



Highlights of the *1998-99 Analysis and P & I*

STATE FISCAL PICTURE

THE BOTTOM LINE

➤ **California's Fiscal Outlook Brightest in a Decade**

- The main reasons for this outlook are healthy revenue growth and declining health and welfare caseloads.

➤ **LAO's Findings**

- We estimate that revenues will exceed the budget forecast by \$1 billion in 1997-98 and 1998-99 combined, and that expenditures will fall below the budget estimate by \$200 million.
- In contrast to recent years, the \$1.2 billion in additional resources will be available for non-Proposition 98 purposes.
- While the overall picture is bright, we note that budgetary pressures will emerge in the following year, due to continued phase in of tax reductions, and an increase in certain state costs. (*P&I*, page 15.)

➤ **LAO Recommendations**

- The Legislature should use some of the new funds we identify to augment the Governor's proposed reserve by at least \$300 million.
- The remaining new funds should be focused on one-time commitments.
- While ongoing commitments also could be undertaken, the Legislature should be cautious and not over-commit future budgets. (*P&I*, page 18.)



ECONOMY AND REVENUES

➤ **Continued Economic and Revenue Growth Expected**

- The budget assumes that California's economy will continue to expand at a solid, though moderating, pace in 1998 and 1999.
- It assumes that Asia's economic problems will have a modest impact on California's overall economy, subtracting about 0.5 percent off of personal income growth in both 1998 and 1999.

➤ **LAO's Assessment**

- In general, our economic forecast is similar to the administration's, in that we both see continued moderate economic growth.
- We project that revenues will exceed the budget forecast by \$645 million in the current year and by \$360 million in 1998-99, for a two-year gain of about \$1 billion.
- Our higher projections reflect: (1) recent strong cash receipts, and (2) our assumption that future sales tax growth will exceed the administration's. (*P&I*, page 65.)

PROGRAM HIGHLIGHTS

K-12 EDUCATION

➤ **The State Should Develop a K-12 Framework**

- The Governor proposes a number of major issues that raise the question of the role of the state in the design and operation of the K-12 system. There is no context, however, for determining whether these proposals reenforce the appropriate division of state and local responsibilities.
- The state should develop a long-term framework, similar to the Master Plan for Higher Education, that identifies the proper roles the state and local districts play in the areas of governance, finance, and standards. This framework would guide the Legislature in evaluating significant K-12 policy and budget proposals. (*Analysis*, page E-17.)

➤ **Legislature Faces Three Key Decisions in Developing Its 1998-99 K-12 Expenditure Plan**

- **Level of the Guarantee.** Our estimate of the 1998-99 minimum guarantee for K-12 education is \$176 million *less* than the budget's. We developed an alternative budget that emphasizes local control over K-12 budget and policy decisions. (*Analysis*, page E-27.)
- **Cost-of-Living Adjustment (COLA).** The budget proposes a 2.22 percent COLA instead of the 4 percent COLA called for in statute. We recommend the lower amount as it more accurately reflects inflation that has occurred over the past year. (*Analysis*, page E-30.)
- **Longer School Year.** This one proposal accounts for \$350 million in new funds in the budget year. We recommend the Legislature reject the Governor's proposal because more days of the same type of instruction have not been found to improve student achievement. (*Analysis*, page E-38.)



➤ **Statewide Assessment Is Behind Schedule**

- The statewide test of applied academic skills will not be ready by spring 1999, as planned. We recommend the Legislature (1) delete \$30.2 million proposed for the development and administration of this test and (2) allow test development to begin along with development of performance standards. (*Analysis*, page E-49.)

➤ **Budget Increases Proposition 98 Child Care Support of CalWORKs Program**

- The budget proposes to spend \$88.5 million in Proposition 98 funds for child care services exclusively for California Work Opportunity and Responsibility to Kids (CalWORKs) recipients. The Legislature will want to review this proposal as it evaluates its priorities for the use of Proposition 98 and General Fund monies.
- The budget also poses several implementation issues due to its proposal to divide administration of CalWORKs child care between the state Department of Education and county welfare departments. We recommend the Legislature take several actions to address these issues. (*Analysis*, page E-58.)

HIGHER EDUCATION

➤ **Projected Enrollment Increases Are Not of “Tidal Wave” Proportions**

- Various reports characterize future increases in California’s higher education system as “Tidal Wave II.”
- Using college-participation rates from 1996, we project that higher education enrollments in 2005 will be 98,000 above the peak enrollments of 1991. This constitutes an annual growth rate of 0.3 percent. Even if the higher participation rates assumed by other studies occur, student enrollments will not grow at “tidal wave” proportions.
- Enrollments will increase over the next decade. The Legislature, however, has many policy levers that it can use to manage this growth and ensure students receive the best possible service. (*P&I*, page 127.)

➤ **Higher Education Enrollment Increases Are Not Justified**

- **University of California.** The University of California (UC) requests \$20.6 million from the General Fund to increase enrollments by 2,800, or 1.8 percent. We recommend reducing this proposal by \$9.4 million because (1) UC has not justified why it needs to increase enrollments above the 1 percent contained in the Governor's compact and approved by the Legislature the past three years and (2) UC already can and should shift its class offerings to reflect changes in student needs. (*Analysis*, page F-29.)
- **California State University.** The budget requests \$40 million for "extra" growth for California State University (CSU). This growth, however, already has taken place. During 1996-97 and 1997-98, CSU has successfully accommodated the extra students, drawing from a \$50 million-plus pool of (1) productivity savings promised under the "compact," and (2) unreported student fee revenues. Since resources already exist to teach the extra students, CSU does not need the \$40 million augmentation for that purpose.
- As an alternative, we suggest redirecting the augmentation to (1) provide new incentives for CSU faculty to increase their teaching commitments and (2) fund a plan adopted by the Legislature in 1996-97 to address CSU's deferred maintenance. (*Analysis*, page F-34.)
- **Community Colleges.** The budget includes \$90 million in enrollment growth, or 3 percent above current-year levels. Providing such high levels of growth, however, creates incentives for colleges to serve lower-priority classes (such as recreation classes). For this reason, we recommend the Legislature delete \$18 million budgeted for this purpose, which would align growth funding with the increase in the underlying population served by community colleges. (*Analysis*, page F-30.)

➤ **UC Request for \$9.9 Million for the Tenth Campus Lacks Sufficient Detail**

- The UC received \$4.9 million in 1997-98 for activities related to the tenth UC campus in Merced County. The budget requests \$9.9 million in 1998-99 to continue these activities. The university indicates that it will need over \$80 million in operating funds before it opens the campus in 2005.



- The university has provided only broad descriptions of how it is spending funds for the tenth campus in the current and budget year. We withhold recommendation on the budget-year funds until the university provides the Legislature with details of how it plans to spend them. (*Analysis*, page F-30.)

➤ **A Market Driven Approach to Training Teachers**

- The budget requests \$3.3 million to add 600 new student “slots” at CSU Schools of Education. We recommend instead using the funds to award scholarships—redeemable at CSU or any other accredited teacher training program—to enable 1,200 financially needy students to pursue training and become credentialed K-12 teachers. (*Analysis*, page F-40.)

HEALTH AND SOCIAL SERVICES

➤ **CalWORKs Employment Services Budget Significantly Exceeds the Amount Needed to Fully Fund the Program**

- We estimate that the budget proposal is more than \$700 million in excess of the amount needed to fully fund the California Work Opportunity and Responsibility to Kids (CalWORKs) employment services.
- We recommend deleting \$95 million (General Fund) proposed as the state match for the new federal Welfare-to-Work grant because it can be deferred to future years when the match could be provided from within ongoing baseline expenditures for CalWORKs, thereby avoiding additional General Fund costs.
- We further recommend reducing the budget for employment services by \$209 million in federal Temporary Assistance for Needy Families (TANF) block grant funds. In conjunction with separate recommendations to reduce county welfare administration expenditures by \$43 million, this would free up \$252 million in federal TANF block grant funds. We recommend redirecting at least half of the savings (\$126 million) to a reserve for future-year CalWORKs expenditures. We identify options for the Legislature to consider in redirecting the remaining \$126 million of the federal funds. (*Analysis*, pages C-118 through C-128.)

- **Over \$200 Million of Budgeted Medi-Cal Savings Appear Arbitrary**
 - The administration has made specific adjustments in its Medi-Cal budget to recognize the transition to managed care. We believe these adjustments are appropriate.
 - The Medi-Cal budget also includes General Fund savings totaling \$243 million (\$110 million in the current year and \$133 million in 1998-99) as a result of “uncertainty adjustments” in the department’s cost forecasting model. These global adjustments appear to be arbitrary at this time. We will review the estimate in more detail as part of our analysis of the May Revision of the budget. (*Analysis*, page C-50.)
- **Changes to the New Healthy Families Program Could Provide Better Coverage and Result in Savings**
 - We recommend enactment of legislation to require children in the California Children’s Services program to enroll, if eligible, in the Healthy Families program. This would provide more comprehensive health care coverage and result in an increase in federal reimbursements and a net \$6.2 million reduction in state costs and a similar reduction in county costs.
 - We also recommend that the administration report on the feasibility and potential savings of including, as a benefit under the Healthy Families Program, services provided by the regional centers for developmentally disabled children. (*Analysis*, page C-20.)
- **State Plan Amendment Would Result in General Fund Savings in the In-Home Supportive Services (IHSS) Program**
 - Certain IHSS recipients who pay a share of the costs for the services they receive, and who currently are funded solely with state and county funds, could be made eligible for federal Medicaid funds by amending our State Medicaid Plan. We recommend such an amendment, and estimate that this would result in General Fund savings of about \$35 million and county savings of about \$19 million in 1998-99. (*Analysis*, page C-150.)
- **New Child Support Incentive Payment System Is Needed**
 - The federal government provides incentive payments to the states designed to encourage them to collect child support. In California, the state supplements



the federal incentive payments with state funds and provides them to the county district attorneys, who administer the child support enforcement program.

- The federal administration has proposed to change the formula used to determine the amount of federal incentive payments distributed to the states. We review the federal proposal, and recommend that California establish a different incentive payment system for distributing funds to the counties. Under our proposal, incentive payments would be a function of two factors which more closely reflect collections performance: county administrative effort and cost-effectiveness. (*Analysis*, page C-132.)

➤ **State Could Save \$300 Million by Eliminating Overbudgeting and Increasing Federal Funds**

- In addition to the recommendations discussed above, we make several recommendations in various programs to eliminate overbudgeting and increase federal funds. Taken together, they would result in total General Fund savings of about \$300 million over the current and budget years, and additional savings to the counties.
- The overbudgeting occurs in the following programs and activities: SSI/SSP caseloads (\$113 million); child support enforcement arrearages and incentive payments (\$73 million); county administration of the Medi-Cal Program (\$26 million); Medi-Cal eligibility determination (\$23 million); regional center and state developmental center staff (\$11 million); county administration of the Food Stamps program (\$7.8 million); Work Activity Program and Supported Employment Program caseload growth (\$4.8 million); mental health managed care inflation adjustment (\$2 million); licensed maternity home care (\$1.6 million); and Medi-Cal fraud enforcement (\$0.2 million). (*Analysis*, pages C-147, C-143, C-51, C-62, C-83, C-91, C-153, C-108, C-99, C-155, and C-32.)
- Additional federal funds could be received in the following programs, thereby reducing General Fund costs: IHSS (\$13 million state savings); foster care (\$12 million); Adoptions Assistance Program (\$6.6 million); Drug/Medi-Cal program (\$0.3 million); and the Multi-Purpose Senior Services Program (\$0.2 million). (*Analysis*, pages C-150, C-129, C-157, C-30, and C-29.)

JUDICIARY AND CRIMINAL JUSTICE

➤ **Growth in Prison Population Continues**

- The California Department of Corrections projects that the prison population will increase by about 5.8 percent annually, reaching about 213,000 inmates by June 2003. The state will run out of room to house inmates by early 2000 unless prison space is made available or measures are taken to reduce inmate population growth.
- The administration proposes a number of ways to accommodate the growth, including constructing new prisons, overcrowding prisons, and contracting for 15,000 beds in private prisons. Although there is merit to adding capacity to the prison system, we recommend that it be balanced with changes to reduce the inmate population growth rate. (*Analysis*, pages D-64 to D-76.)

➤ **Legislature Should Reform Adult Parole System**

- A major contributor to the growth in the prison population is the large number of parolees being returned to prison for a parole violation. Although once on the decline, the number of parole violators is on the rise again. The growth is closely associated with policy decisions of the Board of Prison Terms.
- We recommend an approach to reforming the parole system that should improve public safety, reduce prison overcrowding, and save the state money by breaking the cycle of parole failure and reincarceration. (*Analysis*, see pages D-11 to D-33).

➤ **The Federal Government Is Playing an Increasing Role in California Law Enforcement**

- Although state and local governments have traditionally been responsible for law enforcement, recently the federal government has become much more involved—by providing large amounts of money for law enforcement programs (sometimes with strings attached) and increasing the resources and roles of federal law enforcement agencies, such as the Federal Bureau of Investigation.



- Local law enforcement agencies in California have received about \$500 million in federal funds in recent years; the largest amount was used to hire more than 3,000 new police officers.
- In view of the increased federal role, the Legislature needs to evaluate proposed state-funded law enforcement increases in the context of expanded federal funds and consider linkages with federal programs in order to maximize both federal and state funding. (*Analysis*, pages D-34 to D-42.)

➤ **New Fees Have Changed How Counties Use Youth Authority**

- Effective January 1, 1997, counties were charged new and higher fees for certain commitments of juvenile offenders to the Department of the Youth Authority. The fees were designed, in part, to provide incentives to counties to treat less serious offenders in local programs and to invest in prevention programs in order to reduce juvenile delinquency.
- Initial data for the first year show the fees are having the intended impacts. There has been a significant decrease in new Youth Authority commitments in those categories of wards for which counties must pay higher fees.
- Counties are developing local alternatives to Youth Authority, in part because of the fees. The state has provided county probation departments with \$374 million (for 1997-98 and 1998-99) in federal Temporary Assistance for Needy Families funds, which will assist them in developing these alternatives and offset the costs of the fees. (*Analysis*, pages D-99 to D-101.)

➤ **Governance and Accountability—Key Issues for Trial Court Funding**

- The budget implements the new restructuring of Trial Court Funding, which will substantially increase costs to the state to support the trial courts while saving the counties money.
- Because the state will be responsible for all future additional costs of the trial courts, the Legislature will need to ensure that the state has adequate control over court operations and expenditures and that courts are held accountable for their operational and financial decisions. (*Analysis*, pages D-111 to D-115.)

CAPITAL OUTLAY

➤ **The State Needs a Better Planning and Financing Process for Capital Outlay**

- In recent years the state has relied heavily on the use of bonds for addressing its capital outlay needs. Over the last five years, less than 0.1 percent of General Fund expenditures have been used to fund projects on a “pay-as-you-go” basis. The state needs a better balance between debt financing and pay-as-you-go-financing.
- The lack of a predictable funding source and a coordinated set of priorities has meant some high priority projects have been deferred.
- We recommend the Legislature dedicate a portion of annual General Fund revenues to provide a pay-as-you-go funding source for capital outlay. (*Analysis*, page H-15.)

➤ **Set Priorities Instead of Allocating Equal Amounts for Capital Outlay in Higher Education**

- The administration and the Legislature for the past several years have allocated funds to the segments of higher education based on an equal amount rather than based on relative needs.
- We have recommended specific criteria and priorities for the Legislature to use when evaluating higher education capital outlay across all three segments. (*Analysis*, page H-18.)

➤ **The Legislature Needs a Better Way to Assess Seismic Risk in Higher Education Buildings**

- The Department of General Services (DGS) has developed a method for evaluating the relative seismic risk of state buildings that the Legislature has used to fund structural improvements for the highest risk state buildings.
- To give the Legislature a common evaluation system, we recommend that the Legislature require the University of California (UC) and the California State University (CSU) to reevaluate their buildings for seismic safety using the DGS' methodology. (*Analysis*, page H-27.)



➤ **A Plan Is Needed for Housing Judicially Committed and Penal Code Patients in State Hospitals**

- The number of judicially committed and penal code committed patients in the Department of Mental Health is expected to grow by about 300 each year.
- The administration has not developed a long-range plan for accommodating this population and instead is proposing to expand Atascadero State Hospital in two 250-bed units.
- The Legislature needs to address this population growth in a comprehensive manner that considers various alternatives—including construction of more facilities. We recommend the Legislature not approve additional beds for these patients until a comprehensive plan is presented. (*Analysis*, page H-51.)

➤ **Administration Continues to Plan Huge Increase in Prison System**

- The existing state prison system will be full in two years. Based on current policies and programs, the inmate population is expected to increase by 11,000 inmates each year—equivalent to the capacity of two new prisons (at a capital cost of \$500 million).
- The administration addresses this issue solely by expanding the prison system (with new prisons and by leasing prisons from the private sector). This approach is similar to past proposals that have been rejected by the Legislature.
- We continue to recommend that the Legislature develop a balanced approach that includes (1) development of additional prison capacity and (2) policy and program changes to reduce the growth rate in the inmate population. (*Analysis*, page H-57.)

➤ **State Should Not Fund UC San Francisco Mission Bay Campus**

- The budget includes \$21.4 million to construct a building in the Mission Bay area of San Francisco to replace UC Hall, located at the UC San Francisco campus on Parnassus Avenue.
- This would be the initial building for a \$1 billion, full-service medical research campus the university proposes to establish in the Mission Bay area.
- Any state funds contributed to this effort would diminish the state’s ability to meet other needs throughout higher education.

- We recommend the Legislature advise the UC that there will be no commitment of state funds for a Mission Bay campus. (*Analysis*, page H-76.)
- **Defer Decision on Moving CSU to the Camarillo State Hospital Site**
 - The administration is proposing to give the CSU additional operating and capital outlay funds to move the Ventura Off-Campus Center to the vacated Camarillo State Hospital site.
 - The CSU Board of Trustees has stated that they will accept the Camarillo site contingent on (1) receiving additional operating and capital outlay funds and (2) the results of various studies that are currently underway.
 - We recommend that the Legislature defer a decision on moving the CSU until the information expected by the trustees is also available to the Legislature and the Legislature can assess the long-term cost and benefit implications of moving to the Camarillo site. (*Analysis*, page H-85.)
- **Community College Districts Should Share in Project Costs**
 - There will be limited funding to address multibillion dollar capital outlay needs for higher education.
 - Community college districts have the ability to help finance capital outlay needs with allocations of their general-purpose revenues.
 - If districts had to share the burden for project costs, they would be more cognizant of the cost implications of proposed projects.
 - In order to stretch state capital outlay dollars further, the Legislature should reestablish cost sharing for community college projects. (*Analysis*, page H-91.)

TRANSPORTATION

- **Overall Transportation Funding Outlook Improves Significantly; But Uncertainties Exist**
 - For the first time in recent years, there will be funds—projected at about \$4.6 billion—for a significant number of new highway projects over the next six years from 1998-99 through 2003-04. (*Analysis*, page A-16.)



- While the funding outlook shows significant improvement, uncertainties remain that may affect the funding picture, including the level of federal funds, the level of gas tax revenues, and potentially higher expenditures for the budget year. (*Analysis*, page A-17.)

➤ **Mass Transportation Funding Faces Shortfall**

- The Public Transportation Account which funds intercity rail service, mass transportation programs, and transit capital improvements, faces a projected deficit in 1998-99 and will require a transfer of State Highway Account funds to stay in balance. Even with the transfer, there still will not be sufficient revenues to cover all outstanding obligations made through 1997-98 for transit capital improvement projects. (*Analysis*, page A-20.)

➤ **Motor Vehicle Account Balance Masks Continuing Problems**

- The Motor Vehicle Account projects a moderate balance at the end of 1998-99. This balance is made possible by the deferral of a loan repayment, continued shift in expenditures to other fund sources, deferral of capital improvements, and overly optimistic projections of revenues. (*Analysis*, page A-23.)

➤ **Database Redesign Shows No Progress**

- Five years after a Department of Motor Vehicles' database redesign project failed, the department is no further along in improving or redeveloping its information technology system. (*Analysis*, page A-55.)

RESOURCES

➤ **Cal-EPA Not Meeting Its Goals**

- While the California Environmental Protection Agency (Cal-EPA) has reduced duplication and conflict in environmental regulation, it has not met some of the major goals set out for it when it was established, including assessing and addressing the greatest risks to public health and the environment and serving as a primary point of accountability for the state's environmental programs.
- This reflects the failure of the agency to coordinate the setting of priorities for addressing risks among its constituent boards and departments. Furthermore,

the lines of accountability are unclear under the current structure which includes independent boards. We make recommendations to address these shortcomings, including establishing an interdepartmental Environmental Protection Council to set, and report on, agency-wide environmental protection priorities. (*Analysis*, page B-51.)

➤ **Priorities Need to Be Set for Resources Bonds**

- The Legislature will be evaluating a number of resources bond proposals this session, including \$2.1 billion of water and park bonds proposed by the administration. We find that the administration's assessment of resources-related needs is deficient in many respects. We offer a framework for assessing needs and setting funding priorities. (*Analysis*, page B-26.)

➤ **Governor's Resources Initiatives Lack Detail**

- The budget proposes \$59 million for four initiatives intended to manage and restore the state's (1) endangered and threatened species and natural communities, (2) the Lake Tahoe Basin, (3) watersheds, and (4) coastal resources. The initiatives are an effort to move beyond a project-by-project focus to implement a broader approach to natural resource conservation and management.
- We think that the broader approach to resource conservation and management has merit. However, our review indicates that the Governor's initiatives need to identify long-term costs and fund sources. Furthermore, the initiatives lack adequate details on how funds are to be spent, measures of accomplishments, and the general goals of some of the components. (*Analysis*, pages B-34 through B-46.)

➤ **State Agencies Lag in Recycling**

- State agencies lag behind the rest of the state in recycling and may impede the ability of some local jurisdictions to meet landfill diversion requirements.
- The Waste Board's state agency recycling program ("Project Recycle") needs to be more proactive in identifying and assisting state agencies to maximize their recycling efforts. (*Analysis*, page B-79.)



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- **Pesticides Department Not Responsive to Legislative Direction**
 - The Department of Pesticide Regulation has not been responsive to the Legislature’s direction to develop the performance measures necessary to hold it accountable for meeting statutory mandates.
 - This is of particular concern given evidence of backlogged risk assessments and increasing pesticide use over the last several years. (*Analysis*, page B-86.)

GENERAL GOVERNMENT

- **Year 2000 Computer Problem Poses Challenge to State**
 - State government has embarked on a major effort to ensure its computer systems accommodate the year 2000 (Y2K) change. The Department of Information Technology (DOIT) estimates that it will cost the state at least \$240 million over several years to address the problem, but we believe that this estimate is understated.
 - We have identified a number of issues with the state’s Y2K efforts, including optimistic time lines, lack of contingency planning, and insufficient oversight resources.
 - We recommend that the Legislature: (1) require departments to report at budget hearings on the status of their Y2K efforts, (2) delay funding for new projects in departments which have not completed Y2K modifications, (3) approve DOIT’s budget to provide additional resources for oversight and assistance to departments, and (4) establish a reserve fund for yet-to-be identified Y2K efforts by departments. (*Analysis*, pages G-11 to G-76.)
- **Health and Welfare Agency Data Center Should Identify Tools It Needs**
 - In 1995, the administration transferred three of the nation’s largest information technology projects to the Health and Welfare Agency Data Center (HWDC)—projects to automate welfare, child support, and child welfare services. The projects were all experiencing difficulty at the time. Since then,

one project has been canceled after the state spent \$100 million, and others have experienced significant cost increases and delays.

- Currently, the data center is responsible for a total of ten projects, with total costs exceeding \$1.2 billion.
- The additional responsibility given to HWDC occurred without any review of whether it had the appropriate tools for developing and deploying information technology projects of this magnitude.
- Given the major tasks it faces in managing these projects, we recommend that HWDC report to the Legislature during budget hearings on its suggested strategies for developing the additional tools and resources it needs to successfully deploy the projects. (*Analysis*, pages G-76 to G-93.)

➤ **Department of Food and Agriculture
Food Safety Program Is Not Defined**

- The budget proposes \$991,000 to fund various elements of a food safety program in the Department of Food and Agriculture (DFA). The department, however, does not have a comprehensive plan identifying the goals and objectives of the food safety program nor is there information on the expected benefits from spending the additional funds.
- Since the Department of Health Services (DHS) is the lead state agency responsible for food safety, the food safety program in the DFA must have clearly defined program goals and be coordinated with the DHS.
- The Legislature should not approve any increase in this program augmentation until a comprehensive plan has been developed, in coordination with the DHS, to assure that any increase is effective and cost-efficient. (*Analysis*, page G-47.)

➤ **Implementation of Enhanced Smog Check Program Is Problematic**

- The Department of Consumer Affairs (DCA) is unclear on how it plans to implement various aspects of the Smog Check program.
- We recommend the Legislature not approve funding for these programs until the DCA reports to the Legislature on how these programs will be implemented. (*Analysis*, page G-23.)



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- **Foreign Offices Should Be Established Through Separate Legislation**
 - The budget proposes \$750,000 to establish foreign offices in Singapore; Shanghai, China; Seoul, South Korea; and Sao Paulo, Brazil.
 - Establishing foreign offices raises significant policy issues. We recommend that the Legislature delete the budget request and consider the need for foreign offices in legislation separate from the budget. (*Analysis*, page G-117.)

 - **Trade and Commerce Agency Augmentations for Economic Development**
 - The Trade and Commerce Agency has requested a \$7.8 million augmentation for a series of activities for economic development.
 - The agency's budget has increased by over 150 percent since it was created in 1992 even though when it was created the expectation was that there would be economies and overall savings in the operations of this agency.
 - We recommend that the agency reevaluate the need for these increases by setting priorities within existing resources and identify the specific expected outcomes from spending any additional funds. (*Analysis*, page G-120.)



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