.

Findings and Recommendations

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1. **Loan Guarantee Proposal Appears Unconstitutional and Reduces Legislative Oversight.** Reduce Item 0585-001-001 by \$300,000, reduce Item 0585-001-981 by \$300,000, and delete Item 0585-011-809. Recommend rejection of the Export Finance Fund program changes and related transfer.

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General Program Statement

The California State World Trade Commission (CSWTC) undertakes numerous activities to encourage international trade and development. The commission's responsibilities include coordinating international trade activities, providing loan guarantees for exporting, conducting trade research, and providing trade policy input.

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued**Overview of the Budget Request**

The budget proposes to restructure the CSWTC's export loan guarantee program and to transfer the \$6.2 million reserve of the Export Finance Fund (which backs the loan guarantee program) to the General Fund.

The budget proposes expenditures of \$2.7 million by the CSWTC in 1992-93. This is \$62,000, or 2.4 percent, more than estimated current-year expenditures.

This commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the General Fund in 1991-92. (This reduction is 12 percent of the department's total budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Analysis and Recommendations**Off-Budget Status Proposed for Export Loan Guarantee Program**

We recommend that the administration's proposal to change the export loan guarantee program be rejected. The proposal (1) appears to be unconstitutional and (2) greatly reduces legislative oversight while increasing the state's potential financial liability for loan guarantee defaults. (Reduce Item 0585-001-001 by \$300,000, reduce Item 0585-001-981 by \$300,000, and delete Item 0585-011-809.)

The California Export Finance Office (CEFO), which is a unit of the CSWTC, provides loan guarantees for small- and medium-sized California businesses to fund export activities. The loan guarantees are backed by cash reserves held in the Export Finance Fund (EFF) — currently about \$6.2 million. The CEFO can provide about \$22 million in loan guarantees with these funds, because its arrangements with participating banks require that it only provide reserves equal to about one-third of the guarantees outstanding. This arrangement reflects the fact that only a small proportion of the loans actually default. The state's liability for loan guarantee defaults is limited to the amount held in the reserve fund. The interest earned on the EFF's cash reserves goes to pay for loan defaults and some of the program's administrative costs.

The budget indicates that legislation will be introduced to change the way the loan guarantee program is operated. Specifically, the legislation will provide that the CEFO loan guarantees are backed with the "full faith and credit of the General Fund." This legislative change will presumably establish in statute a dollar limitation on the level of outstanding loan

guarantees that the CEFO may provide. Currently, the amount in the EFF reserve determines the amount of loan guarantees the CEFO may provide, and the Legislature may change the EFF reserve amount by providing additional funding to, or transferring funds out of, the reserve during the budget process.

Making this proposed shift would have several implications for the operation of the program. In addition, it would allow the program's existing cash reserves to be transferred to the General Fund. The budget proposes that these reserves be so transferred on June 30, 1992.

Implications of the Administration's Proposal for Program Operations. The proposal has three primary implications for the program:

- First, giving the CEFO *ongoing* statutorily set authority and resources to provide loan guarantees (backed by the General Fund) would effectively place it "off-budget," so that its operations would not be controlled by the Legislature through the annual budget process.
- Second, the proposal could potentially provide the CEFO with additional or even unlimited guarantee authority (depending on how the authorizing legislation is structured), because the level of guarantee authority would not be constrained by the amount of cash available in the EFF, but rather would be backed by the General Fund.
- Finally, the proposal could make participation in the loan guarantee program more attractive to state banks. The state would be promising to pay all liabilities resulting from defaults, rather than only up to a limited amount held in the EFF reserve.

Proposal Increases Immediate General Fund Resources, But Also Results in Potential Increased Costs in the Longer Run. Under the proposal, the General Fund as a whole would back the loan guarantees. Thus, the state would no longer need to maintain specific cash reserves as backing for the guarantees, as is presently the case. As a result, the \$6.2 million now held in the EFF could be transferred to the General Fund to help balance the state's budget. However, in future years, this reserve no longer would be generating interest earnings to cover loan defaults and other program costs (interest earnings on the projected reserve would be about \$450,000 per year). Thus, the General Fund would have to pay these annual costs.

Additionally, the annual costs of this program may increase under the proposal, because to the extent that the commission carries out its intent to expand the volume of outstanding loan guarantees, the total amount of defaults and program administrative costs will also increase. Generally accepted accounting principles would require that a reserve be established in the General Fund sufficient to cover the likely level of defaults. The Governor's Budget reflects no such reserve for this purpose.

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

Another consequence of the proposal would be to increase the state's potential liability since the state would be promising to cover the full amount of outstanding loan guarantees rather than a limited portion. While it may be unlikely that loan defaults would approach the full liability, the potential is there.

Other Concerns. In addition to the potential for increased long-term costs and increased state liability, we have identified the following two significant concerns:

- **Proposal Appears to be Unconstitutional.** Based on our discussions with Legislative Counsel, it appears this proposal would violate Article XVI, Section 1, of the State Constitution. This section prohibits the Legislature from creating state debts or liabilities totalling more than \$300,000 without first having a vote of the people. According to Counsel, legislation which pledges the "full faith and credit of the General Fund" creates a debt or liability for the state. In contrast, the current program limits the state's liability to funds already appropriated to cover that liability.
- **Legislative Oversight is Significantly Reduced.** This proposal would also greatly reduce legislative oversight over the loan guarantee program by placing the program off budget. Currently, the Legislature has the opportunity to determine the level of program activity each year through the annual budget process as it sets the amount of funds available to back the loan guarantees.

Because the proposal appears to be unconstitutional, reduces legislative oversight, and increases the state's liability, we recommend the proposal be rejected. This would require several budget actions. In addition to deleting the EFF transfer, the General Fund appropriation would need to be reduced since some of the program costs would be covered by fees and interest earnings on the EFF which is continuously appropriated. The required budget actions would be:

- Reduce Item 0585-001-001 by \$300,000.
 - Reduce Item 0585-001-981 by \$300,000.
 - Delete Item 0585-011-809.
-

Office of Planning and Research Item 0650

Expenditures	
Requested 1992-93	\$8,703,000
Estimated 1991-92	5,175,000
Actual 1990-91	9,423,000
Requested increase \$3,528,000 (+68 percent)	
Fiscal Recommendations	
Total recommended reduction	\$2,200,000

Findings and Recommendations

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1. **Proposed Institute Not Adequately Defined. Reduce Item 0650-101-853 by \$2.2 million.** Recommend deletion of \$2.2 million (PVEA) to establish a California Institute on the Environment.

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.

Overview of the Budget Request

The proposed OPR budget is essentially a workload budget, except for an increase in energy conservation programs to be funded through the Petroleum Violation Escrow Account (PVEA).

The budget proposes the expenditure of \$8.7 million (all funds) for support of the OPR in 1992-93. This is an increase of \$3.5 million, or 68 percent, over estimated current-year expenditures. This increase reflects (1) a budget proposal to spend \$3.6 million (PVEA) for three energy conservation programs, including establishing a California Institute on the Environment and (2) the expenditure of PVEA funds appropriated in prior legislation for a fishing fleet operators' fuel conservation program. Finally, the budget includes \$957,000 (General Fund) for six months of funding for the proposed Child Development and Education Agency. Funds for the

OFFICE OF PLANNING AND RESEARCH—Continued

remaining six months are included in the agency's budget. (Please see our discussion under Item 0558.) The OPR's budget for the current year includes \$1.8 million (full-year funding) for the proposed agency.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of \$536,000 from the General Fund in 1991-92. (This reduction is 10 percent of the OPR's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Table 1 shows the budget for OPR for 1990-91 through 1992-93.

(dollars in thousands)				
	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
State Planning and Policy Development	\$9,423	\$5,175	\$8,703	68.0%
Totals	\$9,423	\$5,175	\$8,703	68.0%
<i>State funds</i>	\$5,723	\$4,463	\$4,464	— ^a
<i>Federal funds</i>	3,604	465	3,982	856.0%
<i>Reimbursements</i>	96	247	257	4.0
Personnel-Years	75.6	72.0	77.0	6.9%

^a Not a meaningful figure.

Analysis and Recommendations

California Institute on the Environment

We recommend deletion of \$2.2 million (PVEA) requested for the creation of a California Institute on the Environment, because the institute's activities are not adequately defined and may be duplicative of

research conducted within the University of California (UC). (Reduce Item 0650-101-853 by \$2.2 million.)

The budget proposes \$2.2 million from the PVEA to establish a California Institute on the Environment. The PVEA funds are monies recovered by the federal government from oil companies that violated federal oil price control regulations. The federal government requires states to spend these funds on energy conservation and development programs. The budget indicates that the proposed institute would be sponsored by a California public institution of higher education, most likely the UC. The institute would use the \$2.2 million to (1) make grants for applied research and development projects on a broad variety of energy-related environmental issues and (2) pay the institute's administrative costs.

We have three concerns with the administration's proposal. First, the purpose and scope of the proposed institute is inadequately defined. This makes it impossible for the Legislature to evaluate the need for this institute relative to other energy programs which could be funded from the PVEA.

Second, based upon the limited information available to the Legislature, we are not certain that the institute would further — rather than duplicate — existing research efforts already funded by the state within the UC. The UC is requesting a total of \$68 million (General Fund) for general campus research in the budget year. Many UC institutes, such as the California Energy Group, the Energy and Combustion Research Center, the Statewide Air Pollution Research Center, and the Institute of Transportation Studies, already focus on energy-related environmental issues. We are concerned that establishing *another* institute, focusing on the same issues, will result in a duplication of efforts — and not a coordinated and efficient state research program.

Finally, it probably would be more cost-effective to increase funding for an *existing* energy-related environmental institute than to create a new institute to focus on the same issues. This is because research institutes generally have certain fixed administrative expenses, such as the cost for a board of directors to oversee the institute's program and a staff to process grant applications and payments.

Accordingly, we recommend the \$2.2 million proposed for the establishment of this new institute be deleted.

OFFICE OF EMERGENCY SERVICES

Office of Emergency Services
Item 0690

Expenditures	
Requested 1992-93	\$210,253,000
Estimated 1991-92	222,002,000
Actual 1990-91	169,498,000
Requested decrease \$11,749,000 (-5.3 percent)	
Fiscal Recommendations	
Total recommended reduction	None

Findings and Recommendations

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1. **Budget Does Not Reflect East Bay Fire Costs.** The budget does not reflect current-year or budget-year costs for disaster assistance related to the October 1991 East Bay fire, even though such costs are being incurred and may have to be supported from the General Fund.

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General Program Statement

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. The OES further acts as the state's conduit for federal assistance related to recovery from disasters. These responsibilities are administered through three programs — Mutual Aid Response, Plans and Preparedness, and Disaster Assistance.

Overview of the Budget Request

The proposed budget for OES support is essentially a status quo budget, with total funds available for support activities increasing by \$85,000 (0.3 percent).

The amount proposed for direct support of the OES totals \$29.3 million, including \$16 million from the General Fund, \$10.7 million from federal funds, and the remainder (\$2.6 million) from various other state funds and reimbursements. This is essentially the same amount as in the current year.

In addition to direct support costs, the budget includes \$181 million for local assistance. This is 6.1 percent less than estimated current-year expenditures for local assistance, primarily due to the timing of assistance payments related to recovery from the October 1989 Loma Prieta earthquake. The amount proposed for local assistance in the budget year includes \$134.6 million from federal funds, \$19.8 million from the General Fund, and \$25.1 million from accounts into which the administration intends to transfer General Fund monies in the current year, pursuant to authority granted by Chapters 1 and 2, First Extraordinary Session, Statutes of 1989, (AB 42x, Vasconcellos and SB 1x, Mello). Finally, \$1.4 million is proposed for local assistance from the Nuclear Planning Assessment Special Fund.

This office, along with many departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund for OES support in 1991-92. (This reduction is 7.0 percent of the OES's total support budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

East Bay Fire Costs Not in Budget

The budget does not include funds for disaster assistance for the East Bay fire of October 1991, even though such costs are being incurred and may have to be paid from the General Fund.

In October 1991, fire destroyed or damaged more than 3,400 homes in Oakland and Berkeley. In response, the Governor issued a proclamation on December 10, 1991, broadening the scope of the current extraordinary session to include legislation pertaining to the East Bay fire. In addition, under current law, the administration has broad powers to transfer and spend monies for disasters such as the East Bay fire without seeking further appropriations or legislation.

The OES projects that there will be an unencumbered balance of less than \$1.5 million in the Natural Disaster Assistance Fund on June 30, 1993. This amount may not be adequate to meet the needs related to the fire. Therefore, further General Fund transfers into the Natural Disaster Assistance Fund may be required. At the time this analysis was prepared, a complete estimate of state costs associated with the fire was not available. The administration should be prepared to present this information at the time of budget hearings.

USES OF THE DISASTER RELIEF FUND

**Uses of the Disaster Relief Fund
Item 0695**

Analysis and Recommendations

The budget proposes language in this item 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 \$5.4 million in the budget year.

Chapter 13, First Extraordinary Session, Statutes of 1989 (AB 48x, Areias), and Ch 14x/89 (SB 33x, Mello), enacted during the November 1989 First 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 deductible over the subsequent 10 years. In addition, corporations and individuals could carry back their losses to the prior year.

The proposed language is consistent with virtually identical language adopted by the Legislature in the 1991 Budget Act.

**Office of the Lieutenant Governor
Item 0750**

Expenditures

Requested 1992-93	\$1,429,000
Estimated 1991-92	1,429,000
Actual 1990-91	1,653,000

Fiscal Recommendations

Total recommended reduction	None
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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, serves on numerous boards and commissions, and performs special tasks as assigned by the Governor.

Overview of the Budget Request

The proposed budget includes no workload or program changes for this office.

The budget proposes expenditures of \$1.4 million from the General Fund for the Lieutenant Governor's Office in 1992-93, which is the same as estimated current-year expenditures.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Department of Justice

Item 0820

Expenditures

Requested 1992-93	\$302,385,000
Estimated 1991-92	299,110,000
Actual 1990-91	275,440,000
Requested increase \$3,275,000 (+1.1 percent)	

Fiscal Recommendations

Recommendation pending	\$6,665,000
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Findings and Recommendations

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1. **Staffing Needs Under Review.** Withhold recommendation on \$3.3 million for Appeals, Writs, and Trials Program, pending receipt and review of information regarding the department's workload management system.

DEPARTMENT OF JUSTICE—Continued

2. **DNA Identification Program.** Withhold recommendation on \$3.4 million, pending receipt and review of National Research Council study. Recommend department report at budget hearings on the council's conclusions. 65
3. **Revenue Shortfall for Firearms Registration Program.** Recommend that the Department of Justice report on revised revenue projections, and the program impact of the shortfall. 66

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 are carried out in six programs — Directorate/Administration, Executive Programs, Civil Law, Criminal Law, Public Rights, and Law Enforcement. The department's largest program is law enforcement support.

Overview of the Budget Request

The budget for the DOJ includes funding for workload increases in the legal divisions and small state-funded program changes in the Law Enforcement Division.

The budget proposes expenditures of \$302 million for the DOJ in 1992-93. This is about \$3.3 million, or 1.1 percent, more than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 9 percent from the General Fund in 1991-92. (This reduction is 5.2 percent of the department's total budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Table 1

**Department of Justice
Budget Summary
1990-91 through 1992-93**

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Civil Law	\$41,511	\$42,103	\$45,079	7.1%
Criminal Law	45,918	50,410	52,100	3.4
Public Rights	22,291	21,988	22,034	0.2
Law Enforcement	158,748	178,812	177,477	-0.7
Executive programs	6,972	5,797	5,695	-1.8
Directorate/Administration ^a	(53,308)	(55,041)	(57,597)	4.6
Totals	\$275,440	\$299,110	\$302,385	1.1%
<i>General Fund</i>	<i>\$179,566</i>	<i>\$168,983</i>	<i>\$170,012</i>	<i>0.6%</i>
<i>Special funds</i>	<i>40,757</i>	<i>59,065</i>	<i>57,599</i>	<i>-2.5</i>
<i>Federal funds</i>	<i>9,536</i>	<i>14,037</i>	<i>16,307</i>	<i>16.2</i>
<i>Reimbursements</i>	<i>45,581</i>	<i>57,025</i>	<i>58,467</i>	<i>2.5</i>
Personnel-Years	3,654.8	3,978.7	3,964.5	-0.4%

^a Amounts in parentheses are distributed to other programs.

The department's budget for 1992-93 proposes changes in the following major areas, as shown in Table 2:

- \$1.6 million from the General Fund to implement a deoxyribonucleic acid (DNA) identification data base for violent offenders.
- \$3.3 million from the General Fund to address increased workload in the Criminal Law Division dealing with appeals, writs, and trials.
- \$3.7 million from federal funds to implement the Statewide Integrated Narcotic System.
- \$3.8 million from reimbursements in the Civil Law Division for state agency legal representation.

DEPARTMENT OF JUSTICE—Continued

Table 2

**Department of Justice
Proposed 1992-93 Budget Changes**

(dollars in thousands)

	General Fund	Special Funds	Other Funds	Total
1991-92 Expenditures (rev.)	\$168,983	\$59,065	\$71,062	\$299,110
<i>Baseline adjustments</i>				
Limited-term programs	-\$1,302	-\$1,947	-\$721	-\$3,970
One-time costs	-3,125	-1,855	-3,265	-8,245
Miscellaneous base adjustments	-210	735	149	674
Subtotals	(-\$4,637)	(-\$3,067)	(-3,837)	(-\$11,541)
<i>Workload and program changes</i>				
Appeals, writs, and trials	\$3,309	—	—	\$3,309
Legal representation of state	—	\$498	\$3,750	4,248
Narcotics enforcement	—	—	3,712	3,712
DNA forensic analysis	1,600	-318	—	1,282
Miscellaneous law enforcement	757	1,421	87	2,265
Subtotals	(\$5,666)	(\$1,601)	(\$7,549)	(\$14,816)
1992-93 Expenditures (prop.)	\$170,012	\$57,599	\$74,774	\$302,385
Change from 1991-92				
Amount	\$1,029	-\$1,466	\$3,712	\$3,275
Percent	0.6%	-2.5%	5.2%	1.1%

Analysis and Recommendations

Staffing Needs Under Review

We withhold recommendation on \$3.3 million requested from the General Fund for workload in the Appeals, Writs, and Trials Program, pending receipt and review of the Department of Finance's (DOF) report on the DOJ's workload management system.

The budget requests \$3.3 million and 47 positions from the General Fund to address increased workload in the Appeals, Writs, and Trials Program. This program is responsible for representing the state in nondeath penalty and death penalty appeals, writs, and habeas corpus matters, and in all criminal trials where local prosecutors cannot proceed due to conflicts of interest.

The department indicates that the funding increase is primarily needed to address an increase in the number of appeals, and to meet a 45-day deadline to file written arguments. The department has calculated the level of additional staff needed for this program using its Automated Case Information System and the automated Legal Time Reporting System. These two systems are used by the department to manage the workload and to develop the workload standards needed to project staffing needs.

Workload Data Under Review. In January, the DOF began conducting an audit of the DOJ's workload management system. Specifically, the DOF is reviewing the DOJ's workload standards, case-tracking system, and allocation of resources in the Civil, Criminal, and Public Rights Divisions. The DOF indicates that the audit should be completed this spring; and, depending on the results of the audit, they may propose adjustments to the DOJ's funding and staffing levels in the May revision.

Because the DOJ's funding request is based on workload data that are currently under review, we withhold recommendation on the \$3.3 million requested from the General Fund, pending receipt and review of the DOF's findings.

Funding for DNA Identification Program Should Await National Review

We withhold recommendation on \$3.4 million requested for the DNA Identification Program pending receipt and review of the National Research Council's (NRC) study on the DNA technology. We also recommend that the DOJ report at budget hearings on the conclusions of the NRC study.

The budget requests \$3.4 million in 1992-93 (\$2.3 million from the General Fund and \$1 million from asset forfeiture funds) to fund the DNA Identification Program. This is an increase of \$1.6 million over current-year expenditures (excluding one-time costs). The majority of the funding increase (\$1.3 million) is to fully implement the DNA identification data base for violent offenders.

Background. DNA identification, often referred to as "genetic fingerprinting," can use specimens left at a crime scene to identify an individual and, additionally, disclose the individual's hair color, eye color, gender, race, and propensity for disease. The department's DNA program involves two parts: (1) analysis of casework material from crime scenes for local law enforcement agencies and (2) analysis of samples from sexual offenders and other violent offenders for the computerized identification data base, as required by Ch 1304/89 (SB 1408, Hart).

DNA Technology Under Review. Over the last several years, since the Legislature established and began funding the program, controversy over the accuracy of the DNA technology has increased. For example, one of the issues being debated among scientific experts is the likelihood of a DNA

DEPARTMENT OF JUSTICE—Continued

mismatch. Some critics of the DNA technology argue that the chances of incorrectly matching a DNA sample at a crime scene with a suspect's DNA sample are not as rare as the proponents indicate. Such a mismatch could result in DNA evidence being used to falsely implicate a suspect.

To address the issues surrounding the scientific accuracy of the DNA technology, the NRC initiated a study two years ago. The sponsors of the study are the National Institutes of Health, the National Science Foundation, the U.S. Department of Justice, the State Justice Institute, and the Sloan Foundation. The study is expected to be completed in early spring of this year.

In order for the Legislature to determine if the DNA Identification Program should be modified, expanded, or continued, we recommend the department report at budget hearings regarding the conclusions of the NRC's study. In addition, we withhold recommendation on the \$3.4 million requested for the program in 1992-93, pending receipt and review of the NRC's study.

Firearms Registration Revenues Below the Mark

We recommend the department report at budget hearings on (1) the revised revenue and expenditure projections for the Dealers' Record of Sale (DROS) Account, (2) the basis for these projections, (3) the number of firearms of each type registered to date, and (4) the impact of a revenue reduction on the firearms registration program.

The DOJ is responsible for administering a firearms registration program involving the registration of assault weapons, long guns, and handguns. These programs are supported by fees imposed on those persons registering or purchasing firearms. All fees are deposited in the DROS Account.

Revenues Associated with Long Guns Lower Than Projected. The department indicates that the revenue projections for the DROS Account are in the process of being revised due to a significant reduction in the registration of long guns (that is, rifles and shotguns). Chapter 9, Statutes of 1990 (AB 497, Connelly), imposed a deadline of January 1, 1991 for registration of long guns. The department originally estimated that 900,000 to 1 million long guns would be registered annually. In the last year, however, only 178,000 long guns were registered. The department now believes their original estimate was inaccurate and expects to revise the revenue projections to reflect the reduction in registrations.

Status of Assault Weapons Registration. Chapter 954, Statutes of 1991 (SB 263, Roberti), extended the deadline for registering assault weapons for one year to January 1, 1992, and provided a 90-day grace period following the deadline. The department expects to update its revenue estimates for the

DROS Account in the May revision, because revenue estimates associated with assault weapon registration will be available in April when the 90-day grace period expires.

Department Should Report on Revised Estimate. Given the inaccurate registration estimates, we are concerned that the shortfall in revenues to the DROS Account may not be able to support an effective firearms registration program. In order for the Legislature to evaluate the implementation and effectiveness of the firearms registration program, we recommend that the department report prior to budget hearings on (1) the revised revenues and expenditures for the DROS Account, (2) the basis for the revised estimates, (3) the number of firearms of each type registered to date, and (4) the impact on the registration program from a reduction in revenues.

State Controller Item 0840

Expenditures

Requested 1992-93	\$101,153,000
Estimated 1991-92	99,410,000
Actual 1990-91	100,812,000
Requested increase \$1,743,000 (+1.8 percent)	

Fiscal Recommendations

Total recommended reduction	None
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General Program Statement

The State Controller is responsible for the receipt and disbursement of public funds, reporting on the financial condition of the state and local governments, collecting certain taxes due to the state, and enforcing the unclaimed property laws.

Overview of the Budget Request

The proposed State Controller budget includes several workload and program changes resulting in a minor net increase in funding.

The budget proposes expenditures of \$101.2 million by the State Controller in 1992-93. This amount includes appropriations of \$63.6 million from the General Fund and \$7.3 million from special funds and accounts, and reimbursements of \$30.3 million from special funds and accounts. The

STATE CONTROLLER—Continued

proposed expenditures are \$1.7 million, or 1.8 percent, more than estimated current-year expenditures primarily due to increased accounting and auditing workload.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the General Fund in 1991-92. (This reduction is 15 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

State Board of Equalization

Item 0860

Expenditures

Requested 1992-93	\$238,750,000
Estimated 1991-92	213,389,000
Actual 1990-91	191,794,000
Requested increase \$25,361,000 (+11.9 percent)	

Fiscal Recommendations

Total recommended reduction	None
Recommendation pending	\$3,760,000

MAJOR ISSUES

- ▶ **Acquisition of Office Building.** The Legislature should provide authority to the Department of General Services to purchase a currently leased office building for the board, pending a favorable analysis by the Office of the State Architect.

Continued

- ▶ **Additional Audit Staff.** The budget proposes a significant audit staff expansion at a revenue-to-cost ratio of 3.9-to-1 — less than what the Legislature has required in the past. Estimates for additional sales and use tax revenues as a result of hiring more auditors are overstated.
- ▶ **Sales Tax Reimbursements.** Reimbursements for the administration of local sales and use taxes are overestimated by at least \$2 million.

Findings and Recommendations

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Consolidation of Headquarters Staff.

1. **One-time Expenditures Not Yet Justified.** Withhold recommendation on \$3,760,000 requested to pay for modular furniture and telecommunications equipment for use at the board's new headquarters. Further recommend that the Department of General Services not amend the lease for this building to pay for furniture and telecommunications equipment, until the board provides justification for these expenditures. 73
2. **Legislature Should Encourage Acquisition of Office Building.** Recommend that the Legislature provide the Department of General Services the authority to purchase the office building if the Office of the State Architect determines that acquisition is more cost-effective than the lease agreement. 74

Audit and Collections Staff

3. **Additional Audit Staff.** The benefit-to-cost ratio of the new audit staff is 3.9-to-1, which is less than the 5-to-1 ratio the Legislature has required for additions to audit staff in the past. In addition, we find that the budget overstates the amount of additional sales and use tax revenue that will be generated by the new audit staff. 75

Sales Tax Reimbursements

4. **Court Decision Reduces Local Reimbursements.** Reimbursements to the board for the administration of local sales and use taxes will be at least \$2 million less than stated in the budget as a result of a court ruling striking down the San Diego County Regional Justice Facility tax. 76

STATE BOARD OF EQUALIZATION—Continued**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, and hazardous 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. Finally, the board hears appeals of decisions by the Franchise Tax Board, the state's other major tax collection agency, which administers the personal income and bank and corporation taxes.

Overview of the Budget Request

The proposed budget for the board reflects significant increases in funding for operating costs, and one of the largest expansions of its audit program in history.

The budget proposes expenditures of \$238 million in 1992-93. This is about \$25 million, or 12 percent, more than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the board from 1990-91 through 1992-93.

This agency, unlike most other department was not subject to an unallocated reduction in 1991-92.

The board's budget for 1992-93 proposes major changes in the following areas as shown in Table 2:

- Increased resources (\$8.9 million) for one-time and ongoing costs resulting from consolidating board headquarters staff to one central location in downtown Sacramento.
- Increased resources (\$2.5 million) to pay for expenses associated with installing the board's central data processing systems at the state's Teale Data Center.
- Additional audit and collection staff (\$8.5 million and 207 personnel years) for the purpose of increasing General Fund revenue.

Table 1

State Board of Equalization Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
County assessment standards	\$6,538	\$6,606	\$7,152	8.3%
State-assessed property	6,740	7,688	9,212	19.8
Timber tax	2,371	2,514	2,876	14.4
Sales and Use Tax				
Taxpayer registration	26,427	30,298	32,897	8.6
Return processing	36,875	44,066	46,126	4.7
Audits	74,537	81,521	95,073	16.6
Collections	19,464	19,799	22,648	14.4
Subtotals	(\$157,303)	(\$175,684)	(\$196,744)	(12.0%)
Hazardous substances taxes	\$3,874	\$4,270	\$4,719	10.5%
Alcohol beverage tax	1,804	2,952	2,762	-6.4
Cigarette and tobacco products tax	2,869	2,471	2,999	21.4
Gasoline and jet fuel tax	1,204	1,090	1,154	5.9
Diesel fuel tax	4,815	5,419	5,921	9.3
Other taxes and fees	2,495	2,901	3,288	13.3
Appeals of Franchise Tax Board decisions	1,555	1,547	1,676	8.3
Administration (undistributed)	406	247	247	—
Totals	\$191,794	\$213,389	\$238,750	11.9%
General Fund				
Hazardous Waste Control Account	3,512	3,858	4,235	9.8
Motor Vehicle Fuel Account	6,019	6,123	7,075	15.5
Cigarette Tax Fund	7,709	8,343	9,981	19.6
Timber Tax Fund	2,371	2,514	2,876	14.4
Other special funds	2,670	3,216	3,544	10.2
Reimbursements	52,867	57,934	65,446	13.0
Personnel-Years	3,339	3,456	3,704	7.2%

STATE BOARD OF EQUALIZATION—Continued

(dollars in thousands)			
	General Fund	All Other Funds	Total
1991-92 Expenditures (rev.)	\$189,335	\$24,054	\$213,389
<i>Baseline adjustments</i>			
Managers' and supervisors' 5 percent pay reduction	-\$241	-\$35	-\$276
Merit salary adjustments	3,028	396	3,424
Price increases for operating expenses	2,614	452	3,066
Other	754	95	849
Subtotals	(\$6,155)	(\$908)	(\$7,063)
<i>One-time costs in 1991-92</i>			
Implement increases in sales tax rate (Ch 85/91, Ch 117/91)	-\$4,334	—	-\$4,334
Redesign business taxes registration system	-1,553	-\$157	-1,710
Administration of new local taxing jurisdiction	-741	—	-741
Other one-time costs	-580	-273	-853
Subtotals	(\$-7,208)	(\$-430)	(\$-7,638)
<i>Program and policy changes</i>			
Consolidation of headquarters staff	\$7,845	\$1,026	\$8,871
Migration of central data processing system to Teale	2,097	362	2,459
Implement increases in sales tax rate (Ch 85/91, Ch 117/91)	4,011	—	4,011
Taxpayer registration workload growth	972	—	972
Environmental fee administration	—	68	68
Sales tax revenue enhancing activities	8,505	—	8,505 ^a
Other	-673	746	73 ^a
Subtotals	(\$22,757)	(\$3,179)	(\$25,936)
1992-93 Expenditures (prop.)	\$211,039	\$27,711	\$238,750
Change from 1991-92			
Amount	\$21,704	\$3,657	\$25,361
Percent	11.5%	15.2%	11.9%

^a Net of amount added to 1991-92 budget.

Analysis and Recommendations

Consolidation of Headquarters Staff

We withhold recommendation on \$3,760,000 requested to pay for new modular furniture and telecommunications equipment in a PERS-owned building, pending receipt of information regarding their necessity. Further, we recommend that the Legislature advise the Department of General Services not to amend the lease for the PERS-owned building until the board provides justification for these expenditures.

In December 1990, the Department of General Services (DGS) entered into a lease agreement with the Public Employees' Retirement System (PERS) to consolidate the board's headquarters staff in a PERS-owned building currently under construction in downtown Sacramento. This agreement allows the board to meet a long-term goal of consolidating its headquarters staff into a central location. The budget includes \$8.9 million in increased costs to consolidate the board's headquarters staff into one location.

The DGS informed the Legislature in 1990 that the annual costs for providing the board with office space in the PERS-owned building would be roughly \$9.7 million annually over the 10-year lease agreement, for a total cost of \$97 million. In contrast, the board estimates that its current-year costs for headquarters staff office space is \$5 million. The difference in annual costs is attributable to (1) more space per employee, (2) higher costs per square foot, and (3) costs for conference rooms and common space for which the board is not charged at its current headquarters.

Our analysis indicates, however, that the consolidation of board staff will cost the General Fund \$127 million, or \$30 million more than the 1990 DGS estimates. Of this increase \$5 million is due to an increase in the lease payment scheduled to occur in 1998. The remaining \$25 million increase is due to a lease amendment that is now being negotiated to pay for additional improvements to the building.

Budget Proposes Additional Improvements for PERS-Owned Building. The \$25 million cost of the lease amendment consists of two components: (1) \$16.7 million in one-time purchases of communication equipment, telephones, and furniture, and (2) \$8.3 million to finance the costs of most of these one-time purchases. The budget includes \$2.7 million to pay for a portion of this equipment outright, and \$1.1 million to pay the 1992-93 finance charges.

LAO Concerns With Proposed Improvements. The board staff have stated that new, space-efficient, modular furniture and dividers are necessary because there is not enough room in the PERS-owned building to house all of the board's headquarters staff using existing furniture. Our analysis indicates, however, that the PERS-owned building provides nearly 26 percent more office space (504,000 square feet) than headquarters staff currently need

STATE BOARD OF EQUALIZATION—Continued

based on current staffing levels (400,000 square feet). While it is important for the board to plan for additional staff over the next 10 years, there should be enough space in the PERS-owned building for the time being to allow the board to use a large portion of its existing furniture.

According to board staff, the telecommunications component of the PERS-owned building is not adequately designed for a single tenant. As a result, the board is proposing to spend \$2.9 million for telecommunications equipment improvements. These expenditures also include purchase of new telephones for nearly all board headquarters staff. However, the board's staff indicate that a formal cost analysis for telecommunications equipment has not yet been completed for the PERS-owned building.

Given the lack of a cost analysis for the telecommunications equipment and the apparent inconsistency in the board's office space requirements, the Legislature does not have enough information to evaluate this request. Therefore, we withhold recommendation on the \$3.8 million requested in 1992-93 to pay for modular furniture and telecommunications equipment. Further, we recommend that the Legislature advise DGS to delay amending the lease agreement until the board provides additional information regarding its office space and telecommunications needs.

Legislature Should Encourage Acquisition of Office Building

We recommend that the Legislature provide DGS the authority to purchase the PERS-owned building pending a favorable analysis by the Office of the State Architect regarding the building's (1) construction integrity, (2) seismic safety, and (3) cost efficiency.

Under the terms of the lease agreement for the PERS-owned building, the state is required to spend \$101 million in lease payments over the life of the agreement (10 years). (The \$101 million excludes the cost of the lease amendment discussed above.) However, the lease agreement provides the state an option to purchase the building at any time during the life of the lease. If the state exercises this option, its costs would be reduced to \$85 million for the same period. This would enable the state to realize savings of \$16 million, less the costs it would have to assume for janitorial, maintenance and repair activities, and would allow it to generate equity in the building.

In Chapter 869, Statutes of 1991 (AB 322, Areias), the Legislature provided the director of DGS the authority to acquire an office building currently leased by the state in the City of Sacramento if the director determines that the purchase is cost efficient. We recommend that the Legislature encourage the director of DGS to use the authority in Chapter 869 to acquire the PERS-owned building. If the director has already used this authority to purchase another building, we recommend that the Legislature provide the director

with the authority to purchase the PERS-owned building pending a favorable structural and cost analysis by the Office of the State Architect.

Additional Audit Staff

The benefit-to-cost ratio of the new audit staff is 3.9-to-1, which is less than the 5-to-1 ratio the Legislature has required for additional audit staff in the past. In addition, the budget overstates the amount of additional sales and use tax revenue that will be generated by the new audit staff.

The purpose of the sales and use tax audit program is to ensure that taxpayers neither underpay nor overpay sales and use taxes. This is accomplished through the selective review of taxpayer accounts. The board's system of selecting accounts for audit is designed to ensure that its audit resources are allocated to the most productive accounts. Because the board is currently auditing the most productive accounts, any increase in audit staffing levels will produce an incrementally lower amount of revenues per auditor than is currently collected.

The budget proposes an augmentation of \$8.5 million in 1992-93 to increase the coverage of the audit and collection elements of the Sales and Use Tax Program. This increase is part of a two-year package of staff re-directions and augmentations to increase the number of field auditors and provide current auditors with additional equipment. In 1991-92, this package allows the board to increase its staff by 92 positions (including 75 new auditors). For 1992-93, the budget proposes to increase the board's staff with an additional 150 positions (including 125 auditors), for a total of 242 new positions (207 personnel years) over the two-year period. According to the Governor's Budget, these augmentations will result in approximately \$10 million in additional General Fund revenue in 1991-92, and \$37 million in 1992-93.

New Audit Positions Yield Smaller Returns. Because additional audit staff are assigned to work accounts that are less productive at the margin, the Legislature has directed the board to justify any requests for additional audit staff on the basis that the *incremental* increase in revenues produced by these auditors exceeds their cost. In the past, the Legislature has required that audit staff increases have an incremental benefit-to-cost ratio of no less than 5-to-1. This criterion has been used when considering audit resource requests from the Franchise Tax Board as well as the board.

The board's estimates of the revenue to be generated by each additional audit hour imply a total benefit-to-cost ratio of 3.9-to-1. If these estimates of the revenue to be produced by the new auditors are accurate, this expansion does not meet the Legislature's prior policy of requiring audit staff increases to have an incremental benefit-to-cost ratio of 5-to-1, although it probably would generate revenues in excess of its cost.

STATE BOARD OF EQUALIZATION—Continued

Budget Overstates Audit Revenue Gains. Our analysis indicates, however, that the budget's estimate overstates the probable productivity of the new positions. There are two primary reasons for this.

First, many of the new auditors are hired midyear and do not have experience working for the board. The Governor's revenue projections assume, however, that these new auditors generate additional revenue on a per-hour-worked basis almost immediately after they are hired. In reality, additional time for training and acclimation will be required before the new auditors become fully productive.

Second, and more importantly, the budget estimates do not recognize the diminishing marginal productivity of additional auditors. Experience shows that the productivity of audits, as measured by a revenue-to-cost ratio, decreases as more audits are conducted. The budget's proposal represents an increase in available audit hours of nearly 17 percent, the largest increase in recent history. In our view, it is likely that the productivity of the new audits will be significantly less than existing audits. Accordingly, we believe that the budget overestimates the increase in sales and use tax revenue that will result from increasing the audit staff.

Legislative Policy Consideration. Accepting an incremental benefit-to-cost ratio for additional audit staff of less than 5-to-1 is an important policy consideration for the Legislature. In the past, we have recommended that additional auditors not be authorized below this level because of (1) the lack of precision in measuring revenues from additional auditors, (2) nonquantifiable costs additional auditing imposes on taxpayers, and (3) the potential for increasing complaints of taxpayer harassment. In addition, there may be alternative ways to generate additional General Fund revenue which have less risk or provide a higher incremental benefit-to-cost ratio. For example, increasing other board functions, or increasing audit, collection, or data processing functions at the Franchise Tax Board may generate additional revenue with fewer risks.

Court Decision Reduces Local Reimbursements

We find that the budget overestimates reimbursements to the General Fund from the board's administration of local sales tax revenues by at least \$2 million.

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 revenues produced by the tax. 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 board's proposed funding in 1992-93 includes \$64.6 million in reimbursements from local sales tax revenues. We estimate, however, that reimbursements could be less than projected for two reasons. First, the board will receive at least \$1.5 million less in 1992-93 as a result of the termination of the San Diego County Regional Justice Facilities tax. In December 1991, the California Supreme Court ruled in *Rider v. County of San Diego* that this tax violated the State Constitution (Article XIII A, Section 4). As a result, the board now plans to stop collecting this tax in March 1992. This termination will reduce current-year reimbursements by approximately \$500,000 below the level assumed in the budget. Thus, between the current and budget years, reimbursements are overstated by approximately \$2 million.

Although the court's decision does not immediately invalidate similar local sales and use taxes, the board's legal staff indicate that at least seven other local taxes may not meet constitutionality standards established by the court in the *Rider* decision. If additional court decisions invalidate these seven local taxes, the board's reimbursements will decrease by another \$9.7 million in 1992-93.

Second, the board's estimates of local reimbursements are based upon estimates of local sales tax revenues prepared prior to the time that the Governor's Budget estimates of sales tax revenues become available. As in past years, this timing difference means that the local reimbursement revenue estimate is not consistent with the forecast of taxable sales contained in the Governor's Budget. Our preliminary review of this issue indicates that, for this reason, local reimbursements may be overstated by at least \$5 million in 1992-93. At the time of the May Revision, the administration typically has reconciled these figures, and requested funding changes as necessary to offset any changes in the estimates of local reimbursements.

Secretary of State

Item 0890

Expenditures

Requested 1992-93	\$30,058,000
Estimated 1991-92	28,688,000
Actual 1990-91	34,014,000
Requested increase \$1,370,000 (+4.8 percent)	

Fiscal Recommendations

Total recommended reduction	None
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SECRETARY OF STATE—Continued**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.

Overview of the Budget Request

The proposed Secretary of State budget is essentially a workload budget, with the shift of funding source for about 50 percent of the Secretary's activities from the General Fund to the newly created Secretary of State Business Fees Fund.

Chapter 1059, Statutes of 1991 (SB 563, Alquist), established the Secretary of State Business Fees Fund. All business fees collected by the Secretary, with the exception of fees collected pursuant to the Political Reform Act of 1974, are deposited into the Business Fees Fund instead of the General Fund. Effective July 1, 1992 monies in the Business Fees Fund will be used to support the programs from which the fees are collected.

The budget proposes total expenditures of \$30.1 million for support of the office in 1992-93. This is \$1.4 million, or 4.8 percent, above estimated expenditures in the current year. The proposed expenditures consist of an appropriation of \$11.8 million from the General Fund, \$12.2 million from the Secretary of State Business Fees Fund, reimbursements of \$5.4 million, and \$686,000 under the Political Reform Act. The budget increase is due primarily to the net effect of workload increases in the Uniform Commercial Code Division, the continuation of the new testing service in the Notary Public Division and the priority handling service in the Corporate Filing Division, and the decrease in Elections related expenditures.

This budget, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the General Fund in 1991-92. This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

State Treasurer Item 0950

Expenditures

Requested 1992-93	\$15,898,000
Estimated 1991-92	15,962,000
Actual 1990-91	14,611,000
Requested decrease \$64,000 (-0.4 percent)	

Fiscal Recommendations

Total recommended reduction	None
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General Program Statement

The State Treasurer manages the state's financial assets. Her specific responsibilities include: investing state monies; managing the state's cash resources; safekeeping the state's monies and securities; selling, servicing, and redeeming the state's bonds; and paying state warrants and checks.

Overview of the Budget Request

The proposed State Treasurer's budget is essentially a workload budget, except for the elimination of the District Securities Division.

The budget proposes expenditures of \$15,898,000 by the State Treasurer in 1992-93. This amount includes an appropriation of \$5.7 million from the General Fund and \$10.1 million in reimbursements from special funds or accounts. The proposed expenditures are \$64,000, or 0.4 percent, less than estimated current-year expenditures due, in part, to the elimination of the District Securities Division. The District Securities Division is responsible for the supervision of certain financing proposals and physical operations of local districts. Estimated current-year expenditures for the division are \$674,000. The division will be eliminated effective June 30, 1992, pursuant to Chapter 1226, Statutes of 1991 (SB 767, Bergeson).

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. (This reduction is 16 percent of the department's total budget from all funds.) This

STATE TREASURER—Continued

reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

California Debt Advisory Commission Item 0956

Expenditures	
Requested 1992-93	\$1,271,000
Estimated 1991-92	1,349,000
Actual 1990-91	1,100,000
Requested decrease \$78,000 (-5.8 percent)	
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The California Debt Advisory Commission (CDAC) provides advisory services to state agencies and local governments on debt issuance and management. The commission's activities are supported by fees imposed on the issuance of bonds. The fees — paid by the underwriter or the purchaser of the bonds — are deposited in the CDAC fund.

Overview of the Budget Request

The budget proposes no workload or program changes for the commission.

The budget proposes an appropriation of \$1.3 million from the CDAC fund for support of the commission in 1992-93. This is \$78,000, or 5.8 percent, less than estimated current-year expenditures.

California Debt Limit Allocation Committee Item 0959

Expenditures	
Requested 1992-93	\$393,000
Estimated 1991-92	423,000
Actual 1990-91	390,000
Requested decrease \$30,000 (-7.1 percent)	
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The California Debt Limit Allocation Committee (CDLAC) allocates "private activity" bonds among state and local agencies. "Private activity" bonds generally include industrial development bonds, housing bonds, and exempt facilities bonds for solid waste disposal. The Tax Reform Act of 1986 limits the amount of these bonds that may be issued by each state to \$50 per resident or \$150 million per year, whichever is greater. For 1992-93, California's ceiling is estimated to be \$1.5 billion. The committee's activities are supported by fees charged to state and local agencies receiving allocations of private activity bonds. These fees are deposited into the CDLAC Fund.

Overview of the Budget Request

The budget proposes no workload or program changes for the committee.

The budget proposes an appropriation of \$393,000 from the CDLAC Fund for support of the committee in 1992-93. This is about \$30,000, or 7.1 percent, less than estimated current-year expenditures.



**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION**

**California Industrial Development Financing
Advisory Commission
Item 0965**

Expenditures

Requested 1992-93	\$415,000
Estimated 1991-92	463,000
Actual 1990-91	413,000
Requested decrease \$48,000 (-10.4 percent)	

Fiscal Recommendations

Total recommended reduction	None
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General Program Statement

The California Industrial Development Financing Advisory Commission reviews all industrial development bond issues to ensure they comply with disclosure regulations, have proper security, and satisfy certain public policy requirements. The proceeds of these bonds assist private businesses with the construction or purchase of certain industrial facilities. The commission's activities are supported by fees imposed on those applying for financing. These revenues are deposited into the Industrial Development Fund.

Overview of the Budget Request

The budget proposes no workload or program changes for the commission. The budget proposes an appropriation of \$415,000 for support of the commission in 1992-93. This is about \$48,000, or 10 percent, less than estimated current-year expenditures.



California Tax Credit Allocation Committee Item 0968

Expenditures	
Requested 1992-93	\$1,694,000
Estimated 1991-92	1,694,000
Actual 1990-91	1,029,000
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The California Tax Credit Allocation Committee (CTCAC) allocates available state and federal low-income housing tax credits to developers of qualified low-income rental projects.

Overview of the Budget Request

The budget proposes to provide the same level of funding for the CTCAC in 1992-93 as in the current year. The proposed expenditure level for 1992-93 is \$1.7 million.

California Alternative Energy Source Financing Authority Item 0971

Expenditures	
Requested 1992-93	\$181,000
Estimated 1991-92	177,000
Actual 1990-91	64,000
Requested increase \$4,000 (+2.3 percent)	
Fiscal Recommendations	
Total recommended reduction	None

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY—Continued**General Program Statement**

The California Alternative Energy Source Financing Authority (CAESFA) was created 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 hydroelectric projects, as well as energy conservation projects that reduce the use of fossil and nuclear fuels. As of June 30, 1991, the authority had issued about \$127 million in bonds, with \$73 million in remaining authorization.

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.

Overview of the Budget Request

The budget proposes no workload or program changes for the authority.

The budget proposes an appropriation of \$181,000 from the CAEAF for support of the authority in 1992-93. This is an increase of \$4,000, or 2.3 percent, over estimated current-year expenditures and results from increased operating costs.
