MAJOR ISSUES

Report Needed on Proposition 103 Rate Rollback Hearings. In 1995, the Department of Insurance received $9.4 million, on a one time basis, to conduct Proposition 103 rate rollback hearings for insurance companies that had not complied with the proposition. To pay for conducting these hearings, the Commissioner planned to raise fees charged all insurance companies. The proposed increase, however, was recently rescinded. The department needs to report to the Legislature on the status and results of the current-year expenditures and the funding mechanism for Proposition 103 rate rollback hearings. (See page G-9.)

Amend the Lottery Act to Establish Legislative Review. The Lottery Commission's annual budget is exempt from the annual state budget review process. This independence has allowed the commission to spend an average of $300 million annually on administration without oversight by the Legislature or the administration. Given the magnitude of the commission's administrative budget and its impact on education funding, we believe it is important to establish legislative oversight of the Lottery's operations. (See page G-15.)

Ten-Fold Increase in the Budget for the Cemetery Act Workload. The Department of Consumer Affairs proposes to spend $4.2 million (to be funded from a General Fund loan) in the budget year for Cemetery Act workload—a ten-fold increase over historic spending levels. The department needs to address this problem through less costly alternatives. We recommend that before the

Legislature approves any funding for this effort, the department report to the Legislature on options to reduce proposed expenditures. (See page G-21.)

Terminate State-Chartered Savings and Loan Associations Program. The decline in the number of state-chartered associations coupled with extensive federal regulations and enforcement has eliminated the need to continue a state-charter program. Consequently, we recommend the Legislature enact legislation by July 1, 1996—effective January 1, 1997—terminating the program. (See page G-29.)

Defense Adjustment Program Not Justified. We recommend that the Legislature not approve a $3 million request for the Defense Adjustment Program because the Trade and Commerce Agency has not demonstrated how these state funds make a difference in the redevelopment process for communities affected by military base closures. (See page G-32.)

Proposed Changes in Prevailing Wages and Overtime Pay Standards Should be Addressed In Legislation. The budget for the Department of Industrial Relations includes $1.3 million to implement changes in the methodology of computing prevailing wages for public works and $274,000 to revise 14 industry wage orders concerning overtime pay standards. We believe these proposals involve major policy changes that should be considered in legislation rather than the Budget Bill. The Legislature is currently considering legislation concerning each of these proposals. Consequently, we recommend that the Legislature delete the funds from the budget. (See page G-44.)

Agriculture Industry Should Share Medfly Control Program. The Department of Food and Agriculture is proposing an annual $7.7 million program to control the Mediterranean Fruit Fly (Medfly) by releasing sterile Medflies throughout the year in the recently rescinded Los Angeles Basin. The state has spent at least $100 million from the General Fund over the last 15 years attempting to eradicate the Medfly. Given the benefits of this effort to agriculture, we recommend that the Legislature enact legislation authorizing the assessment of the agricultural industry for 50 percent of this program beginning in 1996-97. (See page G-52.)

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OVERVIEW

Expenditures for business and labor programs in 1996-97 are proposed to decrease by about 3 percent compared to the current year. This decrease is the net result of changes in many programs. It reflects a decrease in special fund spending partially offset by a slight increase in General Fund spending.

The budget proposes total state expenditures of $1.1 billion for business and labor programs in 1996-97. This level of spending is a decrease of $32.6 million, or 2.8 percent, from estimated current-year expenditures.

Figure 1 (see next page) shows that expenditures for business and labor programs from all state funds reached about $1.2 billion in 1991-92, then declined through 1993-94. Over the eight-year period shown in Figure 1, expenditures increased by $163 million, representing an annual average growth of 2.8 percent. When these totals are adjusted for inflation, spending declined by about 4.9 percent over the total period, or slightly less than 1 percent annually. The General Fund share of program expenditures has declined from 41 percent in 1989-90 to 24 percent in the budget year.

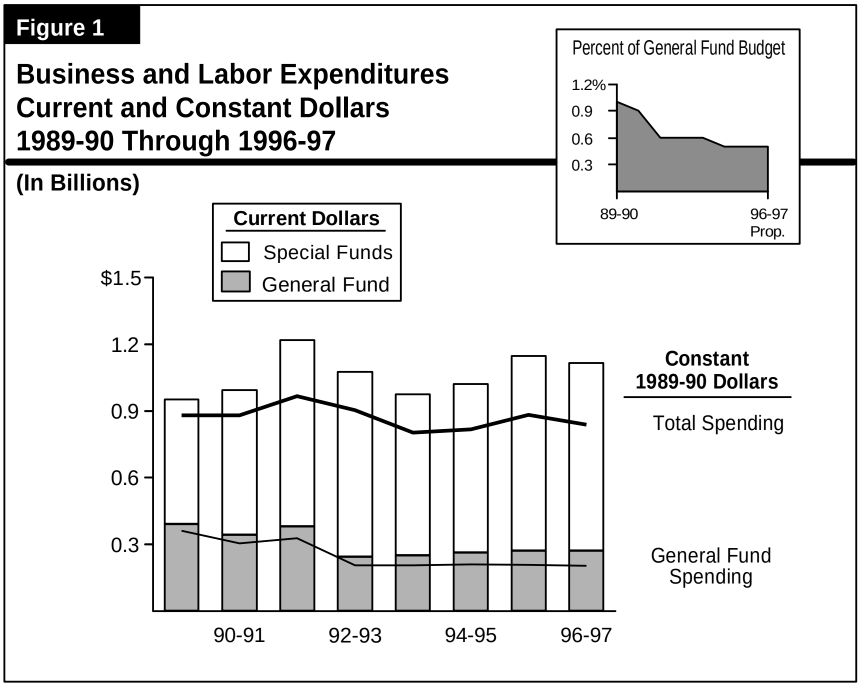
SPENDING BY MAJOR PROGRAMS

Figure 2 (see page 7) provides the spending trends for selected major business and labor departments from 1994-95 through 1996-97. As the figure shows, none of the agencies show a significant change in proposed General Fund expenditures between the current and budget

Figure 1

Business and Labor Expenditures Current and Constant Dollars 1989-90 Through 1996-97

(In Billions)



MAJOR BUDGET CHANGES

Figure 3 (see page 8) summarizes major budget changes proposed for business and labor programs. As shown in the figure, there are a variety of relatively small increases in General Fund program expenditures. These include $3 million for the Trade and Commerce Agency to increase local assistance grants for the defense adjustment matching program, $1.3 million for the Department of Industrial Relations for efforts to change the prevailing wage methodology (as proposed by the administration), and $11.1 million for the Department of Food and Agriculture's pest management program, mainly to begin an ongoing program of preventative release of sterile Mediterranean fruit flies in the Los Angeles basin.

The figure also shows several proposed spending reductions. For example, the figure shows a $3.1 million reduction for the Department of Industrial Relations due to the expiration of start-up spending related to workers' compensation insurance reform. The figure also reflects a reduction of $2.4 million for the Department of Corporations due to declines in regulatory workload.

Figure 2

Business and Labor Budget Summary
Selected Program Funding
1994-95 Through 1996-97

(Dollars in Millions)

	Actual 1994-95	Estimated 1995-96	Proposed 1996-97	Change From 1995-96	
				Amount	Percent
Consumer Affairs					
General Fund	$0.9	$0.7	$0.7	—	—
Special funds	256.0	307.1	309.7	$2.6	0.9%
Totals	**$256.9**	**$307.8**	**$310.4**	**$2.6**	**0.9%**
Food and Agriculture					
General Fund	$66.0	$66.6	$64.1	-$2.5	-3.8%
Special funds	105.0	111.5	110.7	-0.8	-0.8
Totals	**$171.0**	**$178.1**	**$174.8**	**-$3.3**	**-1.9%**
Industrial Relations					
General Fund	$132.1	$135.3	$138.0	$2.7	2.0%
Special funds	36.1	44.8	42.2	-2.6	-5.8
Totals	**$168.2**	**$180.1**	**$180.2**	**$0.1**	**0.1%**
Insurance					
Special funds	**$112.7**	**$133.1**	**$117.9**	**-$15.2**	**-11.4%**
Public Utilities Commission					
Special funds	**$79.3**	**$76.5**	**$74.4**	**-$2.1**	**-2.7%**
Trade and Commerce					
General Fund	$36.7	$37.8	$39.6	$1.8	4.7%
Special funds	9.4	21.5	13.8	-7.7	-35.8
Totals	**$46.1**	**$59.3**	**$53.4**	**-$5.9**	**-9.9%**
Energy Commission					
Special funds	**$34.8**	**$44.8**	**$37.6**	**-$7.2**	**-16.0%**
Corporations					
General Fund	$0.3	—	—	—	—
Special funds	28.5	$33.1	$34.1	$1.0	3.0%
Totals	**$28.8**	**$33.1**	**$34.1**	**$1.0**	**3.0%**
Banking					
Special funds	**$16.2**	**$16.4**	**$15.8**	**-$0.6**	**-3.7%**

Figure 3

Business and Labor Programs
Proposed Major Changes for 1996-97

Department		Amount	Percent
Department of Industrial Relations	**Requested:**	**$180.2 million**	
	Decrease:	**$0.1 million**	**(-0.1%)**

\+
- $1.3 million General Fund for prevailing wage changes
- $1 million ($618,000 General Fund) for increased workload in Information Systems Unit
- $274,000 General Fund for reform of overtime pay standards

−
- $3.1 million to reflect the reduction ($714,000 General Fund) of start-up spending related to workers' compensation insurance reform

Department		Amount	Percent
Department of Food and Agriculture	**Requested:**	**$174.8 million**	
	Decrease:	**$3.3 million**	**(-1.9%)**

\+
- $7.7 million General Fund to begin an ongoing prevention program to combat the Mediterranean fruit fly in the Los Angeles basin
- $3.4 million General Fund to increase inspection capability at border agriculture inspection stations and to inspect domestic parcel operations

Department		Amount	Percent
Trade and Commerce Agency	**Requested:**	**$53.4 million**	
	Decrease:	**$5.9 million**	**(-9.9%)**

\+
- $3 million General Fund for the Defense Adjustment Matching Grant Program

Department		Amount	Percent
Department of Corporations	**Requested:**	**$34.1 million**	
	Increase:	**$1 million**	**(+3%)**

\+
- $2 million for a health care service plan enrollee complaint program and to increase medical surveys for health care plans

−
- $2.4 million to reflect a decline in regulatory activities

DEPARTMENTAL ISSUES

DEPARTMENT OF INSURANCE (0845)

Insurance is the only interstate business that is regulated entirely by the states, rather than the federal government. In California, the Department of Insurance (DOI) is responsible for regulating insurance companies, brokers, and agents in order to protect businesses and consumers who purchase insurance. Currently, there are about 1,500 insurers and 264,000 brokers and agents operating in the state.

The budget proposes total expenditures of $117.9 million to support the DOI in 1996-97. This is $15.2 million, or 11 percent, less than estimated current-year expenditures. This decrease is due mainly to the end of $9.4 million in one-time costs in the current year for conducting Proposition 103 rate rollback hearings. This decrease is partially offset by a $1.5 million increase in the California Residential Earthquake Recovery Fund pursuant to Ch 899/95 (SB 395, Rosenthal), which established a program to retrofit high-risk residential homes to minimize earthquake damage.

Report Needed on Status of Rate Rollback Hearings

We recommend that the department report to the Legislature prior to budget hearings on the status and the results of current-year expenditures and the funding mechanism for Proposition 103 rate rollback hearings.

The 1995 Budget Act appropriated $9.4 million from the Insurance Fund for the DOI to conduct Proposition 103 rate rollback hearings. In

May 1995, the department indicated that there were approximately 158 insurance companies that had not complied with the rate rollbacks required under Proposition 103. The Legislature provided $9.4 million—on a one time basis—to contract for professional services to conduct hearings in 1995-96. To pay for the cost of conducting these hearings, the Insurance Commissioner planned to raise fees charged to all insurance companies by 62 percent. These fees were to become effective February 1, 1996. In a letter dated January 31, 1996, however, the Commissioner advised the Legislature that he was rescinding this fee increase. The Commissioner stated that in lieu of this fee increase he was ". . . working closely with key representatives of the insurance industry to develop alternative methods of supporting the Department's appropriation levels." In view of this recent development, we recommend the department advise the Legislature, prior to budget hearings, on the status of this new proposal.

We requested specific information from the department on the status and results of these expenditures. At the time this analysis was prepared, however, the department had not provided any information regarding the use or results of spending the $9.4 million appropriation.

In order for the Legislature to have the information it needs to review these expenditures, the department should provide the Legislature prior to budget hearings at least the following information:

- The department's goals and objectives in conducting the rate rollback hearings.
- The number of hearings conducted and the status of each hearing.
- The status of the remaining cases.
- The costs associated with conducting the hearings and the resulting benefits (such as the amounts of rate rollbacks).

Upon receipt of this information we will review it and, as appropriate, make recommendations to the Legislature.

Workload Measures Should Be Submitted Before New Positions Approved

We recommend that the Legislature not approve any new positions—a total of 33 positions are requested—for the department until final workload measures and standards are submitted for legislative review. We also recommend that the Legislature postpone action on the department's budget until these workload measures and standards are submitted to the Legislature.

In the *Supplemental Report of the 1993 Budget Act*, the Legislature directed the Insurance Commissioner to report to the chairs of the fiscal committees in both houses and to the Joint Legislative Budget Committee by December 15, 1993, workload measures that provide information on the level of annual work, by activity, and workload standards that provide productivity or "work rates" for the department's staff. This information is essential in order to determine an appropriate level of staffing and budget for the department. It is also critical in evaluating proposals to add positions—such as the budget's proposal to add 33 positions in administration for fiscal services, business management, and accounting functions.

The department did not fulfill this requirement in 1993. Subsequently, the Legislature required the report in the *1994 Supplemental Report*, and when the department failed to comply again, the requirement was included again in the *1995 Supplemental Report*. To date, the department has failed to comply with this reporting requirement.

At the time this analysis was prepared, the department indicated that workload measures and standards will be submitted to the Legislature in February 1996. Lacking these measures and standards, the Legislature does not have sufficient information to properly assess either the department's request for additional staff or the overall staffing level of the department. Therefore, we recommend that the Legislature not approve any of the 33 proposed positions until this report is submitted for legislative review. We also recommend that the Legislature postpone action on the department's 1996-97 budget until after the workload report is submitted so that the Legislature will have the information it needs to assess the appropriate staffing levels for the department.

Of the 33 proposed positions for the budget year, ten positions are proposed for the License Bureau's telephone answering capabilities. Later in this analysis, we recommend that these ten positions not be approved by the Legislature, regardless of the workload measures and standards report.

Augmentation for Conservation and Liquidation Office Not Justified

We recommend that the Legislature reduce Item 0845-002-0217 by $803,000 because the department has not substantiated the need to increase costs for this program given the projected reduction in the program's workload. (Reduce Item 0845-002-0217 by $803,000.)

The budget proposes $803,000 from the Insurance Fund for the Conservation and Liquidation Office (CLO) to increase its operations in conserving and liquidating failed insurance companies, or estates, with low or no assets. This proposal represents an $803,000, or 129 percent, increase over current-year expenditures.

Background. The CLO has jurisdiction over 70 estates, with assets totaling $409 million. The CLO also has jurisdiction over 45 estates with low / no asset value. The Chief Executive Officer is charged with ensuring that the office's management of each conserved estate is consistent with the office's fiduciary responsibility. When the CLO conserves an estate with assets, the management of this conservation is funded through the assets of the estate. The management of conserved estates without assets is funded by the Insurance Fund. The *1995-96 Budget Act* appropriated $623,000 from the Insurance Fund for the management of 45 estates with low / no assets.

Inconsistencies in Department's Workload Estimates. The department does not show consistent workload indicators to justify the $803,000 augmentation. As of July 1, 1995, there were 45 low / no asset estates under conservatorship. The CLO expects to close ten of these estates and place eight more estates of failed insurance companies under conservatorship during the year, leaving 43 low / no asset estates under the CLO management at the end of 1995-96. The department estimates that the $623,000 contained in the *1995 Budget Act* will cover this level of activities.

In the budget year, the CLO expects that another eight insurance companies with low / no assets will fail and require conservatorship by the department. These new estates coupled with the CLO's expectation of closing 20 estates currently under conservatorship would leave 31 estates under conservatorship at the end of 1996-97. Although the number of estates under conservatorship is declining, the department proposes to more than double the CLO's expenditures—from $623,000 in the current year to $1.4 million in 1996-97. The department has not substantiated the need to increase administrative costs by any amount, let alone a 129 percent increase.

Consequently, we recommend that the $803,000 proposed augmentation be deleted from Item 0845-002-0217.

Automated Telephone System Should Be Approved Without New Positions

We recommend that the Legislature delete $425,000 and ten positions because additional positions to answer telephones are not justified given the installation of an automated telephone answering system. (Reduce Item 0845-001-0217 by $425,000.)

The budget proposes $495,000 for the department to implement automated telephone answering capabilities for its Licensing Bureau. Of this amount, $70,000 is for the department to contract for voice messaging and interactive voice response (IVR) capability. The other $425,000 is to add ten positions to the bureau to manually handle incoming telephone calls.

Description of Current Problem. The Licensing Bureau is a unit within the department that is responsible for licensing and monitoring the activities and fiscal condition of all insurance companies, brokers, and agents operating within the state. These activities are conducted for the purpose of protecting and informing California insurance consumers. As part of this responsibility, the bureau handles license-related telephone inquiries from the public. Currently, one supervisor and three agents handle these inquiries. The department indicates that 93 percent of the incoming telephone calls from the public do not "get through" to bureau staff because the telephone lines are busy.

Proposed System. The department proposes to install an IVR system that will enable more telephone inquiries to be answered. The department expects that the IVR will provide access to information to over 60 percent of the incoming telephone inquiries without first receiving a busy signal. Also, the department indicates that "piloting" the use of the IVR technology will help determine how the IVR can help the bureau meet its program goals of answering 95 to 100 percent of the public inquiries with no one receiving a busy signal. Thus, the system itself will result in significant improvement to the program's current low response rate to telephone inquiries *without* additional staff.

We share the department's concern that current telephone access to the bureau is unresponsive to public inquiries. The department indicates that with the installation of the IVR as proposed, it will have the ability to expand or reduce IVR response capability with minimal cost or staff resources. Also, this will allow the department to be in a position to assess the need for staff to manually answer the telephone. The department, therefore, should install the IVR system—which should greatly improve the current situation—and after gaining experience with the IVR, assess whether or not additional staff are needed to manually answer the telephone. Consequently, we recommend the Legislature delete $425,000 and ten positions under Item 0845-001-0217. This would leave $70,000 in the budget for the department to install the IVR system.

Augmentation for Newsletter Not Necessary

We recommend that the Legislature not approve an augmentation of $191,000 for the department to publish an insurance newsletter because the department can redirect funds on a priority basis within its current operating budget for this purpose. (Reduce Item 0845-001-0217 by $191,000.)

The budget proposes $191,000 for the department to produce and distribute a quarterly newsletter to insurance companies. According to the department, this newsletter will contain information about the licensing process, fee adjustments, and other legal changes affecting California's insurance agents and brokers. The department indicates that the newsletter was discontinued by the former administration on a priority basis to reduce costs.

It is certainly appropriate for the department to reestablish the newsletter if it believes it is a priority activity. However, the need for an augmentation to the department's budget for this purpose has not been justified. For example, the department has not identified any problem that the newsletter is meant to address, so the expected benefit of the newsletter is unclear. Also, current law does not require the department to publish this newsletter. Moreover, the department's proposed operating budget totals over $30 million. Thus, the department certainly has the resources available to finance the $191,000 for the newsletter on a priority basis within its existing resources. Therefore, we recommend that the Legislature delete $191,000 under Item 0845-001-0217.

We would also note that current law specifies that the amount of fees utilized for the purpose of publishing a newsletter must be shown as a separate line item in the department's annual budget.

CALIFORNIA STATE LOTTERY COMMISSION (0850)

The California State Lottery (CSL) was created by the Lottery Act, an initiative statutory and constitutional amendment approved by the voters in 1984. The CSL began operations in October 1985. Revenues from lottery sales are deposited in the State Lottery Fund and are continuously appropriated to the California State Lottery Commission by Section 8880.61 of the Government Code. The commission's 1996-97 preliminary budget is displayed in the Governor's Budget for informational purposes only.

The act provides that lottery proceeds are to be distributed annually as follows: 50 percent of lottery revenue returned to the public in the form of winnings, *at least* 34 percent made available for public education, and *no more* than 16 percent for administrative costs. Figure 4 (see page 16) shows the distribution of these funds since 1985-86. It indicates that lottery revenues reached a high of $2.6 billion in 1988-89 and a low of about $1.4 billion in 1991-92. The commission estimates annual revenues of about $2.2 billion in the current and budget years, an increase of 2.7 percent from 1994-95. The allocation to education in those two years is based on the required 34 percent minimum level.

The budget shows estimated current- and budget-year administrative expenses, including game costs and retailer commissions, of $356 million each year. This amount is right at the 16 percent maximum level of estimated annual revenues. This represents an increase of $19.9 million over 1994-95 administrative expenditures. Since the commission began operations, revenues from sales have increased by $459 million, or 26 percent, while administrative costs have increased by $153 million, or 75 percent. Education's share of lottery sales revenues since 1985-86 has varied from 33 percent to 35 percent.

Amend the Lottery Act to Establish Legislative Oversight

We recommend that the Legislature amend the Lottery Act to provide for legislative oversight and appropriation of the California State Lottery Commission's administrative expenses.

The Lottery Act provides the commission certain flexibilities not normally granted to state agencies, such as the continuous appropriation of lottery funds for administrative expenses without external review and the right to establish its own procurement policies. Specifically, under provisions of Section 8880.61 of the Government Code, funding for the commission's support budget is exempt from the annual budget review process. In lieu of the regular legislative budgetary review, the five-member commission approves all funding decisions. This budget independence has allowed the commission to spend an average of about $300 million annually on administration without oversight by the Legislature or the administration.

Figure 4

Distribution of Lottery Revenue

(In Millions)

Year	Administration	Education[a]	Winning Payouts	Totals[b]
1985-86	$203	$617	$886	$1,766
1986-87	209	490	693	1,392
1987-88	277	784	1,046	2,107
1988-89	323	992	1,314	2,628
1989-90	339	900	1,240	2,479
1990-91	323	747	1,062	2,132
1991-92	238	451	669	1,358
1992-93	281	597	880	1,758
1993-94	304	663	964	1,931
1994-95	336	755	1,075	2,166
1995-96[c]	356	757	1,113	2,225
1996-97[c]	356	757	1,113	2,225

[a] Amounts do not reflect distribution of unclaimed prizes or interest to education. According to the Lottery Act, these items are not considered as any part of the 34 percent that is required to be allocated to the benefit of public education.

[b] Estimated sales revenues only (does not include interest income).

[c] Estimate.

Administrative Budget. Figure 5 shows the CSL's administrative expenses and staffing levels since 1985-86. The figure indicates that the CSL has spent from 11.5 percent to 17.5 percent of sales revenues on administrative expenses during the Lottery's ten-year operating history. The figure also indicates that staffing has varied from a high of 1,244 positions down to the current level of 884 positions. Because the lottery budget is not submitted for review, it is not possible to know if these lottery administrative expenditures are consistent with the act's objective of maximizing education's share of sales revenues.

The total level of annual spending (close to $300 million) for administration of the lottery and the impact that any overspending has on the amount allocated to education warrants legislative oversight of the commission's budget. An example of the potential impact on education is the year (1991-92) the commission overspent its 16 percent limit by one and a half percent. This overspending resulted in a loss of $20 million for education.

Figure 5

Lottery Operating Budget

(Dollars in Millions)

	Salaries	Other[a]	Advertising	Game Costs	Retailer Commissions	Totals	Percentage of Sales	Positions
1985-86	$20	$25	$24	$44	$90	**$203**	11.5%	—[b]
1986-87	31	44	39	24	70	**209**	15.0	1,091
1987-88	37	55	54	25	105	**277**	13.1	1,138
1988-89	41	59	60	27	135	**323**	12.3	1,162
1989-90	45	68	73	23	130	**339**	13.7	1,244
1990-91	46	73	61	23	121	**323**	15.1	1,190
1991-92	43	38	41	35	81	**238**	17.5	1,007
1992-93	40	49	48	40	105	**281**	16.0	926
1993-94	43	52	42	51	115	**304**	15.7	920
1994-95	44	43	47	64	141	**336**	15.5	880
1995-96[c]	46	51	49	65	146	**356**	16.0	884
1996-97[c]	46	51	49	65	146	**356**	16.0	884

[a] Includes contracted and professional services.

[b] Not available.

[c] Estimate.

Procurement Contracts. Currently, the commission can also enter into and amend costly information technology contracts without any independent oversight. For example, the commission terminated and subsequently reinstated a contract with High Integrity Systems, Inc. (HISI) for an automated instant ticket gaming system. The contract was reinstated after both parties sued one another. The cost to litigate and settle the case was $7.2 million, which represents money that otherwise could have gone to education. In recent years, the commission has entered into several other information technology contracts—one for as much as $274.5 million—and continuously amended contracts, in one case up to 207 percent of the original contract amount, without any external review. If these information technology contracts have not been handled effectively, funding for schools has been adversely affected.

Establish Legislative Oversight. Given the magnitude of the commission's administrative expenditures and their impact on education funding, we believe that it is important to establish legislative oversight of the Lottery's operations. Such external oversight could help improve the efficiency and effectiveness of the lottery's administrative activities. Consequently, we recommend that the Legislature amend the Lottery Act to provide for accountability through legislative and executive branch oversight. The Lottery Act can be amended with a two-thirds vote of the Legislature, provided that the changes are to further the act's purpose.

Specifically, we recommend that the Legislature amend the Lottery Act to (1) require legislative appropriation in the Budget Act for the CSL's administrative expenditures within the 16 percent spending limit, effective for the 1997-98 fiscal year and (2) require the CSL, like other state agencies, to prepare and submit information technology project planning documents and contracts to the administration for review.

Budget Should Be Submitted for Legislature's Review

We recommend that the Legislature hold hearings on the commission's proposed 1996-97 budget and add an informational item to the Budget Bill, identifying the planned budget-year administrative expenditures, similar to the informational item for the Public Employees' Retirement System.

In order to give the Legislature a degree of oversight on the state lottery in the budget year, we recommend that the Legislature hold hearings on the commission's proposed 1996-97 budget and add an informational item to the Budget Bill identifying planned budget-year expenditures for administration, similar to the informational item for the Public Employees' Retirement System. In order for the Legislature to take this action, the commission should submit budget information concerning planned expenditures and staffing in the budget year. The commission should send this information to the Legislature in advance of budget hearings to allow sufficient time for legislative review.

DEPARTMENT OF CONSUMER AFFAIRS (1110-1600)

The Department of Consumer Affairs (DCA) is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department includes 32 regulatory boards, four bureaus, and two programs that license and regulate over 2 million practitioners from various occupations and professions. The four bureaus and two programs are statutorily under the direct control of the department. As of January 1, 1996, Ch 381/95 (AB 910, Speier) placed all duties and responsibilities of the Cemetery Board and the Board of Funeral Directors and Embalmers under the direct control of the department until legislation is enacted to consolidate or otherwise restructure these boards. The remaining regulatory boards are independent and administered by appointed consumer and industry representatives.

Expenditures for the support of the department and its constituent boards are expected to total $310.4 million in 1996-97. This is $2.6 million, or nearly 1 percent, more than estimated expenditures in the current year. The largest increase, supported by a General Fund loan, is for workload related to the Cemetery Board.

Cemetery and Funeral Boards. As mentioned above, Chapter 381 transferred all duties and responsibilities of the Cemetery Board and the Board of Funeral Directors and Embalmers to the Director as of January 1, 1996. This action was taken due to the Legislature's longstanding concerns over the activities of these two boards. The Cemetery Board, however, delegated its responsibilities to the department through a Memorandum of Understanding in October 1995. The board made this decision because it had insufficient resources to investigate an emerging scandal in the cemetery industry involving embezzlement, fraud, and mishandling of human remains. The department assumed responsibility for the duties of the Board of Funeral Directors and Embalmers in January, as required by Chapter 381. The base appropriations of the two boards have also been transferred to the department.

Third Year of Performance Based Budgeting

We withhold recommendation on the department's performance budget for 1996-97 pending receipt of the department's proposal for a new performance contract.

Background. Under Ch 641/93 (SB 500, Hill), the DCA is one of four departments entering the third year of a performance budgeting pilot project. The pilot project involves the department's administrative divisions, and the four bureaus and two programs under the statutory control of the Director. In addition, all activities related to the Cemetery Board and Board of Funeral Directors and Embalmers are now under performance budgeting. None of the remaining independent regulatory boards are included in the pilot project. During the first two years of the pilot, the Legislature approved budget contracts that gave the DCA various operational flexibilities.

1996-97 Budget Proposal. Expenditures for the divisions, bureaus, and programs under performance-based budgeting are expected to be $154 million, a 1 percent increase over estimated current-year expenditures. The Budget Bill includes language that gives the DCA discretion to (1) increase or decrease 1996-97 spending by up to 15 percent among the activities under performance budgeting as long as expenditures do not exceed the total budgeted amount and (2) administratively establish positions without Department of Finance approval. This budget language is similar to language in the 1995 Budget Act.

New Approach. The department has made various changes in its approach to performance-based budgeting over the past two years. For example, the department is currently redesigning its measurement tool for assessing the condition of consumer markets because the DCA concluded that the original approach was not providing useful or reliable information.

Contract Proposal Not Available. At the time this analysis was written, the department had not presented its proposal for a performance budget contract nor indicated what flexibilities it will be seeking beyond those contained in the Budget Bill. The final contract for 1996-97 is expected to be included in the Budget Bill and/or budget trailer bill.

The DCA should submit its proposal to the Legislature prior to budget hearings and in sufficient time to allow adequate legislative review. Once the proposal is received, we will review it and make recommendations to the Legislature as appropriate. Accordingly, we withhold recommendation on the funding request for the DCA's divisions, bureaus, and programs pending receipt of the department's performance budget proposal.

Proposed Augmentations Unnecessary Under Performance-Based Budgeting

We recommend that the Legislature delete $151,000 and 1.5 positions because the department should accommodate these costs under the performance-based budgeting program. (Reduce Item 1111-001-702 by $151,000.)

The budget proposes two augmentations totaling $151,000 and 1.5 positions for the divisions within the performance-based budgeting pilot project:

- Workload adjustment to implement Ch 395/95 (AB 952, Gallegos and Speier), requiring the Division of Licensing to license anyone who monitors an alarm system ($93,000 and 0.5 position).
- Workload adjustment for the Division of Legal Affairs to implement Ch 938/95 (SB 523, Kopp), requiring boards and bureaus to adopt their disciplinary guidelines into regulations ($58,000 and one position).

As mentioned above, under the existing performance-based budgeting contract and the provisions in the Budget Bill, the DCA has the flexibility to increase or reduce the budgets of participating administrative divisions, bureaus, and programs by up to 15 percent. This provision provides the DCA with the ability to quickly react to and implement necessary program changes in the bureaus and programs without delay.

One reason the Legislature approved the DCA's spending flexibility was to reduce the DCA's reliance on the budget change proposal process. We believe that the department should use this flexibility to accommodate the new activities identified above. Furthermore, since the total amount of the proposed augmentations is about 0.1 percent of all expenditures in the performance-based budgeting programs, accommodating these costs within existing resources should not be a problem. Therefore, we recommend that the Legislature delete $151,000 and 1.5 positions included in the budget for activities under performance budgeting.

Ten-Fold Budget Increase for Cemetery Act Workload

We withhold recommendation on the level of funding that should be authorized from special funds and the number of positions for the budget year for Cemetery Act workload, pending receipt of a revised plan from the department that identifies (1) options to reduce expenditures in the budget year and (2) work that has been accomplished in the

current year. Further, we recommend that the Legislature fund any Department of Consumer Affairs workload related to the Cemetery Act through loans from special funds rather than from the General Fund.

In past years, the Cemetery Board has had a budget of about $400,000 and four positions. When the department took over the board's functions mid-year, about $200,000 remained in the current-year budget. In addition to this $200,000, the department has requested $2.6 million—financed from loans from the General Fund ($1.9 million) and the Tax Preparers Fund ($705,000)—in the current year to pay for greatly expanded Cemetery Act regulatory activities (including 35 limited-term positions). These funds would be used to initiate criminal investigations in southern California and to provide financial management of 11 cemeteries under state conservatorship. The department should, prior to budget hearings, advise the Legislature on the current status of and expenditures on these activities.

The budget proposes expenditures of $4.2 million and 29 limited-term positions for the department's Cemetery Act workload in 1996-97—a ten-fold increase over historic spending levels. The department plans to use $399,000 from the Cemetery Fund for a portion of those costs, and the remaining $3.8 million would come from a General Fund loan. The department is proposing an increase in interment and cremation fees to repay this loan.

Department's Plan. In an effort to address the problems in the cemetery industry, the DCA is planning an aggressive investigation and prosecution strategy. This plan includes the following for 1996-97:

- Investigate all 192 regulated cemeteries, including a preliminary financial review and physical inspection of each cemetery and a complete financial audit of approximately 27 cemeteries, at a cost of $2.7 million.
- Prosecute an anticipated 27 court cases and defend itself against four tort actions, at a cost of $859,000.
- Place an estimated 11 cemeteries under conservatorship (for a total of 22 cemeteries under state financial management), at a cost of $280,000.
- Respond to consumer calls and complaints at a cost of $191,000.
- Continue administrative functions, such as conducting examinations, processing licenses, and maintaining files, at a cost of $169,000.

Alternatives to the Department's Proposal. The DCA's concern about problems in the industry is justified and its desire to restore consumer confidence in this industry is commendable. We believe, however, that the DCA should evaluate less costly alternatives to the current proposal. For example, the DCA could:

- Reduce the number of cemeteries that need investigating by targeting the worst offenders, prioritize the need for investigations, and possibly distribute the workload over a longer time period.
- Use performance-based budgeting flexibilities by redirecting existing resources on a priority basis.

The DCA should evaluate at least these alternatives and report to the Legislature before any level of funding is approved for the DCA's activities in this area. These alternatives are discussed in more detail below.

- ***Reduce Work Plan and Set Priorities.*** The department has not made a case to investigate all regulated cemeteries. For example, the department has indicated that only 40 cemeteries have either failed to file an annual financial statement or submitted questionable statements. Furthermore, the department has not provided specific information on how a determination was made that 27 cases would go to trial. The department should reevaluate its plan to investigate all cemeteries and instead prioritize cases, particularly where criminal wrongdoing is expected, and pursue those first.
- ***Use Performance-Based Budgeting Flexibilities***. As discussed above, the DCA has various flexibilities under its performance budget contract with the Legislature. The 15 percent spending flexibility was specifically designed so that the department could address issues as they arose and redirect funds as needed. We believe the department should make maximum use of this flexibility to address the workload associated with the Cemetery Act.

Accordingly, we withhold recommendation on the level of funding for Cemetery Act activities until the department advises the Legislature of (1) options to reduce expenditures and (2) the status of current-year activities.

Use Special Funds, Not General Fund, for Loans. The level of funding needed for the DCA's activities related to the Cemetery Act is dependent on the DCA's response to the above alternatives. Regardless of the amount of funding, however, the General Fund should not be the source of any loan. Several special funds under the DCA's authority have healthy reserves that can be loaned in lieu of General Fund monies. For example, the Governor's Budget indicates that, as of June 30, 1997, reserve balances in funds such as the Contractors' License Fund, the Board of Registered Nursing Fund, and the Accountancy Fund will be $23 million, $6.8 million, and $5.4 million, respectively.

The use of special funds for loans within the DCA is consistent with current practice. For example, Control Section 14.00 of the annual Budget Act gives the Director of Consumer Affairs authority under certain conditions to loan between funds. Given the availability of these Consumer Affairs funds and the current condition of the General Fund, we believe the use of special funds, such as these, is preferable. Therefore, we recommend that any loans provided for the DCA's activities under the Cemetery Act come from special funds under the DCA rather than the General Fund.

Finally, the Budget Bill does not stipulate any terms for loan repayment by the DCA. The department has indicated that it will raise fees and repay the loan in three annual installments at the state's Pooled Money Investment Account rate. We recommend that the Legislature adopt Budget Bill language that directs the DCA to repay any loan in three years at the Pooled Money Investment Account rate.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING (1700)

The Department of Fair Employment and Housing (DFEH) enforces laws that promote equal opportunity in housing, employment, public accommodations, and that protect citizens from hate violence. Specifically, the DFEH has responsibility for enforcing the state's main equal opportunity law, the Fair Employment and Housing Act, and resolving complaints in a timely manner.

The budget proposes expenditures of $16.2 million ($12.7 million General Fund) for support of the DFEH in 1996-97. This represents a reduction of $573,000 (3 percent) from estimated current-year expenditures.

Workload Justification for Added Positions Not Provided

We recommend that the Legislature delete $2.5 million to eliminate 41 positions added in the 1995 Budget Act because the department has not justified these positions. (Reduce Item 1700-001-001 by $2.5 million.)

The Legislature approved a General Fund augmentation of $2.5 million and increased staffing by 41 positions for the DFEH in the current year. This represented a 25 percent increase in General Fund expenditures and a 21 percent increase in staff. The augmentation request was based on the premise that additional staff could reduce the backlog in employment discrimination cases and process these cases within the statutorily required one-year period to move a case to prosecution.

When the Department of Finance presented this proposal to the Legislature in the May revision of the 1995 Budget Bill, we raised the following issues:

- The number of cases at risk of missing the one-year deadline for moving to the prosecution stage was actually declining rapidly. For example, based on information from the department, these cases had declined from 3,700 in 1993-94 to an estimated 1,900 in 1995-96. This decline occurred with the staffing level available *before* the requested 21 percent increase proposed in the May revision. Furthermore, the department could not provide any data indicating that this downward trend would not continue.

- In discussions with the department staff, they indicated that around one-half of the cases reaching the end of the one-year period were probably not meritorious and would not have been prosecuted in any case.

We have asked the department to provide current information on the number of cases, the impact on its workload of receiving the $2.5 million augmentation in the current year, and workload measures to substantiate the need to continue the level of staffing. This information has not been submitted. Based on the lack of any information that justifies the need to continue the expenditure of $2.5 million for the additional 41 staff positions, we recommend that the Legislature delete this amount from the department's budget request for 1996-97.

DEPARTMENT OF CORPORATIONS (2180)

The Department of Corporations is responsible for protecting the public from unfair business practices and fraudulent or improper sale of financial products and services. The department fulfills its responsibility through three major programs: the investment, lender-fiduciary, and health care programs. The department is supported by license fees and regulatory assessments, which are deposited in the State Corporations Fund.

The budget proposes total expenditures of $34.1 million in 1996-97, which is $1 million, or 3 percent, less than estimated current-year expenditures. This decrease is due mainly to a $2.4 million reduction to reflect a decline in regulatory activities in the lender-fiduciary program. This reduction is largely offset by a $2 million augmentation proposed for a health care service plan enrollee complaint program and to increase the frequency of medical surveys of health care service plans.

Augmentation to Implement New Program Not Needed

We recommend that the Legislature delete $1.4 million and 19 positions because the basis for this augmentation has not been justified. (Reduce Item 2180-001-0067 by $1.4 million.)

The budget proposes $1.4 million and 19 positions for the department to establish a toll-free complaint/inquiry (800 number) telephone line to respond to enrollee inquiries and complaints regarding their health plans. This program—established pursuant to Ch 789/95 (SB 689, Rosenthal)—is part of the department's Health Care Division, which is responsible for monitoring the activities of health care service plans to ensure that they meet their statutory responsibilities in providing appropriate health care services to their enrollees.

Current-Year Appropriation. Chapter 789 appropriates $1.4 million for the department to implement the provisions of this act including the establishment of the "800 number" program. The department estimates that it will spend $1.2 million of this appropriation in the current year. Consequently, the department will have $200,000 remaining from this source in the budget year for the "800 number" program.

Budget-Year Augmentation Not Justified. The department is requesting an additional $1.4 million and 19 positions for the program in the budget year. We have several concerns with the department's proposed augmentation. First, the department indicates its workload related to consumer telephone calls will increase dramatically in 1996-97. For example, the department estimates that the establishment of the 800 number line will increase the number of enrollee calls received by the department from 800 per month to 10,000 per month, and the total number of complaints filed each month from 180 to 1,000 per month. In arriving at this assumption, the department states that it surveyed health care service plans and then did a "basic extrapolation" to arrive at this projected increase in workload. However, the department has not provided a methodology for this extrapolation, nor a basis for its assumptions in concluding that the survey would result in such a significant increase to the department's workload over the course of one year.

Second, the department already appears to have adequate additional resources to implement the program. The department will spend Chapter 789 funds in the current year to get the program off the ground, and still have $200,000 remaining in 1996-97. Furthermore, the department has permanently redirected 18 positions from within its current budget resources for support of the program. The department has not shown why an *additional* 19 positions are needed.

Given the resources already dedicated to the 800 line, the department already has the means to properly operate the program. During the budget year, the department should evaluate the program to determine whether more or less resources are needed on an ongoing basis. As part of this evaluation, the department should consider other options for addressing the workload, such as an automated voice messaging telephone system that could handle some enrollee telephone inquiries in lieu of staff resources.

Thus, we recommend the use of current budget resources until the department has had experience with and has evaluated the 800 number program. Therefore we recommend that the Legislature delete $1.4 million under Item 2180-001-0067.

OFFICE OF SAVINGS AND LOAN (2340)

The Office of Savings and Loan is responsible for protecting the savings and investments of the public by licensing and regulating state-chartered savings and loan associations. It is supported by the Savings Association Special Regulatory Fund. Revenues to the fund are derived from annual assessments of the individual associations.

The budget proposes total expenditures of $441,000 for this office in 1996-97. This is $96,000, or about 18 percent, less than estimated current-year expenditures. This level of support would spend all remaining funds in the Special Regulatory Fund in 1996-97. (The office has not collected assessments since 1993-94.) Consequently, there will be no funds to support the office after the budget year.

STATE-CHARTERED SAVINGS AND LOAN PROGRAM

In recent years there have been dramatic changes in the savings and loan industry. In response to the thrift failures in the 1980s, the federal government passed legislation in 1989—the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)—that resulted in a significant reduction in the number of state-chartered savings and loans. This occurred for various reasons:

- ***Elimination of Competitive Advantage for State Charters.*** The FIRREA eliminated the competitive advantages (such as more flexible capital requirements and investment authority) that California-chartered associations enjoyed over their federally chartered counterparts. These advantages were the primary incentives for associations to maintain a California charter.
- ***Increased Federal Regulations.*** The FIRREA subjected state-chartered associations to more stringent federal regulations and examinations in order to obtain and maintain federal deposit insurance. The increased cost of these federal examinations—which are necessary to maintain deposit insurance—makes the option of a state charter (with its associated additional costs) less attractive.
- ***Increased Costs of Bailout Surcharge.*** In recent years, many savings and loan associations have been converting to federally

or state-chartered banks in order to avoid the substantial surcharge imposed by federal regulators on savings and loan associations for the "bailout" of insolvent associations.

- ***More Stringent Capital Requirements.*** Many state-chartered associations were not able to meet the more stringent capital requirements imposed by the FIRREA and went out of business, or were closed by federal or state regulators.

In California, the number of state-chartered associations has declined from 130 in 1989-90 to 8 in the current year. The decline in assessment revenues that support state regulatory activities (which are based on an association's asset size) has been even greater, as a proportionally higher number of the large associations ceased to be state-chartered. We have been advised that fees are no longer assessed because the regulatory fund balance has been sufficient to support the current level of office operations, which includes three positions—an administrator, an examiner, and an executive assistant.

State Program Should Be Terminated

We recommend enactment of legislation terminating the state-chartered savings and loan program as of January 1, 1997. We also recommend that the Legislature provide six months funding (a reduction of $220,000) for the office to phase out the program by January 1, 1997.

Our analysis of the developments discussed above indicates that there is neither a need for—nor an overriding benefit from—the continuation of the state-charter program. For the associations, a state charter is no longer a significant benefit because the FIRREA removed most economic advantages of being licensed by the state, and it is not necessary for important operational aspects, such as maintaining deposit insurance. Furthermore, there is no need or benefit to the state to continue a regulatory program that has been, for all practical purposes, supplanted by the federal government. This has occurred because, under the FIRREA, federal regulators (the Office of Thrift Supervision and the Federal Deposit Insurance Corporation) examine regularly all savings and loan associations—including those that are state-chartered—for compliance with all applicable federal laws and regulations.

As a result of these developments, it is unclear what regulatory function the office serves. The office no longer conducts examinations of the associations or audits them to protect consumers' savings/investments. Rather, the one remaining examiner for the office *responds* to industry activity through such duties as reviewing corporate filings and answering questions from the industry or investors. In effect, the state is no longer regulating or monitoring the savings and loan industry.

For these reasons, we recommend termination of the state-chartered savings and loan associations program. Existing state-chartered associations could convert to another charter authorized to operate in the state—such as a federally chartered savings and loan association, a state-chartered thrift, or a federally or state-chartered bank. According to regulators, these conversions can usually be completed within three to four months.

We recommend that the Legislature enact legislation to terminate the state-chartered savings and loan program, effective January 1, 1997. This would give the associations six months to convert from state-chartered businesses, and the state six months to close out operations. Therefore we also recommend that the Legislature provide six-months funding (a reduction of $220,000) for the office in the budget year, consistent with phasing out the program by January 1, 1997.

TRADE AND COMMERCE AGENCY (2920)

The Trade and Commerce Agency is designated as the state's primary economic development entity for promoting the establishment, retention, and expansion of business, employment, and international trade in California. It promotes tourism and foreign investment as well. The agency also has been designated as the entity leading the state's efforts in defense conversion.

The budget proposes expenditures of $69.2 million from various funds ($39.6 million General Fund) for the Trade and Commerce Agency in 1996-97. This is $13.9 million, or 17 percent less, than current-year expenditures. This reduction is due mainly to a $13.1 reduction in various special funds for local economic development grant and loan projects. The agency's General Fund expenditures are proposed to increase by a net $1.8 million, or 4.7 percent, in the budget year. This includes a $3 million General Fund augmentation for the Defense Adjustment Matching Grant Program.

General Fund Support for Defense Adjustment Program Not Justified

We recommend that the Legislature delete $3 million in General Fund expenditures for the Defense Adjustment Matching Grant Program because the agency has not justified the need for this appropriation. (Reduce Item 2920-101-001 by $3 million.)

The budget proposes $3 million in General Fund expenditures for the Defense Adjustment Matching Grant Program. The agency proposes to continue this $3 million augmentation in 1997-98 and 1998-99. This program provides grants to local agencies seeking federal funding for defense conversion planning and program implementation, as well as military base reuse planning. Federal agencies typically require that grantees provide 25 percent of the total project cost from local or other nonfederal sources.

Program Background. During 1993-94, the agency established the Defense Adjustment Matching Grant Program. The agency received permission from the U.S. Economic Development Administration (EDA) to finance the program with the monies remaining in the California Economic Development Grant and Loan Fund. This fund was established in the late 1970s with money from the EDA and was used primarily for business loans. The Trade and Commerce Agency used all available funds—$1.5 million—to approve 20 grants.

In the 1995 Budget Act, a $1 million General Fund appropriation was approved for the agency to continue its efforts in this area. In the current year, the agency has awarded five grants, totaling $468,000, to local communities. Four of these awards are "planning grants," which are intended to help communities affected by base closures in creating reuse plans "identifying specific near-term development opportunities and requirements" (such as the development of an Environmental Impact Report). The other award is an "implementation grant," which is for the "fundamental infrastructure necessary for commercial activities" on the closed base (such as investments in roads, sewers, or electrical and gas supplies). The agency expects to award the remainder of the appropriation—$532,000— by the end of the current year.

In our *Analysis of the 1995-96 Budget Bill,* we recommended that the Legislature not approve General Fund support of this program because the agency had not evaluated the effectiveness of the 20 grants that had already been approved. Therefore, the benefits resulting from these state grants were uncertain.

General Fund Support Not Justified. To date, the agency still has not evaluated the effectiveness of the grants it has approved. These state grants are purportedly used to assure the receipt of federal grants for redevelopment of closed military bases. (State funding, however, is not required as a condition for receiving these federal grants.) The agency has provided no data indicating that the state grants were necessary to assure receipt of federal planning funds. In short, the agency has not demonstrated how the state grants make a difference in the redevelopment process for communities affected by base closures. Consequently, we recommend that the Legislature delete the $3 million proposed for the Defense Adjustment Matching Grant Program.

General Fund Augmentation for Economic Development Not Justified

We recommend that the Legislature delete $500,000 requested for economic development marketing campaigns because this augmentation is not justified. (Reduce Item 2920-001-0001 by $500,000.)

The budget proposes $500,000 for the agency to spend on various economic activities:

- $150,000 to develop a cooperative marketing campaign that "highlights the advantages of doing business in California." The campaign will include television/programming, magazine/newspaper inserts, and television/radio advertising.

- $250,000 for a marketing campaign to "recruit businesses to California on closed military bases." A portion of this amount—which the agency has not specified—will be used to attend trade shows.
- $100,000 for the California Film Commission to "enhance marketing of the diversity of California as a filming destination." Of this amount, $50,000 will be used to market closed military bases as film production locations.

Augmentation Not Justified. We believe that the agency's request for $500,000 is not justified for two main reasons. First, it is currently part of the agency's general role to market the state for increased economic development. The agency spends the bulk of its $38 million General Fund budget annually for this purpose. Thus, it is not clear why it cannot redirect some of its existing resources for the new "campaigns" proposed above. Second, the agency claims that this augmentation will result in "increased business investment and job creation in California." Yet the agency has not defined clear goals and measures for ensuring the effectiveness of these expenditures. For example, the agency states that the success of the base reuse marketing campaign will be measured by the number of companies that locate on base properties and the number of jobs these companies generate. However, the agency does not specify how many business leads it expects from the campaign or a methodology for measuring the business relocations that occur *as a direct result of spending the state funds.* The agency has not shown how its proposed augmentation or marketing campaigns will result in commensurate benefits to the state from these additional General Fund expenditures. Therefore, we recommend that the Legislature disapprove the $500,000 augmentation for business marketing.

Regulation Review Unit Duplicative

We recommend that the Legislature delete $400,000 for the Regulation Review Unit because this unit duplicates current state efforts. Agency review of particular regulations, if needed, should be done within existing resources. (Reduce Item 2920-001-0001 by $400,000.)

The budget proposes $400,000 and five positions to permanently establish the Regulation Review Unit. Funding for this unit was approved in the 1995 Budget Act on a one-year limited-term basis. The unit was established in response to Ch 418/93 (SB 1082, Calderon) which gives the agency the discretion to review and evaluate the findings by any state agency proposing regulations.

Unit Duplicates State Efforts. Current law does not require the establishment of this unit nor does it require the agency to evaluate every proposed regulation. Instead, it grants such authority. The unit has been fully staffed since mid-year and it proposes to review *all* proposed regulations to ensure that the agency proposing the regulations has adequately substantiated the need for the regulation. The budget proposal would continue this practice.

The unit's review of these regulations is in addition to the review given to them concurrently by the public, the Office of Administrative Law and the government agencies responsible for developing and administering proposed regulations.

Consequently, the unit's system for determining if regulatory agencies sufficiently support their proposed recommendations simply adds another layer of administrative review. If there are particular regulations that need the agency's input, there are sufficient means currently available within the administration to assure that any such regulations are directed to the agency. Any such review could be conducted with existing resources on a priority basis.

Therefore, we recommend that the Legislature delete the $400,000 under Item 2920-001-0001 for the Regulation Review Unit.

Fund Foreign Offices at Current-Year Level And Display in Budget Bill

We recommend that the Legislature delete the proposed $507,000 General Fund augmentation for the foreign trade offices because the agency has not justified this increase. We further recommend that the Legislature again this year add an item to the Budget Bill to clearly identify the amount of funds budgeted for each office. (Reduce Item 2920-001-0001 by $4.7 million and add Item 2920-012-0001 in the amount of $4.2 million.)

The budget includes a total of $4.7 million for foreign trade offices in seven countries. This request is $507,000 more than current-year appropriations for these offices. This amount includes an augmentation of $132,000 for a permanent increase in the foreign office budgets to adjust for inflation.

Augmentation for Inflation. The agency's request for $132,000 is to pay for inflationary costs at foreign offices that have occurred since January 1, 1993. Thus, the agency is requesting to make the budget for its foreign offices whole due to losses that have occurred over the last three years. Over the last year, however, these budgets have *gained* a net $59,000 due to the gain in purchasing power of the U.S. dollar from foreign currency adjustments net of inflationary costs. Given that virtually all state agencies have had to absorb all inflation increases over the last three years, it is unclear why these offices should be made whole—especially in light of its windfall in the past year.

Other Budget-Year Increase Not Justified. In addition to this inflation augmentation request, the proposed budget for the seven foreign trade offices includes $375,000 more than current-year appropriations for these offices. The agency has not submitted any information to justify the need to change the budget for each foreign office from its current-year appropriations.

Accordingly, we recommend that Legislature delete $507,000 under Item 2920-001-0001. This will provide the same level of funding that the Legislature provided for the individual offices in the current year.

Funding for Offices Should Be Displayed in Budget Bill. In our *Analysis of the 1995-96 Budget Bill*, we discussed the fact that each office operates separately within a foreign country and that a clear distinguishable budget for the General Fund support of these offices was warranted. The Legislature concurred with this and included in the 1995 Budget Act a separate item of appropriation for the foreign offices. Despite this legislative action, the administration did not include this separate item in the 1996 Budget Bill.

We continue to believe that a clear display of the costs associated with the distinct out-of-country operations of each office should be included in the Budget Bill. Therefore, we recommend that the Legislature again this year add an item to the Budget Bill identifying the budget for each foreign office as shown in Figure 6.

Report on Tourism Plan Needed

We withhold recommendation on $7.3 million in General Fund expenditures proposed for the Office of Tourism pending the Legislature's receipt of the tourism marketing plan. Further, we recommend that the agency report to the Legislature, prior to budget hearings, on the status of implementing the California Tourism Marketing Act.

The budget proposes $7.3 million for the Office of Tourism. The goal of this office is to create jobs and tax revenues for California by stimulating economic activity through increased tourism expenditures. To increase tourism expenditures, the office uses various marketing strategies to promote California as a travel destination.

Figure 6

Proposed Budget Bill Item For Foreign Trade Offices

2920-012-0001, for support of California Trade and Commerce Agency, Foreign Trade Offices		***$4,188,000***
Schedule:		
(a)	Taiwan	$401,000
(b)	Africa	369,000
(c)	Germany	647,000
(d)	Hong Kong	677,000
(e)	London	346,000
(f)	Mexico City	801,000
(g)	Japan	947,000

Current Law Requires Tourism Report to Legislature. Current law requires the agency to report—on or before March 1 of each year—to the Legislature, a detailed tourism marketing plan for the upcoming fiscal year. This plan must include the following information:

- An assessment of the overall benefits and effectiveness of the tourism marketing and advertising program.
- Documentation of the benefits of the marketing program to all of the following: California's tourism industry, employment in California, state and local tax revenues, and the state's lesser known and underutilized destinations.
- Identification of data that needs to be collected to assess further and adequately the benefits of the program.
- Standardized and accurate methods to measure annually California's share of the domestic and international tourism markets and assess the impact of the marketing program in terms of California's changing market share.

This plan should be available to the Legislature prior to appropriating state funds so that the Legislature can assess the proposed uses and the associated benefits of spending the requested $7.3 million from the General Fund.

California Tourism Marketing Act. Chapter 871, Statutes of 1995 (SB 256, Johnston) created the California Tourism Marketing Act. This legislation establishes a (1) nonprofit corporation, the Tourism Marketing Commission—which when operative would replace the California Tourism Commission, and (2) procedures for an industry approved assessment. Chapter 871 specifies that the state is responsible for appropriating at least $7.3 million each fiscal year for the tourism program, and the industry is responsible for targeting the level of assessments for each fiscal year of at least $25 million. If either the state or the industry fails to provide this funding, the state can decide to reduce or eliminate funding or the industry can decide not to assess itself. This new tourism program should get underway in 1996-97. We recommend that the agency report to the Legislature, prior to budget hearings, on the status of implementing the Act including at a minimum the actions taken to date and the agency's schedule for implementing each aspect of the Act.

In summary, we withhold recommendation on the $7.3 million pending the receipt of the tourism marketing plan. Once the plan is submitted, we will review it and, as appropriate, make recommendations to the Legislature. Furthermore, the agency should report to the Legislature, prior to budget hearings, on the status of implementing the California Tourism Marketing Act.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION (3360)

The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission) is responsible for siting major power plants, forecasting energy supply and demands, developing and implementing energy conservation measures, and conducting energy-related research and development programs.

The budget proposes commission expenditures of $59.9 million from various state and federal funds in 1996-97. This is $12.6 million, or 17 percent, less than current-year expenditures. This reduction reflects (1) an $8.3 million reduction in grant and loan expenditures from special accounts used for local energy projects and (2) a decrease of $8.3 million for the Katz Safe School Bus Clean Fuel Efficiency Demonstration Program from the Katz School Bus Fund. This reduction is partially offset by a $6.1 million augmentation from the Petroleum Violation Escrow Account (PVEA) for various development, research, and demonstration projects.

$1 Million for Contract Funds Not Justified

We recommend that the Legislature delete $1 million in Petroleum Violation Escrow Account funds proposed for a residential energy-related construction program because state funding for this program is inappropriate. (Reduce Item 3360-001-0853 by $1 million.)

The budget proposes $1 million from the PVEA to establish a statewide quality assurance program for residential energy-related construction. The commission indicates that this program is intended to improve energy efficiency in new home construction. According to the commission, defects in the construction of homes, such as improperly installed insulation, lead to poor air quality within a home, causing the industry to face an increasing number of lawsuits from dissatisfied homeowners.

To address this industry problem, the commission proposes to spend the $1 million augmentation on three stages of the proposed program:

- $100,000 to develop protocols to govern the construction phase of home construction.
- $200,000 to develop an evaluation system for the program.

- $700,000 to develop strategies for industry participation, program implementation, and marketing.

We have two main concerns with the proposed augmentation. First, an augmentation for the commission to develop protocols for governing construction to be more energy efficient is not necessary. This function is part of the commission's ongoing responsibility to develop policies and activities to improve efficiency of energy use. Therefore, if this is a priority concern, the commission can work within its current resources to develop these protocols for the construction industry. Second, the use of state funds to try to correct for substandard construction of homes on the part of the industry is inappropriate. The state has already fulfilled its responsibility in creating building energy efficiency standards. Thus the industry, not the state, should bear the responsibility and cost of problems that result when certain members of the industry fail to meet the state's building standards.

Therefore, we recommend that the Legislature delete the $1 million under Item 3360-001-0853 to establish the quality assurance program.

Augmentation to Promote Energy Business Development Not Justified

We recommend that the Legislature delete $1.2 million in Petroleum Violation Escrow Account expenditures to promote energy business development because the basis for this augmentation has not been justified. (Reduce Item 3360-001-0853 by $1.2 million.)

The budget proposes $1.2 million from the PVEA for the commission to implement an integrated technology development and business development program. The commission indicates that the result of the proposal would be a "comprehensive strategy for the development and delivery of certain technologies into the California economy."

No Plan for Expenditure of Requested $1.2 Million. According to the commission, the critical step in implementing this program is the development of a strategic plan that would "fund the various stages of moving development activities to businesses producing products and delivery services." The commission indicates that the plan would help it coordinate spending for technology programs according to a comprehensive strategy. The strategic plan would be prepared using current staff and budget resources, but it has not yet been developed and the commission claims it will not be completed in the current year.

Without this plan, the commission is unable to either identify how it will allocate the requested $1.2 million or quantify how the expenditure of these funds will benefit the state. Lacking this information, the Legislature should not approve this request.

Once the commission completes the strategic plan, it should be submitted to the Legislature for review. A comprehensive plan that identifies proposed expenditures and quantifies the benefits of such expenditures may warrant legislative consideration. After reviewing such a plan, the Legislature can then better determine if any funding for the purposes identified in the plan should be provided. Under the current circumstances, however, we recommend that the Legislature delete the requested $1.2 million under Item 3360-001-0853.

PUBLIC UTILITIES COMMISSION (8660)

The Public Utilities Commission (PUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, trucking, bus, and railroad corporations. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates, consistent with a fair return to the utility on its investment. Throughout its various regulatory decisions, the commission also promotes energy and resource conservation.

The budget proposes total expenditures for the PUC in 1996-97 of $79.7 million from various state special funds ($73.9 million), federal funds ($0.5 million), and reimbursements ($50.3 million). This is about $2.1 million, 0.3 percent, less than estimated current-year expenditures.

STATE GOVERNANCE OF TRUCKING REGULATION UNRESOLVED

In January 1995, the federal government preempted the state's rate regulation of most intrastate trucking operations. This preemption affected the PUC in two ways: the PUC workload was significantly reduced and revenues to the Transportation Rate Fund decreased significantly. As a result, the PUC's 1995-96 budget was reduced by $5.7 million and 105 positions. Although the PUC no longer had responsibility for rate regulation, it still had other responsibilities—such as enforcing insurance requirements.

The 1995 Budget Act provided $4 million and 66 positions—funded by Transportation Rate Fund reserves—on a one-year limited-term basis for these remaining functions.

The Legislature approved the PUC's current-year budget for its trucking program on a one-year limited-term basis because at the time the budget was enacted, it was expected that the remaining state responsibilities would be streamlined and transferred to other state agencies before the end of 1995-96. At the time of the federal preemption (January 1995), the Governor established a task force to assess how to best handle the remaining state regulatory responsibilities. In September 1995, this task force submitted its recommendations to the Legislature and proposed to transfer the overall responsibility of the trucking regulation to the California Highway Patrol (CHP).

Also, there is pending legislation to change the governance of the state's trucking regulation. This legislation includes (1) AB 1683 (Conroy), which would transfer all trucking activities, except the regulation of household goods carriers, to the CHP no later than July 1, 1997; and (2) SB 185 (Kopp), which would transfer these functions to the Department of Motor Vehicles and the CHP.

Vacant Positions for Trucking Program Should Be Abolished

We recommend that the Legislature reduce the Public Utilities Commission's (PUC's) budget by $463,000 and 17 positions because they are not necessary for the PUC's reduced workload in its intrastate trucking program. In addition, we withhold recommendation of $3.4 million and 49 remaining positions for this program pending the receipt of workload information from the commission. (Reduce Item 8660-001-0412 by $463,000 and 17 positions.)

The budget proposes the continuation of 66 positions and $4 million through June 30, 1997 to maintain its trucking program at the current level. However, 17 of the 66 positions are vacant. The PUC has not justified the need to fill these positions. For example, the commission has not identified any detriment to current program activities resulting from these vacancies. Furthermore, given the uncertainty of the governance of the program, there is no need to maintain these positions, especially when they are not likely to be filled on a one-year limited-term basis. Therefore, we recommend that the Legislature reduce Item 8660-001-0412 by $600,000 and 17 positions.

Need for Remaining Positions Uncertain. At the time this analysis was prepared, the PUC did not provide information that substantiates the need for the 49 filled positions in the PUC's trucking regulation program. For example, it has not provided workload measures that show the level of annual work by activity or workload standards that provide productivity or "work" rates for this staff. Lacking this information, the Legislature cannot determine an appropriate level of staffing for the program. Further, in view of the federal preemption of the state's economic regulation of intrastate trucking and the pending legislation to change the governance of the remaining state responsibilities in this area, the need for the PUC to maintain these positions is highly questionable.

Therefore we withhold recommendation on $3.4 million and the associated 49 positions, pending receipt of this workload information. When this information is available, we will review it and make recommendations to the Legislature as appropriate.

DEPARTMENT OF INDUSTRIAL RELATIONS (8350)

The mission of the Department of Industrial Relations (DIR) is to protect the workforce of California, improve working conditions, and advance opportunities for profitable employment. These responsibilities are carried out through three major programs: the adjudication of workers' compensation disputes; the prevention of industrial injuries and deaths; and the enforcement of laws relating to wages, hours, and working conditions.

In addition, the department (1) regulates self-insured workers' compensation plans, (2) provides workers' compensation payments to injured workers of uninsured employers and other special categories of employees, (3) offers conciliation services in labor disputes, and (4) conducts and disseminates labor force research.

The budget proposes expenditures totaling $218 million for the department in 1996-97, a 0.7 percent increase over estimated current-year expenditures. The request includes $138 million from the General Fund, a 2 percent increase.

Prevailing Wage Changes

We recommend that the Legislature delete $1,266,000 to implement a substantive change in prevailing wage methodology because this policy proposal and associated costs should be considered in prevailing wage legislation rather than the Budget Bill. (Reduce Item 8350-001-0001 by $1,266,000.)

The budget adds $1,266,000 from the General Fund and 19 personnel-years for the Division of Labor Statistics and Research to implement a change in the methodology of computing prevailing wages for public works. Existing law requires that workers employed on public works projects be paid not less than the generally prevailing rate of wages for work of a similar character in the locality in which the public work is performed. The DIR is responsible for determining these prevailing rates. Under current regulations, the DIR deems the most-frequently occurring single wage rate for each craft and locality—the “modal” rate—as the prevailing rate. Wage rates set by collective bargaining agreements tend to be the most frequently occurring single rates in most crafts and localities, even where a minority of workers in a local craft are being paid these rates, because nonunion wage rates tend to vary highly from firm to firm and project to project.

According to the DIR, of the 32 states with prevailing wage laws, California is one of three that use a modal rate as the prevailing wage standard. The other 29 states use some form of weighted average methodology—in some cases the same methodology used by the federal government for federally funded public works—or leave the determination of prevailing rate to the individual agency letting the public works contract.

Under proposed regulation changes, the DIR instead would set prevailing wages at (1) the single rate occurring at least 50 percent of the time in a given local craft, or (2) in the absence of such a rate, at the weighted average wage rate. To implement this methodology change, the budget proposes to add 19 personnel-years to the DIR, at an annual General Fund cost of $1.3 million, to conduct annual surveys for more than 4,000 job classifications in each of the 58 counties.

The proposed methodology change would tend to lower the calculated prevailing wages because nonunion wage rates would figure more prominently in many of the calculations. The DIR estimates that the resulting savings to the state and local governments from lowered public works costs would be about 20 percent of construction labor cost. (The projected costs for the budget's various capital outlay requests, however, have *not* been reduced to reflect these expected savings.) Our analysis indicates that, while there would be savings resulting from the proposed change, the DIR estimate overstates the magnitude of the potential savings because it extrapolates from data for three rural counties (surveys conducted in 1987 in Nevada, Amador, and Tulare Counties). The construction sectors in these counties are far less unionized than in the state's urban areas. Therefore, the higher relative savings to be expected in these counties under the proposed new methodology would not be representative of the savings to be expected on a statewide basis.

Proposal Should Be Considered Through Legislation. This budget proposal involves a major policy choice for the Legislature. The Legislature is currently considering ABX2 35 (Goldsmith), which would place the proposed methodology change in the state's prevailing wage law and make other substantive changes. We believe that this bill, or similar legislation, is the appropriate venue for consideration of the appropriation request included in the budget in order to ensure that methodology changes are made in a manner consistent with legislative policy. Accordingly, we recommend deletion of the spending request from the Budget Bill. (Reduce Item 8350-001-0001 by $1,266,000.) If the Legislature agrees to the proposed methodology change, some augmentation to the DIR's budget and staff would be needed to conduct necessary wage surveys. We believe, however, that the DIR could substantially reduce the cost by dividing the state, for survey purposes, into a reasonable number of construction labor market areas rather than all 58 counties as currently proposed. Accordingly, the department should reexamine its proposed survey strategy and advise the Legislature as to the feasibility and merits of reducing these costs.

Overtime Pay Changes

We recommend that the Legislature delete $274,000 to implement a substantive change in overtime pay standards because the policy proposal and associated costs should be considered in legislation other than the Budget Bill, and because the costs appear to be absorbable in the department's budget. (Reduce Item 8350-001-0001 by $274,000.)

The budget adds $274,000 from the General Fund and 3.5 positions for the Industrial Welfare Commission to revise 14 industry wage orders that currently require overtime wages for time worked in excess of eight hours daily, whether or not hours worked per week exceed 40. These orders apply to most private sector employers and employees in the state. The current orders permit employers to institute four-day work weeks of ten hours per day without overtime payment through written agreements consented to by at least two-thirds of the affected employees. The overtime pay provisions of the orders also can be superceded by collective bargaining agreements. The administration intends to hold public hearings and revise the orders to require overtime payments only when weekly work exceeds 40 hours. (California is one of four states that have a daily eight-hour standard for overtime.)

As is the case for the prevailing wage change discussed above, this proposal involves a major policy choice that should be considered by the Legislature through legislation. The Legislature is currently considering AB 398 (Aguiar), which would implement the administration's proposed change. We believe that this bill, or similar legislation, is the appropriate venue for consideration of the appropriation request included in the budget. Accordingly, we recommend that the Legislature delete the $274,000 General Fund request. We further note that the department already has begun to implement this proposal, without legislative assent, using $133,000 in its current-year budget. This calls into further question the need for the requested budget-year augmentation since the department evidently is able to absorb the effort within its existing budget.

Budget "Realignment"

We withhold recommendation on $4,050,000 requested to restore baseline funding for operating expense and equipment (OE & E), pending clarification of the Department of Industrial Relations' personal services and OE & E needs. We recommend that the Legislature delete $1 million requested for additional OE & E expenditures, for which justification is entirely lacking. (Reduce Item 8350-001-0001 by $800,000 and reduce Item 8350-001-0223 by $200,000.)

The budget includes $5,050,000 to "realign" the budget of the Division of Workers' Compensation (DWC). This amount consists of $4,040,000 from the General Fund and $1,010,000 from the Workers' Compensation Administration Revolving Fund.

Background. This budget change proposal is the department's response to direction given by the Legislature in the *1995 Budget Act*. In the *Analysis of the 1995-96 Budget Bill,* we called attention to the fact that the department was holding vacant 93 DWC positions so that it could redirect the funds budgeted for those positions to cover OE & E expenditures. We recommended deletion of the excess positions and $4.5 million in associated salaries. We further recommended that the department justify any funding augmentation that it might need for OE & E purposes. The Legislature deleted the positions but allowed the department to retain $4,050,000 for the 1995-96 fiscal year only. The Budget Act included language requiring the DIR to submit a budget change proposal for 1996-97 that would "realign" expenditures for personal services (salaries and benefits) and OE & E to accurately reflect the DWC's 1996-97 needs. The language also required the DIR to report, by January 1, 1996, on the efficiencies it has undertaken to minimize OE & E expenditures.

Concerns. The department's response to legislative direction on this issue raises several concerns. First, the realignment proposal does not provide a compelling case for continuation of the $4,050,000 the Legislature allowed the DIR to retain on a one-year basis, pending submittal of this proposal. Among its shortcomings in this regard are failures to (1) examine funding needs from a department-wide perspective and (2) identify efficiencies to be undertaken to minimize expenditures. (At the time this analysis was prepared, the department had not provided to the Legislature the report on these efficiencies required by the Budget Act language.) It also is not clear that the proposal has succeeded in "realigning" the DIR's personal services and OE & E needs. The basic purpose of the realignment was to reduce the personal services budget and increase the OE & E budget, in order to conform the budget with reality. The Governor's Budget, however, projects OE & E expenditures for 1996-97 that are $3.1 million *less* than estimated 1995-96 expenditures and *$7 million less* than actual 1994-95 expenditures, as shown in Figure 7. The same document shows a $4.7 million salaries and wages expenditure increase above 1995-96, an inexplicable $139,000 per net position added.

Figure 7

Department of Industrial Relations Personal Services and Operating Expenses and Equipment 1994-95 Through 1996-97

(In Thousands)

	Actual 1994-95	Estimated 1995-96	Budgeted 1996-97
Personal services	$133,710	$151,935	$157,150
Operating expenses and equipment	42,874	38,995	35,884

Despite the above shortcomings, the budget proposal not only requests continuation in 1996-97 of the provisionally available funds (the $4,050,000), but requests an *additional* $1 million. According to the Governor's Budget, the combined amount of $5,050,000 is needed to ". . . restore baseline funding for operating expenses, and to fund increases in facilities costs." We do not know how to reconcile this statement with the declining OE & E expenditures just discussed and shown in Figure 7.

For several years the DIR has consistently overbudgeted personal services and underbudgeted OE & E. Each year the DIR has redirected "surplus" personal services monies to finance its OE & E "deficits," as shown in Figure 8. (We define personal services surplus as the extent to which actual salary / benefit savings exceed estimated salary / benefit savings.) In 1991-92 the personal services surplus was not enough to meet the OE & E deficit. The DIR made up the balance through a deficiency appropriation. In every other fiscal year from 1990-91 through 1994-95, the personal services surpluses easily covered the OE & E deficits. In 1994-95, the last fiscal year for which actual data are available, the personal services surplus was almost *$20 million*, whereas the OE & E deficit was $5 million.

Figure 8

**Department of Industrial Relations
Personal Services and
Operating Expenses and Equipment
1990-91 Through 1994-95**

(In Thousands)

	1990-91	1991-92	1992-93	1993-94	1994-95
Estimated personal services	$129,364	$125,184	$117,090	$131,080	$153,371
Actual personal services	115,027	121,777	111,947	119,150	133,710
Surplus	**$14,337**	**$3,407**	**$5,143**	**$11,930**	**$19,661**
Estimated operating expenses and equipment	$29,812	$29,298	$33,223	$38,756	$37,881
Actual operating expenses and equipment	34,646	34,035	37,085	43,106	42,874
Deficit	**-$4,834**	**-$4,737**	**-$3,862**	**-$4,350**	**-$4,993**

Recommendation. The Legislature's redirection, in the *1995 Budget Act*, of $4,050,000 to OE & E should have addressed the imbalance in that category for 1995-96. The Legislature's deletion, in the *1995 Budget Act*, of 93 vacant DWC positions and 62 other DIR positions lacking workload justification should reduce the size of any future personal services surpluses, but might not eliminate them. Thus, it is unclear at this time to what extent continuation of the $4,050,000 redirection is justified. We therefore withhold recommendation on this portion of the DIR proposal, pending clarification of its personal services and OE & E needs. (This clarification should include fiscal year-to-date actual expenditures for personal services and OE & E, identification of the department's vacant positions, and a justification for the retention of these positions.) Our review indicates that justification for the additional $1 million is entirely lacking. We therefore recommend the Legislature delete this amount.

Better Information Needed on Major Expansion of Targeted Industries Partnership Program

With regard to the Targeted Industries Partnership Program, we recommend that the Department of Industrial Relations report to the budget committees prior to budget hearings on (1) current program accomplishments and expected program outcomes and (2) full accounting of expected collections from assessments and the feasibility of

funding part of the program from these collections. Pending review of these reports, we withhold recommendation on $1,737,000 requested for a major expansion of the program.

The budget includes $1,737,000 to expand the Targeted Industries Partnership Program (TIPP). The proposal represents a major expansion of the TIPP, under which the DIR and other state and federal agencies conduct joint labor law enforcement activities in apparel manufacturing and in agriculture. The budget proposal would add 24 positions to its current 15-position TIPP staff, primarily to conduct more inspections and related enforcement actions. The DIR's budget for this program would increase to $2,650,000 compared to its current allotment of $913,000 from the Industrial Relations Unpaid Wage Fund. The proposed source of funds for the expansion is a reimbursement from the Employment Development Department (EDD), drawing upon the Benefit Audit Fund.

Based on our ongoing review of the TIPP, we agree that increased efforts are needed to address the serious and widespread labor law violations in apparel manufacturing and agriculture. In order that the Legislature can judge the contribution that this expansion would make to ongoing program effectiveness, however, the Legislature needs detailed and up-to-date information on current program success and expected program outcomes. We therefore recommend that the DIR provide detailed information on program implementation and outcomes to the budget committees prior to budget hearings. This information should address the following, at a minimum:

- Up-to-date actual and projected workload measures, including inspections conducted, civil and criminal citations issued (by violation type), confiscations, audit referrals, and penalty assessment amounts.

- Up-to-date actual and projected outcome measures, including penalty collection amounts, outcomes of criminal prosecutions, back-wages recovered and returned to workers, and survey data or other evidence indicating trends in the incidence and severity of labor law violations.

- A progress report on the DIR's centralized case management system project (in our view, a critical component to successful implementation of this budget proposal).

In addition, we have concerns about projected revenues from the TIPP enforcement activities and the proposed means of funding the TIPP expansion. According to the DIR, the expanded TIPP effort will generate $1.8 million in collections from assessments for various employment and tax law violations. We believe consideration should be given to introducing a partially self-financing aspect to the program by funding at least part of the TIPP through some or all of these collections. The DIR should report to the Legislature on the feasibility of this approach. This report should include an accounting of expected assessments and collections related to laws administered by the DIR (the $1.8 million accounts only for collections related to laws administered by the EDD) and a discussion of the feasibility of improving the rate of collections (the $1.8 million projection assumes that only 59 percent of assessments would be collected).

Pending review of the reports discussed above, we withhold recommendation on the $1,737,000 request.

DEPARTMENT OF FOOD AND AGRICULTURE (8570)

The Department of Food and Agriculture (DFA) promotes and protects the state's agriculture industry, develops California's agricultural policies, and assures accurate weights and measures in commerce. The department also supervises county agricultural commissioners and county sealers of weights and measures.

The budget requests $194 million for the DFA in 1996-97, a decrease of $1.4 million, 3.8 percent, from estimated current-year expenditures. The budget total includes General Fund expenditures of $64 million, a 3.8 percent decrease from estimated current-year General Fund expenditures, mainly due to the discontinuation of the Mediterranean Fruit Fly (Medfly) aerial spraying program in southern California.

EXOTIC PEST CONTROL EFFORTS

According to the DFA, pests, such as the Medfly and the Oriental Fruit Fly, are increasingly making their way into the state via air, road, and ship traffic. These pests pose a threat to agriculture due to crop loss and potential international and domestic embargoes on California plants and produce. In an effort to address this problem, the budget proposes $11.1 million in General Fund and $1.1 million in special fund monies to augment the department's activities in the following areas:

- $7.7 million for sterile Medfly release in the Los Angeles Basin.
- $1.9 million for 24-hour operation of all border agricultural inspection stations.
- $1.5 million for roving dog teams to inspect domestic overnight parcels.
- $1.1 million for airport and maritime port inspections.

Augmentation for Medfly Program Should Not Go into Base

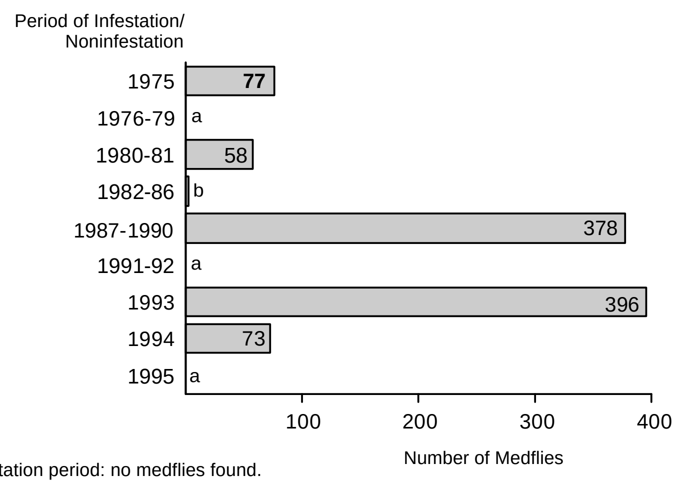
We recommend that the Legislature approve the $7.7 million General Fund augmentation for the Medfly program, but that this amount not be made part of the Department of Food and Agriculture's (DFA's)

ongoing base budget. We further recommend that the DFA submit a report to the Legislature, by November 1 of each year for the next five years, evaluating the program and the progress of scientific research to control the Medfly.

Background. The department has been waging a continuous campaign against the Medfly since 1975, the first year the pest was detected in California. The DFA has used aerial and ground spraying, and sterile Medfly releases to fight the pest. The intensity of eradication and control efforts has fluctuated over the intervening years, depending on the degree of infestation. Figure 9 shows the number of Medflies that have been caught in the DFA's traps since 1975.

Figure 9

Capture of Medflies in California 1975 Through 1995



[a] Noninfestation period: no medflies found.

[b] Three medflies were found during this period.

The DFA shares Medfly program costs and responsibilities with the United States Department of Food and Agriculture (USDA) through a cooperative funding agreement. The USDA has committed to a dollar-for-dollar expenditure match with the DFA. Figure 10 shows expenditures from all sources for fighting Medfly infestations since 1980. As the figure shows, the DFA has spent $72.8 million from the General Fund since 1987 and expects to spend another $21.7 million from the General Fund in the current and budget years combined. Total costs from all fund sources through the budget year will be nearly $310 million.

Figure 10

Historical Medfly Expenditures

(In Thousands)

Fiscal Year	State Funds: Gas Tax	State Funds: General Fund	USDA	Total
1980-86[a]	—	—	—	$100,000
1987-88	$756	$294	$1,050	2,100
1988-89	757	922	1,679	3,358
1989-90	563	19,999	21,336	41,898
1990-91	599	9,659	9,484	19,742
1991-92	428	2,429	3,606	6,463
1992-93	1,002	12,324	19,458	32,784
1993-94	1,459	12,933	19,180	33,572
1994-95	600	14,229	17,000	31,829
Subtotals	($6,164)	($72,789)	($92,793)	($271,746)
1995-96 (estimated)	—	14,000	8,400	22,400
1996-97 (proposed)	—	7,687	7,687	15,374
Totals	**$6,164**	**$94,476**	**$108,880**	**$309,520**

[a] The only cost data available prior to 1987 show that the Santa Clara infestation was eradicated between 1980-82 and cost $100 million. The source of these funds was not identified.

The last two major Medfly infestations covered a contiguous area of 1,500 square miles in Los Angeles, Orange, Riverside, and San Bernardino Counties. Beginning in 1993, the DFA controlled the Medfly problem in this area primarily through sterile fly release and localized ground spraying. In addition, the department conducted aerial sprayings in limited areas of Riverside County (February through May 1994). There was also a relatively small infestation in Ventura County (October 1994 through May 1995) for which the DFA used aerial spraying. The department reports that no other Medflies have been found in traps in the Los Angeles Basin or anywhere else in the state for over a year and a half. Although the Medfly appears to be under control for now, the DFA believes that the state will never be completely free of the Medfly.

Proposal for Control of Medfly. To reduce the threat of Medfly infestation in the state, the DFA proposes to use $7.7 million annually from the General Fund to continue the sterile Medfly release program over a 2,100 square mile area of the Los Angeles Basin, bordered by Sylmar, San Bernardino, Irvine, and the Pacific Ocean. This program calls for the twice weekly aerial release of 125,000 sterile Medflies over each square mile. The department believes that these releases will be necessary for at least the next five years while scientists attempt to develop less expensive alternatives. Over the five-year period, the state would spend around $40 million for this program. The USDA would spend about the same amount.

Provide Annual Medfly Appropriation. The DFA claims that an established Medfly population would imperil future crop yields and close foreign and domestic markets to California-grown fruits and vegetables. The DFA believes that the proposed program will reduce this threat.

There are, however, several reasons why the annual level of funding for this program and the department's needed response could vary significantly from year to year:

- The proposal would be limited to the Los Angeles Basin, which does not account for a potential need to respond to Medfly infestations in other areas of the state. For example, Santa Clara County experienced a Medfly infestation from 1980 to 1982.
- An infestation in the Los Angeles Basin may still occur and aerial sprayings may then be needed.
- The scientific community (according to the DFA) is working to develop less costly and more effective control methods.

According to the DFA, its science advisory group concluded that, absent the use of aerial spraying, the proposed sterile release program is the most effective way to control the Medfly. Consequently, we recommend that the Legislature approve the requested $7.7 million. We also recommend that this amount *not* be made part of the DFA's ongoing base budget because the effectiveness of the program and the progress of the scientific research on methods of controlling the Medfly should be assessed each year. This annual assessment will give the Legislature an opportunity to determine the appropriate level of funding each year. To ensure that the Legislature is kept informed on the effectiveness of the program and on the progress of scientific research, we recommend that the department be required to report annually by November 1 of each year on the status of the program. We recommend, therefore, that the Legislature adopt the following supplemental report language:

> The Department of Food and Agriculture (DFA) shall provide the Legislature an annual report over a five-year period beginning November 1, 1996, on the Mediterranean Fruit Fly (Medfly) sterile release program. The report shall, at a minimum, identify (1) the number of Medflies found in the DFA traps throughout the state, (2) any infestations that required aerial spraying and the location and cost of these aerial sprayings, (3) scientific progress in developing more effective, less costly methods

of Medfly control, and (4) the department's plan to incorporate these new methods into its Medfly program.

Industry Should Share Costs of Medfly Program

We recommend that the Legislature enact trailer bill legislation authorizing the Department of Food and Agriculture to assess the agricultural industry for 50 percent of the state's cost of the Medfly program. Accordingly, we recommend that the Legislature structure 50 percent of the $7.7 million General Fund appropriation in Item 8570-001-0001 as a loan, repayable January 1, 1997.

The State and Industry Should Share Costs. The proposed program to continually release sterile Medflies is an effort to control the Medfly rather than eradicate an infestation. This distinction of control or eradication has importance for who bears the costs. The DFA's policy has been that the state finances eradication programs and the agricultural industry pays for control programs. In the case of the Medfly a significant state cost can be justified on the basis of the threat that the pest poses to the California economy. On the other hand, the agricultural industry also has a huge stake in Medfly control, and the state has already picked up at least $100 million in expenses over the last 15 years. There is no “right” answer to what share of the costs the state should bear. We believe, however, that based on past state expenditures and the control aspect of the proposed program, it would be reasonable for the state and industry to share equally in future costs.

Legal Authority to Assess Industry. The statute allowing the DFA to enter into its current cooperative agreement with the USDA, also permits the department to enter into similar agreements with the agricultural industry to finance pest control programs. Federal statutes confer similar flexibility for the USDA to enter into cooperative agreements with any group that feels compelled, by self-interest or the law, to participate in pest control programs. In other words, existing law provides the state complete flexibility in deciding how Medfly program spending should be financed. In order to assess the industry for its share of these costs the Legislature should enact legislation authorizing the DFA to make the appropriate assessments.

Analyst's Recommendation. Based on the above discussion, we recommend the enactment of legislation, effective July 1, 1996, authorizing the DFA to begin assessing the agricultural industry for 50 percent of the Medfly program funding beginning in 1996-97. To implement this in the budget year, we further recommend that the Legislature structure half of the $7.7 million appropriation requested in the budget year as a loan to be repaid from the Agriculture Fund by January 1, 1997.

Adoption of this recommendation would result in General Fund savings of about $3.8 million in 1996-97 and a total of $19 million over five years.

Request for Agricultural Inspection Stations Not Necessary

We recommend that the Legislature delete $1.4 million in General Fund expenditures and 53 positions requested for the expansion of the agricultural inspection stations program because the department has not justified the need for staffing all stations on a 24-hour basis. (Reduce Item 8570-001-0001 by $1.4 million.)

The Governor's Budget includes $1.9 million from the General Fund to provide 24-hour operation of all border agricultural stations and to make various repairs to the stations. This proposal would result in an ongoing annual cost of $2.8 million in 1997-98 and thereafter.

The state's 17 border agricultural stations are located on major highways entering California. Figure 11 shows the location and operating hours of the border stations. As shown in the figure, the majority of border stations already operate on a full-time basis. Of the remaining stations, seven are open during peak travel times (usually 8 A.M. to 10 P.M.) and one (Woodfords) has been closed since 1994-95. Vehicles entering the state through these stations are subject to possible inspection for certain agricultural products. If prohibited products are found, the department may confiscate quarantined material and may refer offenders to local jurisdictions for citations and fines.

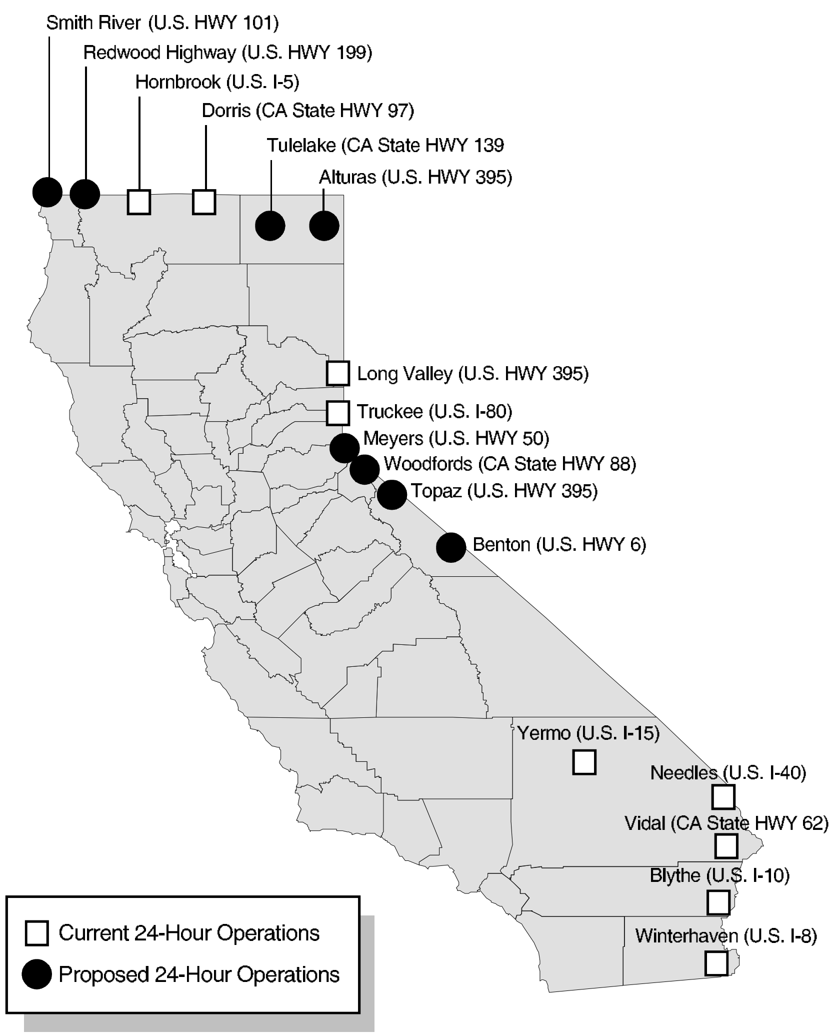
Of the amount requested, $1.4 million ($2.2 million in future years) would be spent to staff all stations on a 24-hour basis. The remaining $500,000 in the budget year is for one-time costs associated with building repairs such as replacing roofs, upgrading electrical systems, and resurfacing truck lanes. The DFA's proposal is to include $600,000 for similar one-time costs in its annual base budget in the future.

The DFA indicates that 24-hour operation of all 17 stations is needed because:

- Increased vehicle traffic, particularly traffic coming from Canada, is bringing in more pests to the state.
- Smuggling of untreated plant and produce material is becoming a serious problem.

Figure 11

Border Agricultural Inspection Stations
Current and Proposed 24-Hour Operations



The DFA indicates that with full-time staffing of all stations, most high-risk vehicles will be stopped for inspection, and smuggling will be reduced because access routes will be closed.

The DFA, however, has not provided any current data to substantiate the benefit of spending over $2 million annually to open *all* stations on a 24-hour basis. The only specific data provided by the department was a pre-1992 traffic and inspection report on seven of the eight stations proposed for 24-hour operation. These data reveal that at that time there was relatively little traffic and very limited inspection at these stations during the time period of 10 P.M. and 8 A.M. (the hours these stations are now closed). In fact, it was at that time that the DFA decided to operate these stations for less than 24 hours per day.

The DFA has not identified the *current* traffic flow or problems occurring at each of these stations during off hours. Without this information, there is no basis to conclude that there is a problem at these eight stations or that opening the stations on a 24-hour basis will solve a problem. Therefore, we recommend that the Legislature delete $1.4 million and 53 positions included in the budget for expansion of the program to 24-hour operations at all stations.

Domestic Parcels Inspections Proposal

We recommend that the Legislature delete $730,000 by approving 15 of the requested 31 positions for a domestic parcels inspection program. We further recommend that the Legislature approve positions for this program on a limited-term basis until the department can demonstrate the benefits of a year-round program. (Reduce Item 8570-001-0001 by $730,000.)

The DFA is requesting $1.5 million from the General Fund to inspect parcels delivered by the United States Postal Service (USPS) and other couriers, such as United Parcel Service and Federal Express. Currently, county agricultural commissioners inspect domestic parcels for pests. The county inspections occur at airport terminals and are, for the most part, limited to commercial shipments easily identified or marked as carrying plant or produce material. According to the DFA, these shipments make up less than 1 percent of all parcels entering the state.

Dog Teams. The DFA proposes to initiate a state program to inspect domestic parcels. This program would include ten inspection teams comprised of DFA biologists and agricultural inspectors. Accompanied by trained dogs, three member teams would rotate among 38 courier facilities (at airports and processing centers) in the high-risk areas of the Los Angeles Basin (seven teams), San Diego (one team), and the Bay

Area (two teams). These areas are considered high-risk because of their history of pest infestations and the volume of parcels going through these areas. The dogs will be used to identify parcels containing agricultural commodities. The DFA indicates that a positive identification of plant or produce material by the dogs establishes probable cause to open and inspect parcels. The establishment of probable cause is required by some carriers, in particular the USPS, to allow inspections of parcels that are not marked as containing agricultural commodities.

Experimental Program. The DFA's proposal is modeled on a test project conducted by the USDA and the USPS in Hawaii that targeted parcels bound for California. Although this project was successful in intercepting parcels infested with pests, it was a limited experiment in terms of scope in that it was conducted at the point of origin for parcel shipments, rather than at destination points which is the DFA's proposal. Furthermore, the results of the Hawaiian project indicate that the pest threat is greatest during the spring and summer months only. As such, it is not clear that a permanent, year-round inspection program is needed. Due to the experimental nature of the program and the uncertainty of its effectiveness, we recommend that the Legislature approve 15 positions on a one-year, limited-term basis. This level of staffing would provide three teams for the Los Angeles area, and one team each for San Diego and the Bay Area. This will give the DFA and the Legislature an opportunity to evaluate the project and determine if it should be continued as a year-round program and if so at what level of staffing and state cost. We therefore recommend that the Legislature delete $730,000 by eliminating the remaining 16 positions.

State Fees for International Port of Entry Inspections Ruled Unconstitutional

We recommend that the Legislature eliminate $1.1 million in Agriculture Fund expenditures and 17 positions for the state component of the Airport Maritime Inspection Program because state collection of fees used to support this program has been ruled unconstitutional. (Reduce Item 8570-001-1111 by $1.1 million.)

The budget proposes $1.1 million from the Airport Maritime Inspection Program (AMIP) fund for the international inspection program. The federal government would provide an additional $2 million for this program. This program would use teams of biologists to conduct random inspections and pest evaluations at airports and maritime ports. The AMIP fund consists of fees levied on international carriers and shippers bringing agricultural goods into California from foreign countries.

Court Ruling. A recent California State Supreme Court ruling (December 1995) ruled that the state AMIP fees are unconstitutional because they are not levied on domestic shipments, thereby unfairly discriminating against carriers hauling foreign goods. Consequently, the department has suspended fee collection. When this analysis was written, the DFA had not made a decision on appealing the ruling. Based on the State Supreme Court ruling, however, we recommend that the DFA discontinue all state activity funded from AMIP fees. Accordingly, we recommend that the Legislature delete $1.1 million and 17 positions from the state's AMIP for proposed activities in 1996-97. (The inspection program financed by the USDA would not be affected by this reduction.)

List of Findings and Recommendations

	Analysis Page
Department of Insurance	
1. **Report Needed on Rate Rollback Hearings.** Recommend that the department report to the Legislature on the status and results of current-year expenditures for Proposition 103 rate rollback hearings.	G-9
2. **Final Workload Measures and Standards Should Be Submitted.** Recommend Legislature not approve any new positions until final workload standards and measures are submitted.	G-10
3. **Augmentation for Conservation and Liquidation Not Justified. Reduce Item 0845-002-0217 by $803,000.** Legislature should not approve augmentation for Conservation and Liquidation Office because workload for this office is projected to decline.	G-11
4. **No New Positions Needed for New Automated Telephone System. Reduce Item 0845-001-0217 by $310,305.** The Legislature should not approve additional staff for the department's new phone system because this system in itself will significantly improve the current program problem.	G-12
5. **Augmentation for Newsletter Not Necessary. Reduce Item 0845-001-0217 by $191,000.** The Legislature should not approve an augmentation for an insurance newsletter because the department has not justified the need for an augmentation to its budget for this purpose.	G-14
California State Lottery Commission	
6. **Magnitude of Administrative Expenditures Has Impact on Education.** Recommend that the Legislature amend the Lottery Act to provide for legislative oversight and appropriation of the commission's administrative expenses.	G-15

Analysis Page

7. **Budget Should Be Submitted for Legislature's Review.** Recommend that hearings be held on the commission's proposed 1996-97 budget and that an informational item be added to the Budget Bill, identifying planned budget-year administrative expenditures. G-18

Department of Consumer Affairs

8. **Performance Budget Contract Proposal Not Available.** Withhold recommendation on the department's performance budget for 1996-97 pending receipt of the department's proposal for a new performance contract. G-20

9. **Proposed Augmentations Unnecessary Under Performance-Based Budgeting.** Recommend that the Legislature delete $151,000 and 1.5 positions because the department should accommodate these costs under the performance-based budgeting program. (Reduce Item 1111-001-702 by $151,000.) G-21

10. **Ten-Fold Budget Increase for Cemetery Act Workload.** Withhold recommendation on the level of funding that should be authorized from special funds and the number of positions for the budget year for Cemetery Act workload, pending receipt of a revised plan from the department that identifies (1) options to reduce expenditures in the budget year and (2) work that has been accomplished in the current year. Recommend that the Legislature fund any Department of Consumer Affairs workload related to the Cemetery Act through loans from special funds rather than from the General Fund. G-21

Department of Fair Employment and Housing

11. **Need for Additional Staff Not Substantiated.** Recommend that the Legislature delete $2.5 million in the department's budget because the need for staff added for the current year has not been substantiated. (Reduce Item 1700-001-001 by $2.5 million.) G-25

Analysis Page

Department of Corporations

12. **Augmentation for 800 Number Program Not Justified.** Recommend that the Legislature not approve a $1.4 million augmentation for this program because the department already has the resources to implement the program. G-27

Office of Savings and Loan

13. **State Chartered Savings and Loan Program Should Be Terminated.** There is neither a need, nor an overriding benefit, to continue this program. G-30

Trade and Commerce Agency

14. **General Fund for Defense Adjustment Program Not Justified.** We recommend that the Legislature delete $3 million because the General Fund support of this program is not justified. G-32

15. **General Fund Augmentation for Economic Development Not Justified.** Recommend that the Legislature delete $500,000 for the economic development marketing campaign because the benefits associated with this expenditure are uncertain. G-33

16. **Regulation Review Unit Duplicates Efforts.** Recommend that the Legislature delete $400,000 for a new regulation review unit because this unit would duplicate existing state efforts. G-34

17. **Fund Foreign Offices at Current-Year Level and Display in Budget Bill.** Recommend that the Legislature delete the proposed $507,000 General Fund augmentation for the foreign offices because the agency has not justified this increase. Recommend further that the Legislature again this year add an item to the Budget Bill to clearly identify the amount of funds budgeted for each foreign office. G-35

Analysis Page

18. **Report on Tourism Plan Needed.** Recommend that Legislature not approve $7.3 million in General Fund expenditures proposed for the Office of Tourism until it reviews the tourism marketing plan required by current law. Further recommend that the agency report to the Legislature, prior to budget hearings, on the status of implementing the California Tourism Marketing Act. G-36

Energy Resources Conservation and Development Commission

19. **State Funding for Energy-Related Construction Program Is Inappropriate.** Recommend that the Legislature delete $1 million in Petroleum Violation Escrow Account funds proposed for energy-related construction program because state funding for this purpose is inappropriate. G-39

20. **Augmentation to Promote Energy Business Development Not Justified.** Recommend that the Legislature delete $1 million under Item 3360-001-0853 because the commission has not justified the basis for this augmentation. G-40

Public Utilities Commission

21. **Recommend 17 Vacant Positions for Trucking Regulation Program Be Abolished. Reduce Item 8660-001-0412 by $463,000 and Withhold Recommendation on $3.5 Million and 49 Positions for Trucking Regulation Program.** The commission has not shown why these vacant positions need to be filled. In addition, we withhold recommendation on the remaining positions proposed for the trucking regulation program pending receipt of workload information. G-43

Analysis Page

Department of Industrial Relations

22. **Prevailing Wages Change**. Recommend that the Legislature delete $1,266,000 requested to implement a substantive change in prevailing wage methodology because this policy proposal and associated costs should be considered in prevailing wage legislation rather than the Budget Bill. (Reduce Item 8350-001-0001 by $1,266,000.) G-44

23. **Overtime Pay Change.** Recommend that the Legislature delete $274,000 requested to implement a substantive change in overtime pay standards because this policy proposal and associated costs should be considered in legislation other than the budget and because these costs appear to be absorbable in the department's budget. (Reduce Item 8350-001-0001 by $274,000.) G-46

24. **"Realignment" of Operating Expense and Equipment Budget**. Withhold recommendation on $4,050,000 requested to restore baseline funding for operating expense and equipment (OE & E), pending clarification of the department's personal services and OE & E needs. Recommend deletion of an additional $1 million request, for which justification is entirely lacking. (Reduce Item 8350-001-0001 by $800,000 and reduce Item 8350-001-0223 by $200,000.) G-47

25. **Better Information Needed on Targeted Industries Partnership Program Expansion**. Recommend that the department report to the budget committees prior to budget hearings on (1) current program accomplishments and expected program outcomes and (2) full accounting of expected collections from assessments and the feasibility of funding part of the program from these collections. Pending review of these reports, we withhold recommendation on $1,737,000 requested for a major expansion of the Targeted Industries Partnership Program. G-49

Analysis Page

Department of Food and Agriculture

26. **Provide General Fund Support of Medfly Program on an Annual Basis.** Recommend that the Legislature approve the $7.7 million General Fund augmentation but that this amount not be made part of the department's ongoing base budget. We further recommend that the Department of Food and Agriculture (DFA) submit a report to the Legislature, by November 1 of each year for the next five years, evaluating the program and the progress of scientific research to control the Medfly. G-52

27. **Industry Should Share Costs of Medfly Program.** Recommend that the Legislature enact trailer bill legislation authorizing the DFA to assess the agricultural industry for 50 percent of the state's cost of the Medfly program. Accordingly, we recommend that the Legislature structure 50 percent of the $7.7 million General Fund appropriation in Item 8570-001-001 as a loan, repayable January 1, 1997. G-56

28. **24-hour Operation of All Agricultural Inspection Stations Not Needed.** Recommend that the Legislature delete $1.4 million in General Fund expenditures and 53 positions requested for the expansion of the agricultural inspection stations program because the department has not justified the need for staffing all stations on a 24-hour basis. (Reduce Item 8570-001-001 by $1.4 million.) G-57

29. **Effectiveness of Domestic Parcel Inspection Program Needs to Be Proven.** Recommend that the Legislature approve 15 positions as one-year, limited-term positions until the department can demonstrate that the domestic parcel inspection program is effective. We further recommend that the 16 remaining positions be eliminated and $730,000 be deleted. (Reduce Item 8570-001-001 by $730,000.) G-59

	Analysis Page
30. **State Program Should Be Eliminated Because Fees Ruled Unconstitutional.** Recommend that the Legislature eliminate $1.1 million in Agriculture Fund expenditures and 17 positions from the Airport Maritime Inspection Program because state collection of fees used to support this program have been ruled unconstitutional. (Reduce Item 8570-001-1111 by $1.1 million.)	G-60