GENERAL GOVERNMENT

LAO
55 Years of Service

2000-01 Analysis

Major Issues

General Government

Many Budget Proposals Lack Sufficient Justification or Details

- A number of the proposed augmentations in the Governor's budget are poorly justified or contain inadequate information and detail.
- These include proposals in the Information Technology Innovation Fund (page F-73), for child support activities at the Franchise Tax Board (page F-66), the public school construction Web site and "e-business center" in the Department of General Services (pages F-121 and F-126), the Urban Public Park in the Arts Council (page F-143), and the juvenile boot camp in the Military Department (page F-152).

Legislature Needs More Information on the Formation of the New Department of Managed Care

- The budget proposes a total of $27.9 million and 315 positions for the new department in 2000-01. A large amount of this funding and positions is proposed to be implemented administratively in the current year.
- The are numerous details regarding the administration's plans for establishing this new department that are unclear such as when the Governor will issue an executive order to establish the department in the current year and what the department's priorities and expected progress in organizing itself will be in the budget year (page F-36).

☑ Time to Reconsider Approach to Statewide Welfare Automation

- The Statewide Automated Welfare System (SAWS) is at a critical juncture. Costs are considerable (potentially $2 billion), much work still needs to be accomplished, making the system work will be technically difficult, and the current funding arrangement does not account for changes in law that occurred since the SAWS strategy was enacted.

- We recommend that the Legislature direct the Health and Human Services Agency, in conjunction with the Department of Information Technology, rexamine the current approach and report its findings before the Legislature provides additional funding for the project (page F-92).

☑ "New Economy Initiative" Long on Concept But Short on Substance

- The budget proposes $7 million for "new economy initiatives such as a Next Generation Internet Network and an E-Commerce in Rural Economic Regions Demonstration Project.

- These proposals are conceptual in nature and are not supported by any definitive information. In addition, there are no expected measurable outcomes for the proposals (page F-134).

☑ Proposed Augmentation for Citizens' Option for Public Safety Program Is Flawed

- The budget proposes a $21.3 million augmentation to the existing $100 million COPS program, which provides funds to local governments for law enforcement activities. The augmentation would be distributed to local law enforcement agencies so that each agency receives at least $100,000.

- The proposal is flawed for several reasons. There is no guarantee that agencies would use the additional money as the Governor intends (to hire new officers), the augmentation benefits only very small jurisdictions (those with populations of less than 45,000 persons), the augmentation does not account for local fiscal condition (many wealthy communities would be the beneficiaries). (Page F-182.)

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OVERVIEW

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Total funding for general government is proposed to decrease in the budget year. The General Fund portion of the budget is proposed to decrease by about $150 million, while the special fund portion is proposed to increase by slightly more than $20 million. The major General Fund changes include the reduction of one-time funding for the Infrastructure and Economic Development Bank ($425 million) and for Year 2000 costs ($48 million) and increases for vehicle license fee-related tax relief ($389 million) and retirement costs for the State Teachers' and Judges' Retirement Systems ($90 million).

The General Government section of the budget contains a variety of programs and departments with a wide range of responsibilities and functions. These programs and departments provide financial assistance to local governments, protect consumers, promote business development, provide services to state agencies, ensure fair employment practices, and collect revenue to fund state operations. The *2000-01 Governor's Budget* proposes $10.5 billion to fund these functions, not including federal funds. The proposed budget-year funding is $129 million less than estimated 1999-00 expenditures.

SPENDING BY MAJOR PROGRAM

There are six major program areas within general government:

- Local government subventions, which includes shared revenues and local government financing.
- Tax relief.
- Regulatory programs.
- Tax collection programs.
- State administrative functions.

- State retirement and employment.

We describe these program areas below and Figure 1 shows the estimated 1999-00 and proposed 2000-01 budget expenditures by program area.

Figure 1

General Government Spending By Program Area

1999-00 Through 2000-01 (In Millions)

Agency/Program	Estimated 1999-00	Proposed 2000-01	Difference
Local government subventions	$3,600	$3,459	-$141
Tax relief	1,890	2,279	389
Regulatory	1,367	1,353	-14
Tax collection	590	599	9
State administration	1,694	1,293	-401
Retirement	1,533	1,562	29
Totals	**$10,674**	**$10,545**	**-$129**

Local Government Subventions

The largest general government program is the local government subvention program, proposed to total $3.5 billion in 2000-01 which (1) distributes state-collected revenue (primarily from vehicle license fees and gas taxes) to local government agencies and (2) provides local governments additional funding for specified programs.

The Governor's budget proposes to subvene $3.2 billion in shared revenues (virtually all from special funds) and $227 million in other local assistance (all General Fund) to local governments. More than half of this assistance ($121 million) is for the Citizen's Option for Public Safety, a program created in 1996-97 that distributes money to local governments for criminal justice services.

Tax Relief

The state provides local tax relief—both as subventions to local governments and as direct payments to eligible taxpayers—through a number of different programs. The Governor's budget proposes nearly $2.3 billion for tax relief expenditures in 2000-01. The two largest are the Vehicle License Fee

(VLF) offset and the Homeowners' Property Tax Relief (homeowners' exemption) programs. The Governor's budget proposes an expenditure of $1.7 billion General Fund on the VLF offset in 2000-01, which reflects the continuation of the 35 percent reduction begun on January 1, 2000.

Regulatory Activities

A total of 22 departments are responsible for providing regulatory oversight of various consumer and business issues. Most of these departments are funded from special funds that receive revenue from those subject to regulation. Included in this total are the Departments of Consumer Affairs, Industrial Relations, Food and Agriculture, Financial Institutions, and Corporations, as well as the Public Utilities Commission.

The total proposed expenditures for all regulatory activities in the budget year are $1.4 billion. This includes approximately $1.1 billion from special funds and $286 million from the General Fund. Total expenditures in this category are $14 million, or less than one percent, below estimated current-year expenditures. The four largest agencies in terms of overall proposed expenditures are the Department of Consumer Affairs, $307 million ($1.9 million General Fund); the Department of Industrial Relations, $211 million ($166 million General Fund); the Energy Commission, $210 million (all special funds); and the Department of Food and Agriculture, $208 million ($87 million General Fund).

These regulatory agencies protect the consumer and promote business development while regulating various aspects of licensee, business, and employment practices. The groups regulated range from individual licensees to large corporations.

Tax Collection Programs

Expenditures. The Franchise Tax Board and the Board of Equalization are the largest revenue collection agencies in the state. Together, both boards collect the state's personal and business income taxes, sales tax, and special use taxes. The budget proposes $599 million for these tax programs in 2000-01. This is an increase of $9 million, or 1.6 percent, from estimated current-year expenditures.

Revenues. The Governor's budget estimates combined General Fund collections by both boards will be $65.7 billion in 2000-01. More than half of all General Fund revenues ($36.3 billion) come from personal income taxes.

State Administrative Functions

There are more than 30 departments and agencies that provide a wide range of administrative services. These services range from oversight and support of other departments (such as the Department of General Services, the Department of Information Technology, and the Office of Administrative Law), to economic development (such as the Trade and Commerce Agency), to various specialized services provided to individuals and communities (such as the Office of Emergency Services, the Military Department, and the Department of Veterans Affairs).

The budget proposes a total of $1.3 billion to support these functions in 2000-01. This is a decrease of $401 million, or 24 percent, from current-year expenditures. The decrease is primarily a result of the one-time appropriation to the state Infrastructure and Economic Development Bank in the current year.

State Retirement Programs

Retirement-related expenditures account for a significant part of state spending for the budget year. In 2000-01, state expenditures for various costs associated with public employee retirement (excluding University of California costs) will total $2.4 billion, including $2 billion from the General Fund. As summarized in Figure 2, the General Fund provides for employer contributions and/or various other payments to four retirement systems. In addition, the state (1) contributes to the payment of premiums for health and dental benefit plans for retired state employees and (2) makes Social Security and Medicare contributions for most state employees.

Public Employees' Retirement System. The Public Employees' Retirement System (PERS) is the retirement system for most state employees. The budget projects General Fund expenditures of $83 million for PERS in 2000-01. The state's projected General Fund payment to PERS represents a nearly $400 million decline from 1998-99. This is because of changes related to Chapter 555, Statutes of 1999 (SB 400, Ortiz), which enhanced retirement benefits for all state employees effective January 1, 2000. Chapter 555 also required PERS to adopt the following changes to its actuarial valuation methods: (1) modify the June 30, 1998 valuation using 95 percent (rather than 90 percent) of the market value of state employer assets and (2) reduce from 30 years to 20 years the amortization of the June 30, 1998 excess assets beginning July 1, 1999. These changes recognize excess assets more quickly, thereby partially offsetting the state's costs that result from the benefit improvements. The state's costs are anticipated to increase by more than $350 million in 2001-02—the first year that PERS recognizes the increased liability for the benefit improvements in setting the state employer contribution rates.

Figure 2

General Fund Costs For Retirement Programs[a]

2000-01 (In Millions)

State Retirement Plans	
State Teachers' Retirement	$1,007
Judges' Retirement	104
Public Employees' Retirement[b]	83
Defined Contribution Plan[c]	35
Legislators' Retirement	—
Subtotal	($1,229)
Other Retirement Benefits	
Health and Dental Benefits for Annuitants	$387
Social Security and Medicare[d]	346
Subtotal	($733)
Total	**$1,962**

a Excludes costs for University of California employees.
b Includes 2 percent “pick up” for Bargaining Unit 8 employees' retirement contribution.
c Program for Bargaining Unit 6 employees.
d Legislative Analyst's Office estimate based on 1998-99 costs.

State Teachers’ Retirement System. The State Teachers’ Retirement System (STRS) is the retirement system for teachers in public K-12 schools and community colleges. The STRS receives contributions from teachers and their employers. However, these contributions have historically been insufficient to provide for the cost of basic retirement benefits (which were enhanced by 1998 legislation), the protection of retirees’ purchasing power, and past unfunded liabilities (the system no longer has an unfunded liability). These shortfalls have been covered by annual transfers from the General Fund. In the budget year, the transfers are expected to total $1 billion—about $70 million higher than the current year.

Health and Dental Premiums. The budget also includes $387 million from the General Fund to pay the state share of health and dental insurance premiums for retired state employees and their qualifying beneficiaries. This is $39.6 million more than estimated current-year expenditures, reflecting an increase in the number of retirees and a dental insurance premium increase. The PERS is currently negotiating the health premiums rates for the second half of the budget year. These negotiations may result in a change in the estimated General Fund cost for the budget year.

Employee Compensation

There are approximately 164,000 rank-and-file state employees (not including those in higher education) covered under state collective bargaining law. The pay, benefits, and working conditions for these employees are typically spelled out in memoranda of understanding (MOUs). In September 1999, the Legislature approved MOUs for all of the state's 21 collective bargaining units. These agreements replace the MOUs that expired June 30, 1999 and are effective for a two-year period beginning July 1, 1999. The new MOUs provide a 4 percent salary increase retroactive to July 1, 1999; another 4 percent effective September 1, 2000; and increased retirement benefits (subject to separate legislative action—Chapter 555, Statutes of 1999 [SB 400, Ortiz]).

The Governor's budget includes a total of $60 million ($30 million General Fund, $20 million from special funds, and $10 million from nongovernmental cost funds) to provide additional employee compensation. According to the Department of Finance, these as yet unspecified adjustments are to address pay issues (such as recruitment and retention pay differentials) not resolved in the collective bargaining agreements adopted in the fall.

DEPARTMENTAL ISSUES

General Government

DEPARTMENT OF INSURANCE (0845)

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 1,600 insurers and 300,000 brokers and agents operating in the state.

The budget proposes total expenditures of $157.7 million for DOI in 2000-01. This is $15.7 million, or 11 percent, more than estimated current-year expenditures. The changes proposed for the budget year include:

- Fraud Control—A net increase of $8.9 million, mainly due to a proposed increase in state and local activities for auto fraud control that is funded by a recent 50-cent fee increase on auto insurance policies.
- Consumer Protection—A net increase of $5.9 million, mainly due to an additional $5.6 million, funded by a recent 30-cent fee increase on auto insurance policies, to eliminate a backlog of enforcement cases and improve consumer protection programs for auto fraud activities. The budget also includes a $3.8 million General Fund loan to continue the Holocaust claims program.
- Regulation of Insurance Companies and Insurance Producers—A $2.2 million increase for regulatory activities.
- Earthquake Grants and Loans—A reduction of $1.6 million in local assistance to provide grants and loans to retrofit high-risk

residential dwellings owned or occupied by low- or moderate-income households to minimize the risk of future earthquake damage.

Holocaust Claims Program

We withhold recommendation on the request for a $3.8 million General Fund loan to review, investigate, and resolve insurance claims related to the Holocaust, pending receipt of the forthcoming biannual report on the current status of the program.

The budget includes a $3,778,000 General Fund loan (to be repaid by June 30, 2006) to continue DOI's activities concerning insurance claims related to the Holocaust. Chapter 963, Statutes of 1998 (SB 1530, Hayden) required DOI to implement a program to review, investigate, and resolve unpaid insurance claims for losses resulting from the activities of the Nazi-controlled German government and its allies for insurance policies written before and during World War II by insurers that currently have California affiliates. If an insurer or its affiliate has not paid a valid claim from Holocaust survivors, DOI must suspend the insurer's certificate of authority, which licenses the company to operate in California, until the insurer or the affiliate pays the claim.

Chapter 963 appropriated $4 million to DOI for expenditure during 1998-99 for this program. The legislation stipulates that funding for subsequent years is subject to appropriations in the annual budget acts. As a result, in the *1999-00 Budget Act*, the Legislature approved an additional $4.7 million General Fund loan for current-year activities to be repaid by June 30, 2005. The statute also requires DOI to submit to the insurance and budget committees of the Legislature a biannual report on its (1) progress implementing the program, (2) results in identifying and resolving insurance claims, and (3) current and anticipated program expenditures.

Biannual Report Forthcoming. According to DOI, there have been no claims settlements or reimbursements yet. In addition, the department has indicated that the required biannual report will be available around the time of budget hearings. Consequently, we withhold recommendation on the request for a $3.8 million General Fund loan for the Holocaust claims program until receipt and review of this report on the current status of the program.

Antirebate Investigation and Enforcement Unit

We recommend that the Legislature delete the request for $115,000 to continue the Antirebate Investigation and Enforcement Unit because the department has not demonstrated the effectiveness of this pilot. (Delete $115,000 from Item 0845-001-0217.)

The budget proposes $115,000 for 2000-01 and $230,000 each year thereafter to continue the Antirebate Investigation and Enforcement Unit. Chapter 434, Statutes of 1997 (SB 997, Schiff) established this special unit for a three-year period to enforce state and federal laws prohibiting title companies from paying "kickbacks" or referral fees to real estate agents for directing clients to them to conclude home purchases. Chapter 434 authorized DOI to assess affected companies—title insurers, underwritten title companies, and controlled escrow companies—to pay for the unit's activities, which sunset in September 2000.

The DOI proposes to continue this program without additional authorizing legislation by changing the funding source to license fees currently paid by all insurance companies into the Insurance Fund. The information provided by DOI does not indicate that the department has evaluated the effectiveness of this three-year pilot program. Before this program is made permanent, DOI should provide data that demonstrate its effectiveness. If the program merits continuation, DOI could (1) redirect existing resources to this function on a priority basis or (2) pursue legislation to continue the assessment. In either case, the proposed budget augmentation is not necessary. Thus, given the lack of an evaluation of the pilot, we recommend that the Legislature delete the request.

Automobile Fraud Program Augmentations

We withhold recommendation on $16,052,000 of the proposed augmentation of $16,532,000 and 114 positions to implement legislation authorizing an increase in the auto insurance policy fee of up to 80 cents to augment automobile fraud program activities, pending receipt of further information on the proposal. Further, we recommend that the Legislature reduce the request by $480,000 to fund new positions at the first step of the salary range, in accordance with Department of Finance budget instructions and standard budget practice. (Delete $480,000 from Item 0845-001-0217.)

Prior to January 1, 2000, insurers paid $1 for each auto insurance policy written to fund DOI's automobile fraud program to investigate and prosecute fraudulent auto accident claims and car theft. This fee generated approximately $19 million for the program annually, which is allocated to DOI, the California Highway Patrol, and county district attorneys.

Chapter 884, Statutes of 1999 (SB 940, Speier) authorized a 30 cent increase in the $1 auto insurance policy fee to improve DOI's consumer services related to automobile insurance. The legislation specifies that the highest priority for this additional fee is to eliminate the current backlog of consumer complaints regarding auto insurance and illegal conduct by companies selling auto insurance. The department is requesting

$5.6 million and 55 positions to implement the provisions of Chapter 884. The DOI proposes to eliminate the backlog by December 31, 2001. In addition, DOI's proposed improvements to consumer service activities include increasing the number of fiduciary examinations, criminal investigations, insurance companies investigated pursuant to consumer complaints, management reviews of companies, companies seized, and staff dedicated to cases leading up to criminal prosecution. The DOI also proposes to reinstate its enforcement of education requirements for licensees and implement a consumer education and outreach program.

Chapter 885, Statutes of 1999 (AB 1050, Wright), authorized an increase in the $1 auto insurance policy fee of *up to* 50 cent to combat organized crime rings involved in fraudulent auto accident claims. These funds would be distributed among DOI, district attorneys, and CHP, as with existing funds. The funds dedicated to local assistance for county district attorneys are to be used for three to ten grants to combat organized crime rings involved with fraudulent auto claims. The department requests $11 million and 59 positions to implement the provisions of Chapter 885.

Legislature Needs More Information on the Proposed Expenditures. At the time this analysis was written, we had not received detailed information on the proposed program changes to be funded by the 80-cent fee increase authorized under Chapters 884 and 885. In addition, it is not clear why DOI has chosen to increase the fee dedicated to the organized crime ring component to the full 50 cents allowed by Chapter 885. It is also unclear how DOI will be able to fill all 114 new positions during the budget year. Consequently, except as discussed below, we withhold recommendation on the proposed augmentation.

Funding for Positions Overbudgeted. The proposal includes 46 new fraud investigator positions with sufficient funds to hire the new employees at the top step of the applicable salary range. Budget instructions from the Department of Finance to all state departments, as well as standard practice, require that new positions be funded at the first step of the salary range applicable to each position. The requested amount is $480,000 above the first step of the salary range for the 46 positions. As a result, we recommend deleting $480,000 from the request.

CALIFORNIA STATE LOTTERY COMMISSION (0850)

The California State Lottery (lottery) was established by the Lottery Act, an initiative statutory and constitutional amendment approved by the voters in 1984. Revenues from lottery sales are deposited in the State Lottery Fund and are continuously appropriated to the California State Lottery Commission. The commission's budget is displayed in the Governor's budget and is included in the budget bill for informational purposes only.

The Lottery Act provides that sales revenue is to be distributed annually as follows: 50 percent returned to the public in the form of prizes, *at least* 34 percent for public education, and *no more than* 16 percent for administrative costs. Figure 1 (see next page) shows the distribution of lottery sales revenue since 1994-95.

Bridge Project

We recommend the California State Lottery report to the Legislature on: (1) its authority to allocate more than 50 percent of lottery sales revenues to prizes rather than distribute the excess amount to education as required in the Lottery Act and (2) how the Bridge Project and associated recent changes in administrative expenses and revenue distribution have furthered the purpose of the Lottery Act by providing increased revenue to education.

In 1997, the lottery implemented the Bridge Project, a three-year strategic management plan to streamline lottery operations, decrease administrative expenses and staff, and increase sales. The budget year will be the fourth year of the project. The Bridge Project represents a fairly significant administrative restructuring of the lottery. The project's major initiatives have been to:

- Hold administrative expenses at no more than 13.5 percent of sales. It is our understanding that the lottery intends administrative expenses to remain at the 13.5 percent level, with further reductions if possible.
- Allocate all the difference between the statutory 16 percent maximum for administration and actual costs to prizes.
- Reduce staffing levels. The commission cut 219 permanent positions (out of 853) in 1997-98.

Figure 1

Distribution of State Lottery Sales Revenue

1994-95 Through 2000-01
(Dollars in Millions)

						Estimated	Proposed
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Annual Sales	$2,166	$2,292	$2,063	$2,294	$2,498	$2,550	$2,550
Distribution							
Prizes	$1,075	$1,128	$1,031	$1,182	$1,307	$1,339	$1,339
Education[a]	755	798	712	786	850	867	867
Administration	336	365	321	327	341	344	344
Percentage							
Prizes	49.6%	49.2%	49.9%	51.5%	52.3%	52.5%	52.5%
Education[a]	34.9	34.8	34.5	34.3	34.0	34.0	34.0
Administration	15.5	15.9	15.6	14.3	13.7	13.5	13.5
Staff levels[b]	880	895	889	853	634	634	634

a This total does not include interest income, unclaimed prizes, or other miscellaneous income distributed to education because these amounts are in addition to the minimum 34 percent allocation mandated by law.

b Authorized permanent positions.

The Bridge Project institutes a change in the revenue distribution—shifting reductions in amounts allocated for administration to prizes rather than education. In the past, and consistent with the Lottery Act, amounts below the maximum 16 percent have been distributed to education at the end of the fiscal year. In 1998-99, however, increasing prize payouts from 50 percent to 52.3 percent resulted in about $58 million of these savings going to prizes, not education. In the budget year the distribution to prizes would be 52.5 percent, resulting in $64 million going to prizes rather than education. While the lottery has the authority to allocate administrative expenses to prizes for *promotional* purposes, it is not clear if the lottery has the authority to make a permanent change in the revenue distribution. We recommend the lottery report to the Legislature on the lottery's authority to continue allocating over 50 percent of revenues to prizes, rather than distributing the excess amount to education as provided in the Lottery Act.

The lottery believes that offering larger prizes will increase sales and thus result in increased revenue to education. Now that the lottery is in the fourth year of the Bridge Project, it should have sufficient data to present to the Legislature to substantiate this conclusion. Essentially the lottery needs to be able to substantiate that the increase in sales—related to the additional prize payout—is sufficient to offset the amount education otherwise would have received (for example, the $64 million in the budget year).

In the past, when asked to substantiate the proposed positive correlation between prize payout and sales revenue, the lottery has provided data from other state lotteries whose prize payouts exceed California's. The lottery has also indicated that the increasing sales revenue during the years of the Bridge Project "proves" that the positive correlation between prize payout and sales exists.

Other Factors Influencing Lottery Revenues. However, during the four years of the Bridge Project, several other factors have occurred that lead us to question the strength of the relationship between payouts and revenue. First, personal income of Californians has increased significantly over the four years of the Bridge Project and, therefore, individuals have had additional dollars to spend on the lottery. Further, the lottery took other actions during the term of the Bridge Project, each of which, according to the lottery positively affected sales:

- At the beginning of the Bridge Project the lottery undertook an aggressive advertising campaign to promote lottery games.
- The lottery implemented a retailer cashing bonus to encourage retailers to promote lottery tickets to their customers.
- The lottery installed automated lottery ticket dispensers.

Given these factors, the lottery needs to provide more information to substantiate its case that their actions have in fact resulted in increased revenues to education.

Legislative Oversight of The Commission's Administration Budget

We recommend that the Legislature amend the* 2000-01 Budget Bill *to extend the reporting requirement from the* 1999-00 Budget Act *and include an additional reporting requirement to be notified of changes in lottery revenue estimates.

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 authority to establish its own procurement policies.

In order to establish a degree of oversight on the state lottery budget, the Legislature added an informational item to the *1999-00 Budget Act* identifying planned budget-year expenditures for administration. Included were several reporting requirements that the lottery provide updated administrative budget estimates to the Legislature at specific times during the year. These reporting requirements are not included in the budget bill as submitted by the Governor. We believe continued oversight and monitoring of the lottery's administrative expenses is important for the Legislature. Thus, we recommend the reporting requirement from the *1999-00 Budget Act* be included in the *2000-01 Budget Bill*. Further, in view of the recent differences between projected and realized revenues, we recommend that the commission also provide updated revenue projections to the Legislature when the administrative expense reports are submitted. If revenues have been adjusted since the previous report, the commission should include reasons for the adjustments.

CALIFORNIA GAMBLING CONTROL COMMISSION (0855)

The California Gambling Control Commission was established by Chapter 867, Statues of 1997 (SB 8, Lockyer). The five-member commission is to be appointed by the Governor subject to Senate confirmation. The commission (1) is responsible for licensing card rooms, card room owners, and certain card room employees; and (2) assesses fines for violations of the act.

The *2000-01 Governor's Budget* proposes $1.2 million from the Gambling Control Fund for support of the commission and its activities, a 2 percent increase from the current-year appropriation. The budget also includes authority for the five commission members and six permanent staff. When this *Analysis* was written, the Governor had not yet appointed the commission members. As a result, the commission has not incurred any expenditures to date.

Background

Card Room Gambling. Card rooms are one of four types of legal gambling in California. The others are the State Lottery, parimutuel wagering on horse race results, and charitable gambling. State law prohibits card rooms from offering (1) certain specific games—such as twenty-one, (2) banked games—games where the house has a stake in the outcome of the game, and (3) percentage games—games where the house collects a given share of the amount wagered. Typically, card room players pay a fee on a per hand or per hour basis to play the game.

While the basic authority for card rooms is found in state law, local jurisdictions must approve an ordinance authorizing the establishment of a card room. Local governments also establish the operating hours, number of tables, number of players per table, and wagering limits for card rooms in their jurisdiction. Finally, local governments can prohibit the operation of card rooms and can enact more stringent local controls and conditions on gambling.

There are currently 160 card rooms operating in California.

Attorney General Staff Currently Performing Commission Duties. Pursuant to Chapter 867, the Division of Gambling Control in the Department of Justice investigates applicants for gambling licenses, monitors licensee conduct, and investigates suspected violations of the Gambling Control Act. Essentially, the division provides investigatory services to the commission.

Given that the commission is not operative yet, the division has issued regulations and begun inspections and licensing of card rooms, car room owners, and critical employees. The Gambling Control Act authorizes the division to engage in enforcement and regulatory oversight of the card room industry, regardless of the commission being appointed.

Commission Workload Still Up in the Air

We withhold recommendation on the proposed $1.2 million for support of the California Gambling Control Commission because the commission's workload is yet to be determined.

As noted earlier, the Governor has yet to appoint any commission members. Consequently, there is no experience in the current year as to the level of ongoing workload for the commission. In addition, the commission's workload could be affected by voters' decisions at the March 2000 primary elections (see below).

Commission Has Role in Recently Signed Tribal Gambling Compacts. The state has recently signed gambling compacts with several Indian tribes to authorize numerous types of previously prohibited gambling on Indian land. These compacts were ratified by the Legislature in Chapter 874, Statutes of 1999 (AB 1385, Battin). The compacts ratified by Chapter 874 will become effective only if Proposition 1A receives voter approval at the March 2000 election and the compacts are approved by the federal Department of the Interior. The compacts, among other provisions, establish two funds that would receive revenue from tribes with gambling activities: one fund for distributing money to various tribes and a second fund, effective in 2002, available to the Legislature for appropriation for various purposes. The compacts also provide for limited state oversight of the gambling activities.

If Proposition 1A receives voter approval, there will presumably be gambling revenue available for distribution to various tribes in the current year as well as in the budget year. The Gambling Control Commission will be the trustee of this fund. In addition, the commission will be the lead state agency for interacting with each tribes's gambling regulatory agency.

Proposition 29 would ratify the tribal-state compacts known as the Pala compacts, signed by the state in 1998. If Proposition 1A fails to receive voter approval and Proposition 29 passes, then the Pala compacts would go into effect. (If both propositions pass, the Pala compact would not go into effect.) These compacts designate the commission as the state agency responsible for establishing state regulation of gambling on Indian lands.

Recommendations. Given these factors, the level of budget-year workload for the commission is unknown at this time. As a result, we withhold recommendation on the entire budget. The administration will be in a better position in early March to advise the Legislature on the commission's workload.

DEPARTMENT OF CONSUMER AFFAIRS (1110-1600)

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department includes 26 semiautonomous regulatory boards, commissions, and committees that regulate various professions. These boards are comprised of appointed consumer and industry representatives. In addition, the department has ten bureaus and programs that regulate additional professions which are statutorily under its direct control.

Expenditures for the support of the department and its constituent boards are proposed to total $335 million in 2000-01, a $24 million decrease from the current year. The reduction results primarily from a one-time appropriation in the current year for the California Complete Count Committee. Included in the budget-year total are $2 million in expenditures from the General Fund for support of the Athletic Commission and various public outreach programs.

General Fund Consumer Outreach Augmentations Not Justified

We recommend deletion of the $1.8 million ($1.2 million General Fund) and eight positions the budget proposes to (1) augment the department's consumer information center ($1 million General Fund) and (2) create eight "consumer ombudsman" positions in various board and program field offices ($766,000 various funds including $185,000 General Fund). (Reduce various items by $1,766,000.)

Call Center Nonjurisdictional Workload. The department operates a toll-free inquiry/complaint (800 number) telephone line to handle telephone inquiries and complaints from consumers and department licensees. The department established the combination automated and live operator call center in 1994 and has since expanded the center to respond to inquiries received via the Internet. It is budgeted at $3.8 million in the current year.

The budget proposes to establish a level of General Fund support for the call center through an augmentation of $1 million. The department believes this augmentation should be provided to offset costs associated with answering calls and inquiries concerning matters not under the department's jurisdiction. These include landlord/tenant issues, vehicle registration and driver's license renewals, and collection agency practices.

We believe the General Fund augmentation is unnecessary and inappropriate. Other state agencies receive nonjurisdictional inquiries—including inquiries intended for the department's boards and bureaus. These calls need to be handled in an effective and efficient manner, but it should not be necessary to determine the correct jurisdiction and then assess that jurisdiction the cost associated with the inquiry.

Furthermore, the department has implemented several methods to efficiently deal with this workload. For example, the department offers recorded information for certain nonjurisdictional programs and its operators have ready access to a list of other government agency call centers so that these calls can be readily forwarded. The department also maintains numerous links on its website to other government agencies. Furthermore, many of the nonjurisdictional calls are clearly not a General Fund responsibility (such as landlord/tenant issues, motor vehicles/driver's license, and collection agencies).

We recommend the department continue to implement practices that mitigate the impact of nonjurisdictional inquiries. However, we do not believe a General Fund augmentation is appropriate and recommend the Legislature delete the requested $1 million General Fund augmentation.

Consumer Ombudsman Positions. The Governor's budget includes $766,000 ($581,000 from various special funds and $185,000 from the General Fund) to create eight consumer ombudsman positions throughout the state. According to the department, these staff would assist consumers with requests for information or the processing of complaints with the department or any other regulatory agencies. In addition, the staff would be furnished with vehicles so they could ". . . seek out opportunities to ensure all . . . citizens receive complete service . . ."

We believe this augmentation is not warranted for the following reasons:

- As mentioned previously, the department currently operates a call center and web site to provide consumer information and respond to consumer inquiries and complaints.
- In addition, its constituent boards and programs each have public telephone numbers and several provide information through linked web sites.

- Certain boards and programs also operate field offices where consumers can request information.
- Other regulatory agencies (such as the Department of Alcoholic Beverage Control) operate field offices as well and, to our knowledge, have not identified a problem which would be addressed by the department's proposed consumer liaison efforts. Further, it is not clear what expertise the proposed new positions would have with regard to regulatory programs outside the department's jurisdiction.

Therefore, we recommend the Legislature delete the requested $766,000 and eight positions.

Bureau for Private Postsecondary And Vocational Education

Background. Chapter 78, Statutes of 1997 (AB 71, Wright) abolished the Council for Private Postsecondary and Vocational Education, established in its place the Bureau for Private Postsecondary and Vocational Education within the department, transferred the council's duties to the bureau, and established some additional regulatory oversight. The bureau is responsible for regulating private postsecondary and vocational schools through a licensing and inspection program and for approving courses and programs.

Chapter 78 also required the bureau to assume responsibility for administering the Student Tuition Recovery Fund, a continuously appropriated fund established for the purpose of relieving or mitigating students' tuition losses suffered when an educational institution closes without fulfilling its instructional obligations. Finally, Chapter 78 gives the bureau authority to establish maximum fees to fund the bureau's operations and specifically directs the bureau to propose legislative modifications to the fee schedule, if warranted.

Budget Proposal. The Governor's budget proposes $7.2 million from various funds and 71 positions to support the bureau in 2000-01, a 26 percent decrease from the current year. The reduction is primarily a result of the expiration of a substantial two-year augmentation the bureau had received to process a backlog of work it inherited from the council.

Backlogged Work Has Not Been Eliminated

We withhold recommendation on the bureau's budget pending receipt and review of information that explains why the bureau has been unable to eliminate its workload backlog, and what steps will be taken to assure that the bureau fulfils its responsibilities. This information should be submitted to the Legislature prior to budget hearings.

The bureau began operations January 1, 1998. At that time, there was a significant amount of backlogged work. During hearings on the *1998-99 Budget Bill*, the bureau requested a two-year staff and budget augmentation to complete the transition from the council and to process the workload backlog. The Legislature approved an augmentation of $1.4 million in special funds, $1.8 million in reimbursements, and 75 two year limited-term staff—for a total bureau budget of $9.8 million. At that time, the bureau expected to receive the reimbursements from schools to cover the costs of site visits as part of the licensing process.

Subsequently, the bureau determined that it does not have the statutory authority to charge a fee for site visits performed as part of the licensing process. As a result, the bureau did not receive any reimbursements for this work. Furthermore, the bureau also determined that the fee schedule it had adopted in January 1998 for all other work was set too low. A second fee package was developed by the bureau, and during the regulation setting process a public hearing was held in November 1999. Based on review of the public comments, the bureau decided not to proceed with the proposed fee changes. The bureau has not provided any information to substantiate why the bureau made this decision. As a result of this decision, however, the bureau indicates it has not been able to fully address the work backlog, especially the work associated with mandatory site reviews.

It is not clear why this is the case. According to the Governor's budget, the bureau spent over $9.3 million in 1998-99 and expects to spend approximately $9.8 million in the current year. Because of the bureau's inclusion in the department's performance based budgeting efforts, we are unable to determine the number of staff the bureau employed in those years. Nonetheless, the bureau apparently spent the funds the Legislature appropriated to enable the bureau to complete all current workload in a timely manner and to eliminate the backlog it inherited from the council.

Given this situation, the bureau should provide the Legislature, prior to budget hearings, information on: (1) the amount of backlog inherited by category and the current status of the backlog, (2) why it has been unable to completely eliminate the backlog, (3) how the bureau will handle the ongoing workload and eliminate the backlog, and (4) a fee schedule that will provide the bureau with sufficient funds to fulfil its responsibilities in a timely manner and maintain a prudent fund balance. We withhold recommendation on the bureau's budget pending receipt and review of this information.

Smog Check Program

The Legislature should not act on the bureau's budget until the bureau and the Air Resources Board provide the Legislature a report on the status of each aspect of the Smog Check Program and of the February 2000 program evaluation to be submitted to the federal Environmental Protection Agency.

Background. The original framework for a statewide biennial Smog Check program was implemented in 1984 by the Bureau of Automotive Repair. Under this program, both smog (emission) testing and needed vehicle repairs were permitted at any privately owned smog test-and-repair station. The 1990 federal Clean Air Act amendments required a somewhat different smog program in states with the worst air quality, including California. Federal regulations define a region's air quality in one of two ways:

- A geographic area that meets or exceeds a national ambient air quality standard is referred to as an *attainment area*.
- An area that does not meet this standard is a *nonattainment area*. These nonattainment areas are the focus of the federal Environmental Protection Agency (EPA).

Under the 1990 act, the EPA mandated a centralized, state-owned smog check program. Under this scenario virtually all vehicles would have been initially tested at a state-owned, test-only facility. Any vehicle failing the test would go to a second facility to be repaired and then back to the test-only facility to be retested. If the vehicle failed the retest, the process would then begin again with the vehicle owner traveling back and forth between the test and repair facilities.

California negotiated with the federal government to adopt a modified program. This alternative program focuses on the highest polluting vehicles but is intended to be less cumbersome to the customer. The Smog Check program components as agreed to by California and the federal government are laid out in the State Implementation Plan (SIP).

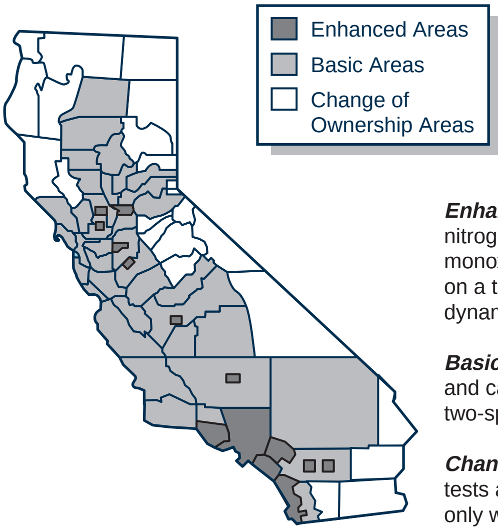
Basics on the SIP. The SIP was adopted by the Legislature in 1994 and approved by the federal EPA in 1996. The SIP divides California into three types of program areas based on air quality—enhanced, basic, and change of ownership. The smog test required varies by area (see Figure 1).

In addition to the requirements in the SIP, the bureau administers several smog-related programs that have been adopted by the Legislature. These other nonmandated programs are the Low-Income Repair Assistance Program and the Voluntary Retirement Program. The state's Smog Check program is funded from two funds—the Vehicle Inspection

Repair Fund (VIRF) and the High Polluter Repair and Removal Account (HPRRA). The VIRF funds the SIP-mandated program and the HPRRA funds the other programs.

Figure 1

Smog Check Program Requirements Vary by Area



Enhanced Areas. Tests for oxides of nitrogen, hydrocarbon, and carbon monoxide emissions. Tests performed on a treadmill-like machine called a dynamometer.

Basic Areas. Tests for hydrocarbons and carbon monoxide only, using a two-speed idle test and tail pipe sensor.

Change of Ownership Areas. Same tests as in the basic areas but required only when a vehicle is sold.

The SIP-Mandated Components. The SIP-mandated program includes the smog testing and repair stations as well as the bureau's administrative activities (such as enforcement staff, technician licensing, remote sensing, public relations, and general administration). The *2000-01 Governor's Budget* proposes $67.3 million from the VIRF for the bureau's activities related to the SIP.

In addition to the bureau, two other state entities, the Inspection and Maintenance Review Committee and the Air Resources Board (ARB), have responsibilities under the SIP. Both these entities monitor the progress of the bureau in implementing the SIP and the overall effectiveness of the program in bringing California into compliance with federal air standards.

To monitor California's performance, the SIP includes performance standards and deadlines for implementation of key SIP components. Essentially, the SIP calls for the entire state to meet federal air quality standards by 2010.

California agreed to have its complete program in place by December 31, 1997. However, as discussed below, some components of the program have been amended by state statute, others were not implemented by the December deadline, and still others had not been implemented at the time this analysis was written.

Smog Check Stations. The SIP requires California to implement a hybrid testing program that includes test-only stations and the conventional test and repair stations. The California system includes four station designations:

- *Test-Only* stations can only perform smog tests.
- *Gold Shield Certification* stations can test, repair, and retest all vehicles.
- *Gold Shield Guaranteed Repair* stations can test and repair vehicles. These stations also guarantee repairs on gross polluting vehicles.
- *Test and Repair* stations can test, repair, and retest vehicles—but cannot retest gross polluting vehicles. (A gross polluter must go to a test-only station to have the final test conducted.)

The test-only network of stations was to begin in 1995 and a percent of vehicles in the enhanced areas, as determined by the bureau, were to be sent to test-only stations. The network did not begin until September 1998 but is currently operational.

Remote Sensing. The SIP requires an on-road testing program using remote sensing devices. The program is designed to monitor vehicles as they are driven on the highway. According to the SIP, the sensing units would be set up at various points throughout the enhanced areas. Vehicles shown to be a gross polluting vehicle when driven past a unit would be pulled to the roadside and tested. If the test confirmed that the vehicle was a "gross polluter" the vehicle owner would be required to repair the vehicle and pass a smog test.

In addition, the data compiled from this program was to be incorporated into the high- and low-emitter profiles. The bureau was to use the high-emitter profile to direct vehicles to the test-only stations for the biennial test and use the low-emitter profile to exempt vehicles from the biennial test.

The bureau is using remote sensing to add data to the high- and low-emitter profiles. Vehicles found to be gross polluters by the remote sensing devices are not required to be repaired and pass a smog check simply because of the remote sensing test results.

Oxides of Nitrogen. Under the SIP, the program in the enhanced areas must test for three different pollutants: carbon monoxide, hydrocarbons, and oxides of nitrogen (NOx). The NOx is a key component of smog and ozone formation. Therefore, reducing NOx emissions is crucial to meeting the federal air quality requirements.

Testing for NOx was to be implemented by December 31, 1997 but was delayed until September 1998. Also, once NOx testing began, the level at which a vehicle would fail was set very high to avoid failing a large number of vehicles. We understand the bureau is gradually adjusting the failure points toward the level necessary to meet the federal requirements.

Evaluation for Federal EPA. The SIP requires the bureau, in conjunction with the ARB, to submit an evaluation of the Smog Check Program to the federal EPA in February 2000. The evaluation is to address the program's progress in meeting the emission reduction and subsequent air quality improvements as mandated in the SIP. At the time this analysis was prepared, the bureau and the ARB indicated the evaluation report should be ready for public comment in late February and submitted to the federal EPA in March.

In view of the importance of this issue and the Legislature's past concerns with the program, the Legislature should not act on the bureau's budget until the bureau and the ARB provide the Legislature a report on the current status of each aspect of the Smog Check Program and of the program evaluation report.

FAIR EMPLOYMENT AND HOUSING (1700)

The Department of Fair Employment and Housing (DFEH) enforces laws that promote equal opportunity in housing, employment, and public accommodations, and that protect citizens from hate violence. Specifically, 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 $22 million ($18 million from the General Fund and $4 million federal funds) for support of the department in 2000-01. This represents an increase of $2.7 million (14 percent) over estimated current-year expenditures.

Establish Mediation Unit

We recommend the Legislature approve the department's request for $1,047,000 from the General Fund and two new positions but on a two-year, limited-term basis to establish a pilot mediation program for alternative dispute resolution. We also recommend the Legislature adopt supplemental report language detailing the goals and evaluation criteria for the program.

The budget includes $1,047,000 from the General Fund to establish a pilot mediation program for alternative dispute resolution (ADR). The program is intended to reduce dispute resolution time and decrease enforcement workload. The request includes funding for two permanent positions for mediation unit administration, and funding to contract for ADR services. The department also plans to redirect two positions from the enforcement division to the pilot program. The department indicates that this redirection is possible because the pilot program will reduce enforcement workload. The department has modeled this proposal after a similar federal program and expects to handle around 1,200 cases a year.

The mediation unit will serve 15 district offices across the state. These offices had an annual caseload of 10,564 in 1998-99. Thus, the department expects to refer around 10 percent of the caseload to the pilot mediation program (the federal program refers around 35 percent). This level of effort for the pilot program appears reasonable. However, because this is a pilot program, it is not clear if this program will resolve these cases more effectively or efficiently than the current process. In fact, answering these basic questions is a valid purpose for a pilot program.

Consequently, we recommend the Legislature approve the proposed staff and funding but on a two-year, limited-term basis and reevaluate the program after two years. We also recommend the Legislature adopt supplemental report language detailing enforcement goals for the program as well as evaluation criteria to determine the program's effect on complaint resolution.

Additional Administrative Staff Requested

We recommend the Legislature delete $273,000 from the General Fund and six positions requested to provide administrative services because the department has not demonstrated a need for additional positions. (Reduce Item 1700-001-0001 by $273,000.)

The budget includes $273,000 from the General Fund for six positions in the Administrative Services Division. The department has indicated that an 18 percent increase in Enforcement Division staff has occurred since 1997-98, while the number of support positions has remained unchanged. The requested positions would provide additional administrative support for the department.

It is not clear from the available documentation that the existing staff level is inadequate. The department has not provided any workload data substantiating the need for additional staff and simply states that more administrative staff is needed because of the increase in enforcement staff. It is not apparent that the department has been adversely affected by its current staff level or that administrative functions are lacking resources. Furthermore, as mentioned above in our discussion of the pilot mediation program, the department expects a decline in enforcement workload as a result of the program. Consequently, we recommend the Legislature delete $273,000 under Item 1700-001-0001 because the department has not demonstrated the need for additional administrative staff.

Public Information and Technical Assistance

We recommend the Legislature delete $113,000 from the General Fund and two permanent positions requested to provide public information and technical assistance because the department has not demonstrated a need for additional positions. (Reduce Item 1700-001-0001 by $113,000.)

The Governor's budget includes a request for two permanent positions at a cost to the General Fund of $113,000 to provide public information and technical assistance services. According to the department, this proposal is to resume various functions that were eliminated under departmental restructuring actions that began in the late 1980s.

Documentation from the department indicates that the restructuring efforts focused on complaint investigation rather than training and information development. The department's submittal in support of this proposal, however, does not show that the current training and information development programs are inadequate or that the number of existing staff is inadequate. Further, the most recent Controller vacancy report indicates that 40 of the 315 authorized positions were vacant (a 13 percent rate). Thus, it is unclear why the additional staff are needed. Consequently, we recommend the Legislature delete the requested $113,000 and two positions.

No Basis for Augmentation for Rent Increases

We recommend the Legislature delete $199,000 from the General Fund for increases in facilities rent because we find no analytical basis for granting an adjustment to the department that has been denied to virtually all other state agencies. (Reduce Item 1700-001-0001 by $199,000.)

The budget proposes a total of $199,000 for increased rental costs at various buildings. The department currently occupies office space in privately owned buildings, with the exception of the Santa Ana, Oakland, and San Francisco district offices. The information submitted in support of this request indicates that rent for the facilities occupied by the department will increase by $199,000 between 1998-99 and the budget year.

Our review found that only the department and four other agencies—the Departments of Industrial Relations and Justice, the State Library, and the State Treasurer's Office—received budget augmentations for rental increases in state buildings. Presumably, all other state departments will absorb the rent increases.

We can find no analytical basis for granting an augmentation to pay for rent increases for these five departments when other departments and agencies are not provided such funds. We note that the administration's own budgeting guidelines indicate that departments will not receive funding for such price increases. Consequently, we recommend the Legislature reduce Item 1700-001-0001 by $199,000.

We discuss this issue in greater detail in our analysis of the Department of Finance's budget in this chapter.

DEPARTMENT OF MANAGED CARE (2400)

The Department of Managed Care (DMC) was created by Chapter 525, Statutes of 1999 (AB 78, Gallegos) to regulate health maintenance organizations (HMOs). The Department of Corporations (DOC) previously had this responsibility. (The Department of Insurance regulates health insurance companies.) The Knox-Keene Act specifies what regulatory activities the state must perform in this program area. These include (1) licensing health plans; (2) taking and investigating consumer complaints regarding health plans; (3) performing medical and financial exams of health plans every three and five years, respectively; (4) taking enforcement action against plans that are in violation of the act (up to and including taking over a health plan); and (5) providing an ombudsperson to assist in resolving complaints and providing information.

Chapter 525 states that DMC will be established on July 1, 2000 or by executive order of the Governor, whichever occurs first. Chapter 525 also transfers all HMO regulation from DOC to the new department. At the time this analysis was written, the Governor had not issued an executive order to establish the department earlier than July 1. The Governor apparently intends to issue an executive order to establish the department before the start of the budget year because the budget proposes funding for DMC in the current year.

Budget Proposal. As shown in Figure 1 (see next page), the budget proposes total expenditures of $13.9 million in the current year ($13.5 million for regulatory activities and $0.4 million for the Office of Patient Advocate [OPA]) and $27.9 million in 2000-01 ($27 million for regulatory activities and $0.9 million for OPA). The department will be funded from the newly created Managed Care Fund. Regulated health plans pay an annual per-enrollee assessment and various fees to generate revenue for department activities. Previously, these assessments and fees went into DOC's Corporations Fund. When the new department is established, revenues generated from health plans will be transferred to the Managed Care Fund.

Figure 1

Proposed Expenditures for Department of Managed Care

(Dollars in Millions)

	1999-00		2000-01	
	Positions	**Funding**	**Positions**	**Funding**
Transfer from Department of Corporations	147	$6.1	190	$14.9
Additional resources related to Chapter 525, Statutes of 1999 (AB 78, Gallegos)	24	5.1	63	7.1
Implementation of other legislation	34	2.1	52	4.2
Enforcement Division workload	16	0.6	16	1.1
Medical and dental survey cost increase	—	—	—	0.6
Totals	**221**	**$13.9**	**321**	**$27.9**

Legislature Needs More Information On Formation of New Department

We withhold recommendation on the entire budget proposal for the Department of Managed Care—$13.9 million and 221 positions in the current year and $27.9 million and 321 positions in 2000-01—until the Legislature receives more complete information on the establishment of the new department.

Transfer of Resources From DOC. Chapter 525 transfers the responsibilities for HMO regulation from DOC to DMC. As a result, the budget proposes a staggered transfer of DOC's health plan-related regulatory functions as well as some administrative staff. Under the budget proposal, effective January 1, 2000, the 115-position Health Plan Division and the 32-position Health Plan Enforcement Division would transfer to DMC, for a total of 147 positions and $6.1 million. The DOC would provide administrative services to DMC through the end of the current year. Effective July 1, 2000, however, 43 DOC administrative staff would transfer to DMC. Thus, the budget proposes 190 positions and $14.9 million to be transferred from DOC for 2000-01.

Additional Resources Related to Chapter 525. In addition to these transferred resources, the budget proposes additional resources to implement Chapter 525—$5.1 million and 24 positions in the current year, increasing to a total of $7.1 million and 63 positions in 2000-01. This request includes resources for DMC's executive office, policy staff, OPA, staff for two advisory committees (one altered and one created by Chapter 525), and administration.

Implementation of Other Legislation. In addition to Chapter 525, the Legislature approved several other laws in 1999 that affect DMC. The most notable are Chapter 529, Statutes of 1999 (SB 260, Speier); Chapter 533, Statutes of 1999 (AB 55, Migden); and Chapter 542, Statutes of 1999 (SB 189, Schiff).

Chapter 529 establishes the Financial Solvency Standards Board to develop financial standards for contracts between health plans and medical providers and requires DMC to regulate medical providers to ensure their financial stability. The budget proposes $0.5 million in the current year and $0.8 million in 2000-01, along with four positions, to implement this legislation. Of these amounts, $0.3 million in the current year and $0.5 million in 2000-01 would provide contract funds for (1) actuarial and health economics experts and/or (2) training related to medical providers for DMC's financial examiners.

Chapter 533 requires health plans, effective January 1, 2001, to provide enrollees the option to have independent medical review of denials of care. The DMC must contract with independent entities to review the cases filed.

Chapter 542 includes several provisions, such as (1) shortening the time DMC has to review complaints from 60 days to 30 days, (2) requiring DMC to take enforcement action in specified circumstances, (3) expanding eligibility for external independent review (provided by the health plan) of experimental treatment denials and making such denials eligible for the independent medical review system established by Chapter 533, (4) requiring DMC to review cases submitted for independent medical review to determine if any enforcement action is warranted, (5) requiring administrative penalties in specified circumstances, and (6) requiring DMC to report to the Legislature on implementation of Chapter 542.

To meet the requirements of Chapter 533 and Chapter 542, the budget proposes 30 positions and $1.6 million in the current year increasing to a total of 48 positions and $3.4 million in 2000-01. About half of the positions are attorneys, eight of which are proposed to be one-year limited term to handle the license amendments filed by the health plans to comply with the 1999 statutes. In addition, $0.9 million of the 2000-01 request is for the independent medical review contract.

Enforcement Division Workload. The budget proposes doubling the staff of the Health Plan Enforcement Division by adding 16 positions at a cost of $0.6 million in the current year and $1.1 million in 2000-01. This is to meet the workload that has developed since the division was created in 1998. This work has included taking over three financially troubled health plans.

Surveys. The budget also includes an augmentation of $0.6 million in 2000-01 for rate increases adopted by the contractors who perform the medical surveys of health and dental plans.

Many Details Unclear. Many details regarding the new department remain unclear at this time. Examples of these details include the following:

- Although the budget proposes current-year expenditures for DMC (most beginning January 1), at the time this analysis was written, the Governor had not issued an executive order to establish the department before July 1, 2000. It is not clear when or how this transfer of responsibilities will occur.
- When this analysis was written, the organizational structure of DMC was not yet finalized.
- There is no indication of DMC's priorities and expected progress in organizing the department and implementing the new legislation in the budget year.
- Many of the requests for additional positions and funding are based on new activities for which the department has no existing workload to estimate needed resources. It is not clear what outcomes are expected from the requested positions.
- It is unclear how DMC will be able to fill the proposed 131 new positions in a timely manner.

At a minimum, the Legislature needs clarification of the above details in order to ensure that the new department will address the Legislature's expectations and priorities. Consequently, we withhold recommendation on the entire budget proposal for DMC until the Legislature receives more complete information on the establishment of the new department.

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 forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

The budget proposes commission expenditures of $237.2 million from various state and federal funds in 2000-01. This is $25.2 million, or 9.6 percent, less than current-year estimated expenditures. This reduction is due in part to (1) Public Interest Energy Research (PIER) program funds carried over into the current year and an assumption that no PIER funds will be carried over into 2000-01 and (2) other one-time expenditures in the current year for a variety of projects that are not carried forward to the budget year. These reductions are partially offset by increased expenditures in the budget year of (1) $12.5 million for fuel cell and clean fuels projects and (2) $1.7 million for increasing workload associated with PIER and the Energy Facilities Siting program.

Additional Resources for Siting Program

We withhold recommendation on the $400,000 request for consulting funds for anticipated workload in the Energy Facilities Siting program until the commission provides an updated schedule of expected application filing dates and corresponding workload projections prior to budget hearings. We further recommend that the Legislature consider requiring applicants to pay a siting application fee to cover the commission's costs to review proposed projects.

The commission's Energy Facilities Siting program was budgeted at $6.9 million and about 70 positions for the current year. The budget proposes $400,000 from the Energy Resources Programs Account (ERPA) for additional consultant contracts for the program in 2000-01. The proposal is based on the commission's projection of increased workload related to reviewing energy facility siting applications the commission currently expects to receive in 2000-01.

The Warren-Alquist Act requires the commission to approve the construction of electricity-generating power plants, unless the plant generates less than 50 megawatts of electricity or is a hydroelectric, wind, or solar facility. After approving a proposed power plant, the act requires the commission to ensure that the facility is in compliance with all applicable federal, state, and local laws, as well as any conditions of certification required by the commission. The commission must approve any modifications to these plants. For plants not subject to its jurisdiction (such as those that predate the siting approval process), the commission must approve plant modifications unless the modifications meet the megawatt or type-of-facility exclusions noted above.

Anticipated Filing Dates Tend to Slip. The commission periodically updates its schedule of when it expects project proponents to file applications for the siting review process. This schedule changes frequently as project details often change as projects develop, requiring proponents to file the siting application later than initially expected. These adjustments then alter the commission's staffing needs. As a result, we withhold recommendation on the request for $400,000 in consulting funds until the commission provides an updated schedule of expected application filing dates and corresponding workload projections prior to budget hearings.

Legislature Should Consider Application Fee to Fund Program. Currently, the siting program is funded from ERPA, which is supported by a surcharge on ratepayers' electricity bills. Now that private companies (rather than predominantly investor-owned utilities, as before restructuring of the electricity industry) are proposing to build power plants as a business investment, we recommend that the Legislature consider requiring applicants to pay a fee to file a siting application. This fee could be set to cover the commission's costs to review proposed projects. As part of the necessary cost of doing business in this area, firms would then bear these expenses—not taxpayers in general.

Fuel Cell and Clean Fuels Projects

We withhold recommendation on the proposal for $12.5 million from Petroleum Violation Escrow Account (PVEA) funds and one two-year limited-term position pending receipt of (1) information on the future costs of the proposed projects and (2) the low-emission vehicle analysis and program plan for the proposed vehicle subsidy program. Also, funding

for this proposal, along with an additional $30 million from the PVEA, is dependent on the Legislature's decision on whether to fund PVEA projects through the budget bill or separate legislation.

The PVEA Is a Declining Revenue Source. The PVEA revenues come from federal settlements with oil companies resulting from the companies charging excessive prices for petroleum. These settlements are largely concluded. As a result, in the last few years, revenues have declined and will continue downward. The Governor's budget estimates $1.8 million in current-year revenue from settlements and $1.7 million in 2000-01. In addition, the state owes interest to the PVEA that was improperly credited to the General Fund rather than the account. The Governor's budget proposes to repay the PVEA plus interest from the General Fund in the current year ($4 million) and the budget year ($28.6 million). It is not clear how these payments will occur because there is no appropriation for this purpose in either the *1999-00 Budget Act* (for the $4 million) or in the *2000-01 Budget Bill* (for the $28.6 million). However, after accounting for these payments and other revenues, along with current-year expenditures, the balance available for appropriation in 2000-01 totals $45.3 million. Figure 1 (see next page) shows the Governor's proposed PVEA spending proposals for 2000-01.

Energy Commission's Proposed Projects. With respect to the Energy Commission, the budget proposes $1 million in PVEA funds and one two-year limited-term position for the Governor's Fuel Cell Vehicle Partnership, which he announced in April 1999. The project is a collaboration between car manufacturers, oil companies, the Air Resources Board (ARB), and the commission to introduce fuel cell vehicles to the California market. The proposal would (1) cofund two hydrogen fueling sites for five transit buses to demonstrate hydrogen fuel cell technology and (2) develop safety standards for the sites and a related training program.

The budget also proposes $11.5 million in PVEA funds for the Clean Transportation Fuels Initiative, which includes (1) $6 million for clean fuels (such as compressed natural gas) fueling stations for school and transit districts; (2) $5 million to provide subsidies for vehicles that use a cleaner fuel alternative; and (3) $500,000 to study issues that continue to affect hydrogen fueling infrastructure, such as safety testing procedures, the use of agricultural waste to produce hydrogen, and hydrogen fuel quality.

We have some concerns with these proposals, including:

- The appropriateness of using PVEA funds, which are a declining revenue source, for multi-year projects like the fuel cell partnership.
- The request for the proposed vehicle subsidy program is premature because the program plan is not yet established and depends

on current-year analysis by the commission and ARB on the emission and energy efficiency benefits of low emission vehicles.

Figure 1

PVEA Projects Proposed in *2000-01 Governor's Budget*

(In Millions)

Department/Project	Budget Item	Amount
General Services	1760-001-0853	
Additional cost of purchasing alternative fuel vehicles for state fleet		$12.4
Compressed natural gas fueling stations for state fleet	1760-301-0853	2.0
Subtotal		($14.4)
Energy Commission	3360-001-0853	
Alternative fuel fueling stations for public transit buses		$6.0
Subsidize alternative fuel vehicles		5.0
Two hydrogen fueling stations for fuel cell demonstration buses		1.0
Administration of existing programs		0.9
Study of hydrogen fuel cell issues		0.5
Subtotal		($13.4)
Conservation Corps	3340-001-0853	
Home weatherization for senior, low-income, and disabled residents		$8.0
Energy audits in public schools and water leak inspections of public facilities in Southern California		1.4
Energy audits and lighting retrofits in public buildings in the San Francisco area		0.3
Subtotal		($9.7)
Air Resources Board	3900-001-0853	
Five hydrogen fuel cell demonstration buses		$5.0
Total		**$42.5**

In addition, the Legislature has historically considered projects for PVEA funding in legislation separate from the budget bill. As a result, we withhold recommendation on the proposal for $12.5 million from PVEA funds and one two-year limited-term position pending receipt of information on the future costs of the proposed projects and the low-emission vehicle analysis and program plan described above, as well as the Legislature's decision on funding PVEA projects through the budget or separate legislation.

AGRICULTURAL LABOR RELATIONS BOARD (8300)

The Agricultural Labor Relations Board (ALRB) protects the rights of agricultural workers to join employee unions, bargain collectively with their employers, and engage in activities through labor organizations of their own choosing. The ALRB is split into two divisions: (1) the General Counsel, whose employees run elections and investigate charges of unfair labor practices; and (2) the board, which certifies elections and adjudicates and mediates unfair labor practices. The Governor's budget proposes total expenditures of $4.8 million from the General Fund and 50 positions for support of the ALRB in 2000-01. This represents a $274,000 (6 percent) increase in estimated expenditures and an additional 2.5 positions compared to the current year.

Budget Augmentation Not Justified

We recommend the Legislature delete the request for 2.5 positions and $160,000 from the General Fund because the board has not substantiated the need for additional staff or an increased travel and training budget. (Reduce Item 8300-001-0001 by $160,000.)

The Governor's budget includes funding for 2.5 positions and $160,000 to increase support for various functions of the board. The ALRB proposes to reestablish a regional office in either Santa Maria or Oxnard, establish a Division of Administration to provide business services, and augment its travel and training budgets.

Regional Office. The budget includes a request for $55,000 from the General Fund and 1.5 positions to reestablish an office which serves the south central coastal region, either in Santa Maria or Oxnard. The board currently operates offices in Salinas, Visalia, and El Centro to serve regional needs. The ALRB has not provided any workload data to substantiate the need to open this office, nor has the ALRB shown that the existing offices cannot continue to adequately serve the south central coastal region. Furthermore, the ALRB currently has two vacant field examiner positions out of nine authorized. It is unclear why these authorized positions could not be filled at either (or both) Salinas or Visalia if additional workload in the region warrants additional staff.

Division of Administration. The department has requested $55,000 from the General Fund and one position to augment the administrative staff. The ALRB currently has an Administrative Services program with four staff: one Chief of Administration, one Accounting Officer, one Personnel Officer, and one Program Services Officer. The board has not documented a need for additional business support functions, or why the existing number of staff is inadequate.

Increased Operating Expenses. The ALRB has requested $25,000 for increased travel and training. The board has not documented any deficiencies in the current operating budget. Furthermore, according to the Governor's budget, the board has consistently ended the year with an overall budget savings (ranging from $300,000 to $600,000 from 1996-97 through 1998-99).

Consequently, we recommend that the Legislature delete $160,000 and 2.5 personnel-years from Item 8300-0001-001.

DEPARTMENT OF INDUSTRIAL RELATIONS (8350)

The mission of the Department of Industrial Relations 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 regulates self-insured workers' compensation insurance plans, provides workers' compensation payments to injured workers of uninsured employers and other special categories of employees, offers conciliation services in labor disputes, and conducts and disseminates labor force research.

The Governor's budget proposes expenditures totaling $255 million for the department in 2000-01. This is 5 percent more than estimated expenditures for the current year. The request includes $166 million from the General Fund, 2 percent less than 1999-00 estimated expenditures.

Budgeted Retirement Costs

We recommend the Legislature delete a total of $664,000 from various funds (including $565,000 from the General Fund) because the department incorrectly budgeted retirement contributions for the positions requested. (Reduce Item 8350-001-0001 by $565,000, Item 8350-001-0222 by $13,000, Item 8350-001-0514 by $9,000, and Item 8350-001-0890 by $3,000. Increase Item 8350-001-0223 by $3,000.)

The budget includes funding for 165 new positions and 16 positions which have been redirected from within the department. The retirement benefits for the positions requested were not budgeted using the appropriate state contribution rate. The retirement contributions were calculated using around 10 percent of the annual salaries. The state's contribution, however, is around 1.5 percent for most employees. Consequently, the department included $664,000 more than is necessary for the state's retirement contributions. We recommend the Legislature reduce the department's budget to correct for this over-budgeting.

Wage and Labor Law Enforcement in the Garment Industry

We withhold recommendation on $1.2 million from the General Fund to convert 15 limited-term positions to permanent status in the Targeted Industries Partnership Program. It is not clear if these positions will be needed in addition to the 43 positions and $3.1 million requested for garment industry wage enforcement called for under Chapter 554, Statutes of 1999 (AB 663, Steinberg).

Convert Existing Limited-Term Positions. The Governor's budget includes a request to convert 51.5 existing limited-term positions to permanent positions, at a General Fund cost of $4,342,000. Thirty-four of the positions are for the Targeted Industries Partnership Program (TIPP) and 15 of these are related to investigations of the garment industry.

Establish New Garment Industry Regulations. The Governor's budget also includes a request for 43 positions (20 on a three-year limited-term basis) at a cost of $3,062,000 to establish and administer new regulations to enforce labor laws in the garment industry consistent with Chapter 554, Statutes of 1999 (AB 663, Steinberg). Under the legislation, the department is to investigate and resolve wage cases where a formal complaint is filed and otherwise enforce the laws affecting the garment industry. In the past, this latter type of enforcement in the garment industry has been a function of the TIPP program.

Funding for New Program. In accordance with Chapter 554, the garment industry program is to be self-funded through regulatory fees. Typically, regulatory fees are deposited into a separate special fund which is then used to pay the costs of the regulatory activities. This ensures that the programs are self-sustaining, and not subsidized by the General Fund. The Governor's budget, however, proposes to fund the program through the General Fund with the fees collected reimbursing the General Fund.

Recommendations. The need to continue 15 limited-term positions in the TIPP program related to the garment industry is not clear. The garment industry inspections conducted by TIPP in the past have targeted employers who violate the state's wage and labor laws. The provisions of Chapter 554, however, specifically authorize the department to monitor and regulate the garment industry to ensure compliance with state wage and labor laws. It is not clear whether any or all of the 15 TIPP positions will be needed as a result of the additional staff requested pursuant to Chapter 554.

Therefore, we withhold recommendation on converting 15 limited-term TIPP positions to permanent (at a General Fund cost of $1,221,000), pending receipt and review of information from the department identifying both the need for a separate TIPP program and the need for additional garment industry regulatory staff beyond the 43 new positions related to Chapter 554. Further, we recommend that the Legislature establish a special fund for the regulatory fees and fund any positions related to the garment industry from the special fund rather than the General Fund. This action would be consistent with the way other regulatory programs are funded and would be consistent with the requirement in Chapter 554 that the fees recover the costs to administer the law.

No Basis for Augmentation for Rent and Related Increases

We recommend the Legislature delete the $1,853,000 augmentation from the General Fund ($1,318,000), special fund ($328,000), and federal funds ($207,000) requested to cover the cost of rent and related increases for various offices because we find no analytical basis to provide an adjustment for the department that has been denied to virtually all other state agencies.

The budget proposes a total of $1.9 million for increased costs for space rented by the department at various locations. The department currently occupies office space in state-owned buildings—including sites in San Francisco, Oakland, Los Angeles, and San Bernardino. The Department of General Services is responsible for these buildings and charges rent to the occupants. The department rents privately owned space in Long Beach.

The department has requested the following increases related to building rental costs:

- $1,384,000 for increased rental costs for buildings in San Francisco, Oakland, Los Angeles, San Bernardino, and Long Beach.
- $341,000 for other state buildings.
- $128,000 for one-time moving costs associated with relocating employees in *prior* years.

Our review found that only the department and four other agencies—the Departments of Justice and Fair Employment and Housing, the State Library, and the State Treasurer's Office—received budget augmentations for rental increases in state buildings. Presumably, all other state departments will absorb the rent increases.

We can find no analytical basis for granting an augmentation to pay for rent increases for these five departments when other departments and agencies are not provided such funds. We note that the administration's own budgeting guidelines indicate that departments will not receive funding for such price increases. Thus, we recommend that the requested $1,853,000 augmentation be denied.

We discuss this issue in greater detail in our analysis of the Department of Finance's budget in this chapter.

Funding Redirection for Information Technology

We recommend the Legislature delete the proposed redirection of $660,000 from unidentified programs and 12 new positions for the Information Services program because the department has neither identified the programmatic effect of redirecting $660,000 nor justified the need for 12 new positions.

The department proposes to redirect $660,000 from unidentified programs to establish 12 information technology positions. The department has identified various tasks—such as database management, staff training, technical support, application development, and data administration—that these new staff would undertake instead of the current practice of contracting for this work on an as-needed basis. As mentioned above, the department has not identified where they will obtain the redirected funds. Thus, it is not known what effect this redirection will have on other program areas within the department. Also, the department has not provided any data on the cost of contracting versus hiring in-house staff for this work. Finally, the department has not shown that there is sufficient workload to warrant hiring the proposed 12 permanent staff. Consequently, we recommend the Legislature deny the proposed redirection of $660,000 and 12 new positions.

Labor Standards Investigation and Reporting

We recommend the Legislature delete $1,039,000 (General Fund) and eight positions to conduct investigations, perform prevailing wage studies, and issue field reports because the department should accomplish these long-standing responsibilities with existing resources. (Reduce Item 8350-001-0001 by $1,039,000.)

The Governor's budget includes a request for three permanent positions and $439,000 for the Division of Labor Statistics and Research to conduct field investigations and to issue labor market reports. The budget also includes a request for three permanent and two limited two-year positions, and a total of $600,000 to conduct prevailing wage studies in local markets.

The department indicates that staff within the division has been redirected from various research functions to other functions—such as responding to information requests. The department has reported that the current number of staff is inadequate to resume the research functions. However, vacancy information in the division indicates that 9.5 positions, or 22 percent of the authorized positions, are unfilled. These positions should be filled before the department requests additional positions. Further, if the department believes the staffing level is a problem, it should be able to provide data demonstrating the workload of existing staff and the effect a redirection of current staff back to field investigations and labor market reports would have on the current work product.

Based on available information, it is unclear why the division cannot accomplish its long-standing responsibilities within existing resources. Consequently, we recommend the Legislature delete the $1,039,000 and eight positions under this proposal.

Establish Special Fund for Amusement Ride Regulation

We recommend the Legislature establish a separate special fund to deposit the fees collected to cover the cost of administering the new amusement ride regulatory program established under Chapter 585, Statutes of 1999 (AB 850, Torlakson) and fund this $2,149,000 proposal from the special fund rather than the General Fund.

The budget requests $2,149,000 from the General Fund and 26.5 positions to implement the new program established by Chapter 585 to inspect and regulate permanent amusement rides. Chapter 585 authorizes the department to collect all fees necessary to pay for program administration. Because the statute was silent regarding where these fees would be deposited, they would be deposited in the General Fund for the department's activities.

We recommend the Legislature instead establish a separate special fund to receive the fees collected for this program and appropriate these funds to support the department's costs. This would assure that the program is sustained through fees and not subsidized by the General Fund. This action would be consistent with other fee-funded regulatory programs.

DEPARTMENT OF FOOD AND AGRICULTURE (8570)

The California Department of Food and Agriculture promotes and regulates the state's agriculture industry through marketing programs and industry inspections. The department is responsible for developing California's agricultural policies and assuring accurate weights and measures in commerce. The department also provides financial oversight to county, district, and citrus fairs.

The *2000-01 Governor's Budget* proposes $223 million ($111 million General Fund) in support of the department for the budget year. This is a nearly 3 percent increase from estimated current-year expenditures.

Export Promotion and Agricultural Policy Augmentations

We recommend the Legislature delete funding to augment the department's export promotion program ($123,000 and two positions) and to participate in a multistate coalition to influence national agricultural policy ($250,000 and two, two-year limited-term positions) because the department currently has resources for these activities. (Reduce Item 8570-001-0001 by $373,000 and four positions.)

Export Promotion Program. The Agricultural Export Program, established in 1985, provides technical assistance and support to California agricultural exporters by coordinating trade missions, participating in trade shows, and providing information to aid California exporters in gaining access to foreign markets. This program is funded through industry fees. In addition, the department works cooperatively with the Trade and Commerce Agency in promoting California agricultural commodities abroad.

The Governor's proposal would provide additional funding ($123,000 General Fund) and two staff to increase the number of trade shows in which the department annually participates and expand the availability of certain export information databases it maintains.

- ***Trade Shows.*** For the past few years, the department has been decreasing its participation in international food and beverage trade shows, choosing instead to focus on foreign buyer missions—meetings arranged by the department between California agricultural product suppliers and foreign buyers. This shift of resources was a decision made by the department of how to best allocate the resources of its export promotion program. If the department now believes it should concentrate again on the trade shows, the flexibility exists for the department to do so without the need for an augmentation.

- ***Export Information.*** The department currently maintains several databases of export-related information of interest to agricultural commodity exporters. These include information regarding importing countries pesticide residue limits and a listing of California agricultural exporters.

Activities of the Agricultural Export Program, including trade shows and database information, directly benefit the agricultural industry and are appropriately funded by the industry. Any program growth for these or other purposes in the program should likewise be funded by the industry, not the General Fund.

In addition, the Trade and Commerce Agency currently operates several export promotion programs and coordinates numerous trade events specifically designed to support California products in the global marketplace. There should be no need to provide General Fund support to the Department of Food and Agricultural for these efforts.

Multistate Agricultural Policy Coalition. The Governor's budget includes $250,000 and two positions for a two-year, limited term for the department to coordinate efforts with four other states in order to influence national agricultural policy.

In February 1999, the department, in conjunction with the agriculture departments in four other states—Florida, New Mexico, Texas, and Arizona—established a coalition to influence national agricultural policy in specific areas of concern to the five states. This coalition was established at a meeting of the National Association of State Departments of Agriculture (NASDA) and to date the coalition has been scheduling meetings to coincide with NASDA meetings to save on travel and other costs.

We believe this augmentation should be deleted for two reasons. First, the department currently participates in special groups of like-minded states to influence national agricultural policy. This is a primary function of the department that should be addressed with existing staff. As such, it is not clear why an augmentation is needed. Second, since California's agriculture industry can and does participate in the setting of national agricultural policy, this type of effort should be funded by the agriculture industry—not the General Fund.

Additional Audit Workload Not Justified

We recommend the Legislature approve two of the requested four audit staff to more accurately reflect the audit workload related to county and citrus fairs. (Reduce Item 8570-001-0191 by $210,000 and two limited-term positions.)

The Governor's budget includes $419,000 and four positions (two permanent and two limited term) to perform financial audits of California county and citrus fairs. Chapter 181, Statutes of 1998 (SB 1460, Maddy), authorizes the department to perform these audits if the fair requests one and the department determines an audit is necessary. Funding for those audits is to come from the Fairs and Expositions Fund, which receives revenue from horse race meets in California. If revenue to the fund exceeds expenditures, the balance is transferred to the General Fund. Thus, this augmentation request has the effect of reducing the General Fund balance.

There are 26 county and citrus fairs in California and the department has received a total of ten audit requests under Chapter 181. The department's request would provide sufficient staff and resources to complete audits of *all* 26 fairs in 2000-01. This amount is not justified since the department is to provide audits only on request. Given that only ten requests have been submitted in over a year, we believe that this is a better indicator of the department's known workload. Consequently, we recommend the Legislature delete $210,000 and two limited-term positions. This level of funding would provide sufficient funding to audit approximately 13 fairs annually.

Plant Pest Prevention, Detection, and Eradication Program

Comprehensive Agricultural Pest Plan Needed

We recommend that the department provide by October 1, 2000 a comprehensive statewide plan for all plant pest prevention, detection, and eradication programs. This report should include the coordination of state and county programs.

The current-year funding for the department's agricultural plant pest program totals $72.3 million ($61 million General Fund). The program includes screening incoming parcels for contaminated agricultural products, inspecting vehicles entering the state, monitoring pest detection traps, operating the plant pest diagnostic laboratory, administering various pest control programs, and implementing numerous emergency pest eradication programs.

The department submitted various budget-year requests (discussed below), indicating that the requests are " . . . a comprehensive strategy for reducing the growing threat to California from invasive pests." The department, however, does not have a comprehensive plan describing the goals and objectives of the program as a whole or of the individual program elements (such as, specific pest control activities, trapping efforts, and the Medfly Project). Lacking such a plan, it is increasingly difficult for the Legislature to evaluate the need for augmentations or the impact of the total program.

In the following sections, we discuss the issues such a plan should address.

Coordination Between State and Local Programs. An important function of the department is partnering with counties to prevent the introduction and establishment of serious plant pests and diseases.

In total, the state provides over $10 million (General Fund) for direct support of county pest programs. There are reporting requirements on the counties in current law to allow for program evaluation. These requirements include a cost analysis of each county program, a description of each program's activities, and the development of work plans for allocation of the department's local assistance funding. The purposes of these reporting requirements are to ensure that the state's goals and objectives in pest prevention, detection, and eradication are carried forward at the county level. It is not clear how many reports are received by the department and how—or if—this information is used. In addition, the *Supplemental Report of the 1999-00 Budget Act* requires the department to submit a report by January 10, 2000 on the operation of the pest programs carried out by the county agricultural commissioners. When this *Analysis* was prepared, the report had not been submitted.

Pest Control and Pest Eradication Programs. The distinction between a control versus eradication program has important programmatic and budgetary implications. A control program—where the goal is to limit the spread or impact of a pest—is typically funded by the agricultural industry. An eradication program is typically funded by the General Fund. Control programs are somewhat less aggressive and represent an ongoing cost. In comparison, an eradication program is geared towards aggressively containing a pest and removing the population, has large initial costs, but is not long-lasting. The agricultural industry directly benefits from both types of programs. Thus, it is reasonable for the industry to share in both kinds of costs. We believe a comprehensive plan should address the issue of appropriate cost sharing between the state and industry for both types of programs.

Department Should Develop a Comprehensive Plan. The department should review and evaluate the various state and county pest programs and develop a comprehensive and coordinated planning document for these programs. This planning process should begin with an assessment of the state's goals and challenges with regard to pest prevention, detection, and eradication. Once the complete program goals have been determined, the department should then assess each element of the program to, at a minimum, determine:

- If the targeted pest is still a threat.
- If the effort's goals (that is, control or eradication) can be met.
- Other chemical or biological alternatives to the program.
- Expected project lifetime costs.
- Compatibility between county and state efforts.
- If the element is coordinated with the state's goals.

We recommend the Legislature ask the department to undertake such a review and provide a comprehensive plan by October 1, 2000.

Budget Proposal

The Governor's budget includes a $4.3 million augmentation from the General Fund for elements of the plant pest prevention detection and eradication program. This augmentation:

- Augments and permanently establishes the Medfly Preventive Release Program—$630,000.
- Permanently establishes the Agricultural Parcel Inspection Program—$1.9 million.
- Increases funding for the department's pest detection program—$1.3 million.
- Increases the department's plant pest public education efforts—$500,000.

Medfly Augmentation and Continuation Proposal Is Premature

We recommend the Legislature delete $630,000 (General Fund) and 11 positions requested to augment the Medfly Preventive Release program and deny the department's request to make the program permanent. The program was approved as a five-year project and will not expire until the end of 2000-01. Consequently, the request for an augmentation and permanent funding is premature. We also recommend the Legislature ask the department to report on the effectiveness of the current program in the upcoming year. (Reduce Item 8570-001-0001 by $630,000.)

The department began efforts to control the impact of the Mediterranean Fruit Fly (Medfly) on California's agricultural industry in 1975. Since 1980 the state has spent over $120 million from the General Fund to support this effort, with a similar amount provided by the federal government. The department has used aerial and ground spraying and sterile medfly releases to fight the pest.

The current program began in 1996 and involves raising sterile Medflies and releasing them throughout a 2,100 square mile area of the Los Angeles Basin. Total program costs are $15 million dollars annually, shared equally between the state and the federal government. The budget proposes to augment this amount by $630,000 and 11 positions in 2000-01. The goal of the program is to release the sterile flies at a rate sufficient to overwhelm any reproductively viable wild flies in the area—thus ensuring no fly reproduction. When the program was approved by the Legislature, the program was to operate for five years (through 2000-01), at which time the program need and effectiveness would be reevaluated.

We believe the department should continue with the final year of the program and we recommend the Legislature require the department to report to the Legislature in the upcoming year on the following:

- The impact of the program on wild Medfly populations in the release area.
- A justification of the continuation of the program.
- Any program alternatives.
- A discussion why the General Fund should pay for an ongoing pest control program when control programs are usually funded by the agricultural industry.

Therefore, we recommend the Legislature delete the requested augmentation ($630,000 and 11 positions) and ask the department for an evaluation of the program.

Agricultural Parcel Inspection Program

We recommend the Legislature delete $1.9 million (General Fund) for continuation of the Agricultural Parcel Inspection Program. The program is not a cost-effective use of the state's pest detection funding. (Reduce Item 8570-001-0001 by $1,860,000.)

The Governor's budget includes $1.9 million and 30 positions to continue the Agricultural Parcels Inspection Program. This program was initiated in the *1996-97 Budget Act* when the Legislature approved $895,000 from the General Fund and 14.6 personnel-years for a two-year pilot program. In the *1998-99 Budget Act* the Legislature doubled the size of the pilot program and extended it for an additional two years. During the course of the program, the department has submitted two legislatively mandated reports on program activities.

The program was initiated to provide inspection of domestic parcels for agricultural pests. State law restricts what plant materials may be shipped to California and requires that parcels containing plant material be clearly marked. Those marked parcels are inspected at the county level. However, according to the department, significant amounts of plant material enter the state through unmarked—and therefore uninspected—parcels. These uninspected parcels may contain agricultural pests that, if established, could prove harmful to California's agricultural industry and could be costly to control or eradicate.

The program includes 12 teams—consisting of an agricultural biologist, an agricultural inspector, and a dog trained to detect plant material—that are deployed in the San Francisco Bay Area, the Los Angeles Basin, and the San Diego area. These teams screen over ten million packages per year. Only a minor number contained what the department considered harmful pests. For example, in calendar year 1999, the program intercepted 128 packages that contained harmful pests (such as, the red imported fire ant, the leafhopper, aphids, and various fruit flies). Since the beginning of the program about 300 packages have been found to contain various harmful pests. The teams, however, only screen a small portion of all packages entering the state—approximately 1 percent to 6 percent, depending on the location. It is difficult to see how inspection of such a small percentage of packages could have any significant impact on preventing pest infestations.

Thus, we believe this program is not a prudent use of the state's pest prevention funding. We believe it is important to focus the state's prevention funding on those programs that provide a greater benefit than this program. Accordingly, we recommend the Legislature delete the $1,860,000 requested for the Agricultural Parcel Inspection Program.

Pest Detection and Public Education Programs

We withhold recommendation on the $1.8 million General Fund requested to increase the department's pest detection and public education programs. The department should provide additional data to indicate how these augmentations benefit the state's detection and education programs.

The Governor's budget includes $1.8 million from the General Fund to increase (1) the department's pest detection (trapping and visual surveys) efforts; and (2) efforts to educate the public about the risks and consequences of mailing, receiving, or importing quarantined agricultural products into California.

Pest Detection. The department is requesting $1.3 million General Fund to purchase and deploy a new type of pest trap. This new trap costs more initially and lasts half as long as the old traps used by the department. We believe the department needs to provide additional data on why it believes the new trap is more cost-effective.

Public Outreach. The department is requesting $500,000 to increase public outreach activities—such as producing and distributing brochures, maintaining a telephone hotline, and maintaining a Web site. It is unclear how this 55 percent increase in the department's public outreach program will measurably benefit the state.

We believe the department should provide additional data to clearly define the cost-effectiveness and benefits from the requested augmentations. We withhold recommendation on the $1.8 million augmentation pending receipt and review of the above information.

Agricultural Waste Mitigation Not a Responsibility of the Department

We recommend deletion of $328,000 from the General Fund and two positions requested primarily to address potential ground and surface water contamination resulting from animal agriculture production operations because this is the responsibility of the State Water Resources Control Board. (Reduce Item 8570-001-0001 by $328,000.)

The Governor's budget includes $328,000 and two positions for the department to aid other regulatory agencies in developing mitigation plans for large animal production operations to minimize environmental contamination from their enterprises. It appears that this proposal would focus on water quality issues. The State Water Resources Control Board is responsible for inspecting large animal production operations to ensure the operation is in compliance with state and federal water quality laws. Further, the Governor's budget contains a proposal to augment the board's budget for these activities. The responsibility and the resources for managing and limiting the environmental impact of animal agriculture production operations on ground and surface water quality is vested in the board. Thus, the requested augmentation for the department is not necessary or justified and we recommend the deletion of $328,000 in proposed funding.

Milk and Dairy Foods Augmentations

We withhold recommendation on the requested $1.5 million ($377,000 General Fund and $1,117,000 Agriculture Fund) and nine positions requested for various components of the Milk and Dairy Foods program. It is unclear exactly how the requested funding and positions would be used by the department.

The Governor's budget includes $1.5 million and nine staff to:

- Address an increase in mandated milk and dairy foods inspections.
- Increase inspections of illegal dairy products manufacturing.
- Transfer the functions of the Milk and Dairy Foods Laboratory to the California Veterinary Diagnostic Laboratory System.

As we discuss below, the department has not provided sufficient detail to support these requests.

Mandated Milk and Dairy Foods Inspections. The Milk and Dairy Foods Division of the department is responsible for inspecting dairies, milk processing plants, milk product processing plants, and soft-serve dairy (such as ice cream) establishments. The department's inspection workload is increasing because of the growth in dairy production and processing facilities. The department is requesting additional resources to address this increase in mandated workload. The information provided in support of this request, however, is unclear as to the amount of funding and staff the department is requesting for this specific workload.

Inspection of Illegal Dairy Products Manufacturing. In the *1998-99 Budget Act* the department received a $150,000 General Fund augmentation and two positions to curb illegal manufacturing of dairy products and to enforce sanctions against violators. The Governor's budget requests another augmentation of an unidentified amount for these efforts.

The department has not provided data to support the need for another augmentation. For example, the department has not provided an estimate of the number of establishments and markets to be inspected, the frequency of necessary inspections, and a discussion of the impacts of varied inspection frequency.

Milk and Dairy Foods Laboratory. The Governor's budget proposes to enter into a contract with the California Veterinary Diagnostic Laboratory System (CVDLS) to replace the functions of the Milk and Dairy Foods Laboratory (laboratory). The laboratory's budget for the current year totals $258,000 from the Agriculture Fund. The department indicates that the laboratory can not continue to operate in its current facility in Sacramento and that contracting with the CVDLS is the most cost-effective alternative.

It is not clear that the department needs to terminate its laboratory activities and contract with the CVDLS. Nor is it clear that this is a cost-effective proposal. For instance, the department currently employs several laboratory personnel. Presumably, the CVDLS would need similar staff levels to perform the same workload. The Governor's budget does not reflect a decrease in the department's staff nor does it include an increase in the CVDLS budget to reflect the contract.

We withhold recommendation on the $1.5 million for the elements of the Milk and Dairy Foods program discussed above pending receipt and review of additional information.

PUBLIC UTILITIES COMMISSION (8660)

The Public Utilities Commission (PUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. Throughout its various regulatory decisions, the commission also promotes energy and resource conservation.

The budget proposes total expenditures for PUC in 2000-01 of $88.9 million from various special funds ($74.9 million), federal funds ($1 million), and reimbursements ($13.0 million). This is about $1.3 million, or 1.4 percent, more than estimated current-year expenditures. This increase results from increases of $1.5 million in activities funded by the PUC Utilities and Transportation Reimbursement Accounts and a decrease of $0.3 million in reimbursements. The Governor's budget also proposes an increase of 19.4 personnel-years (PYs) over the current-year level of 825.1 PYs.

Maintenance and Repairs Identified in Five-Year Plan

We recommend that the Legislature delete $267,000 for maintenance and repairs at the Public Utilities Commission's San Francisco headquarters because the request includes capital outlay projects that have not been justified and an unnecessary infrastructure study. Further, we withhold recommendation on the $460,000 balance of the request pending receipt of information justifying the need for and cost of the remaining projects. (Delete $230,000 from Item 8660-001-0462, $30,000 from Item 8660-001-0461, and $7,000 from Item 8660-001-0412. Corresponding deletion of $267,000 from Item 1760-001-0666.)

The budget proposes expenditures of $727,000 for maintenance and repairs at the PUC headquarters in San Francisco. These repairs were identified in a $1.9 million five-year maintenance plan developed by the Department of General Services (DGS). The PUC has not provided any information on the proposed projects other than the title of each project. However, according to the itemized list of projects in the maintenance plan, the proposed projects include (1) $165,000 for upgrading the building security system and elevators (the security system proposal is a three-year $508,000 project); (2) regular maintenance, such as window water leak repairs; and (3) a $102,000 infrastructure study to be performed by DGS to identify other repairs to bring the building up to current codes.

We recommend deletion of the $165,000 for building upgrades and the $102,000 for the infrastructure study. The security system upgrade, if justified, should be requested as a capital outlay project. The infrastructure study is unnecessary because it is not required, as a matter of course, to continually renovate buildings to comply with code changes. Furthermore, PUC has not identified any issues or concerns that would warrant undertaking this study. Thus, we recommend that the Legislature delete $267,000 from the request. (We recommend a similar reduction to the proposed budget for DGS under Item 1760-001-0666.)

Based on the limited information provided in support of this proposal, it appears that a portion of the remaining $460,000 may include special repairs that should be funded. Consequently, we withhold recommendation on the $460,000 balance of the request pending receipt of information justifying the need for and cost of the remaining projects.

BOARD OF EQUALIZATION
(0860)

The Board of Equalization is one of California's major tax collection agencies. The board (1) collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline, diesel fuel, cigarettes, and hazardous wastes; (2) is responsible for allocating tax proceeds to the appropriate local jurisdiction; (3) oversees the administration of the property tax by county assessors; and (4) assesses property owned by public utilities. The board is also the final administrative appellate body for personal income and bank and corporation taxes. The department is governed by a five-member board—four members elected by district and the State Controller.

The *2000-01 Governor's Budget* proposes approximately $306 million ($194 million General Fund) and 4,077 positions in support of the board's operations. The total proposed budget expenditures are 3.5 percent above estimated current-year expenditures.

Information Technology Costs

We recommend the Legislature delete $1.4 million (various funds) requested for an increase in the board's master rental agreement for information technology components because the board initially planned to absorb this cost and has not provided any justification as to why it cannot absorb the increase. We further withhold recommendation on $3.7 million (various funds) requested for increased costs for the board's computer system operations and data storage needs at the Teale Data Center because the board should implement internal procedures to monitor data processing and storage use in order to control costs. (Reduce various items by $1,388,000.)

The Governor's budget proposes $5.1 million ($3.9 million from the General Fund) to offset a price increase in the master rental agreement between the board and the Department of General Services (DGS) and also for increased costs for services provided by the Teale Data Center.

Master Rental Agreement. The DGS maintains a master rental agreement for a variety of information technology hardware components—such as terminals, controllers, and printers. Other agencies and departments can use the agreement to rent hardware. In 1997, the DGS negotiated a new agreement that resulted in increased rental costs. The board initially planned to absorb the cost increase within its existing budget. It has not provided any information to indicate why this cost cannot be absorbed as originally planned. The augmentation also appears to be contrary to the Department of Finance's (DOF) budget instructions regarding price increases. Please see our analysis of the DOF budget in this chapter of the *Analysis*. Consequently, we recommend the $1.4 million requested for the increase in the master rental agreement be deleted.

Teale Data Center Costs Increase. The board recently (May 1999) implemented its Integrated Revenue Information System (IRIS) project, which shifts all mainframe processing from the board to the Teale Data Center. The Teale Data Center charges user agencies certain rates for its services. These services include mainframe processing time and data storage. The board indicates that processing time and data storage costs will increase in the budget year.

Our understanding is that these increased costs stem primarily from the simulated testing environments that the board uses when it updates the IRIS system. It is important for a department to conduct sufficient testing and maintain a sufficient number of testing environments when operating a system like IRIS. However, it is also important that a department diligently monitor its use of data center resources. We have three concerns with this request:

- The board has not been able to identify what level of testing is reasonable for the IRIS system.
- The board has not provided any assurance that it is monitoring data processing and storage use in order to control costs.
- Information presented by the board for the first six months of full IRIS operation does not support the requested expenditure level.

We believe the board should provide the Legislature with updated estimates of the operating time and data storage it requires from the Teale Data Center. Second, the board should also inform the Legislature of what internal controls can be put in place to monitor data center usage to avoid incurring budget shortfalls in the future. Finally, these estimates should be developed in conjunction with the Department of Information Technology and Teale. We withhold recommendation on the requested augmentation, pending receipt and review of this information.

Field Office Automation

We recommend the Legislature delete the requested $393,000 ($314,000 from the General Fund) to extend the Field Office Automation Pilot Project to two additional field districts because the augmentation is not necessary to gather additional information. (Reduce various items by $393,000.)

Pilot Project. In 1997-98 the board received an augmentation totaling $475,000 ($349,000 General Fund) to provide local area network (LAN) capabilities at two district offices—San Jose and Ventura. Essentially the LAN allows field auditors to interact electronically with the district office, with headquarters staff, and also link into the board's information technology systems located at the Teale Data Center. The increased electronic interaction was proposed to result in audit staff spending less time traveling from the audit location to the district or headquarters office for meetings, audit conferences, etc. Thus, auditors could complete the audits in a more timely manner.

After the LAN was established, the board compared data from the San Jose and Ventura districts with the same information from two "control" districts—San Diego and Oakland. These data included:

- Certain administrative information (such as time auditors spent manually completing forms).
- Audit-related information (hours required to complete an audit).
- Revenue information (total audit assessments).

The results of the comparison between districts were summarized and sent to the Legislature in September 1999. Based on the report, it appears that the automation resulted in increased efficiency and audit assessments. In addition, the board was able to reduce four support staff positions, but it reclassified two of those positions to the pilot districts to serve as LAN coordinators. The board estimates that the automation project costs approximately $400,000 annually and results in approximately $2.5 million in additional annual revenues.

Budget-Year Proposal. The Governor's budget proposes $393,000 ($314,000 from the General Fund) to expand the field automation project to an additional two districts—Torrance and Van Nuys—for the purpose of further studying the benefits of the project. The board currently has over two years of data from the initial pilot project. These data have permitted the board to analyze several different aspects of the project—administrative functions, auditor trips to and from the district office, audit management and supervision, and many others. If the board believes it needs to obtain more data to evaluate the pilot project, it can continue to obtain (and refine, if necessary) data from the two offices currently in the pilot program and compare the results to all the other district offices. Thus, it is not necessary to expand the pilot program to two additional offices to obtain additional information. Consequently, we recommend the Legislature delete the requested $393,000 to expand the pilot program.

As mentioned above, however, based on the September 1999 evaluation report the pilot program appears to be cost-effective. The September report did not indicate that there were insufficient data for evaluating the pilot program. In view of this, the board should report to the Legislature prior to budget hearings on any additional data needed to fully evaluate the program. Depending on the board's response, the Legislature may want to consider making the field automation program a permanent program and expanding it beyond the two offices proposed in the budget. As discussed above, however, there is no need to expand the pilot program.

FRANCHISE TAX BOARD
(1730)

The Franchise Tax Board (FTB) is one of the state's major tax collecting agencies. The board's primary responsibility is to administer California's Personal Income Tax and Bank and Corporation Tax laws. The board also administers the Homeowners' and Renters' Assistance programs and the Political Reform Act audit program. In addition, the board administers several nontax programs, including collection of (1) child support, student loan, and motor vehicle registration delinquencies; and (2) court ordered payments. A three-member board—the Director of Finance, the Chair of the State Board of Equalization, and the State Controller—oversees the department. A board-appointed executive officer is charged with administering the day-to-day operations.

The *2000-01 Governor's Budget* proposes $412 million ($371 million General Fund) and 5,752 positions in support of the FTB's operations. The total amount is $6.4 million and 54 positions more than the current year. The main changes are (1) nearly off-setting increases and decreases for multiyear information technology projects, (2) an increase in the child support collections program, and (3) an increase for the child support case management automation project.

CHILD SUPPORT PROGRAM

The FTB Child Support Program Expansion

We withhold recommendation on the board's request for $5.5 million ($1.9 million General Fund and $3.6 million reimbursements) to expand its child support collections program. The board's program is one piece of a larger overhaul of the child support collections and management system for the state. The board needs to submit a complete proposal, coordinated with the new Department of Child Support Services, detailing how the board will fulfill its new responsibilities under this program.

The Governor's budget proposes $5.5 million and 34 positions for the board to expand its child support collections activities per the 1999 mandates of Chapter 478 (AB 196, Kuehl) and Chapter 480 (SB 542, Burton).

Program History. In 1993, the board began a child support delinquency collection pilot project with six counties. Two years later in 1995, the collection program was expanded to include all counties. The board was responsible for collecting child support payments that were delinquent by 90 days or more. County district attorneys also could choose to have the board collect payments that were delinquent for 30 days or more as well as current support payments.

The board's role was to locate assets and collect owed amounts. The board relied on the county to submit necessary and accurate data in order to begin the collections process. It collected on about 6 percent of all cases referred to the board. For 1998-99 the board collected almost $68 million in child support delinquent payments from over 526,000 cases referred to it. Since the program began in 1993, the board has collected over $287 million.

As a collection agent for the counties, the board forwarded all monies collected to the referring district attorney, and the county distributed the collections to custodial parents. The board's costs for the collections activity are paid by federal reimbursements and the General Fund.

Restructured Child Support Program. The recent legislation fundamentally changed and expanded the state's child support system and the responsibilities of the board for child support collections. (A discussion of the new child support system is in the Health and Social Services chapter of this *Analysis*.) Figure 1 (see next page) highlights the changed and additional responsibilities for the board. The board has three years (ending December 31, 2002) to phase in the additional responsibilities.

Expected Results. The board expects to collect an additional $70 million annually in child support payments, starting in 2003-04, through the expanded program. Further, the board estimates program costs will approximately double.

Questions for the Legislature. There are several unanswered questions regarding the board's plan to implement its new responsibilities:

- *First*, it is our understanding that the board is delaying implementation and development of some information technology projects related to its tax collection responsibilities in order to implement the expanded collections and child support case management system. The board needs to inform the Legislature of any shifts in priorities and their effects on tax collections as a result of its increased child support responsibilities.

Figure 1

Franchise Tax Board Responsibilities Under New Child Support Collection System

- ☑ Receive all cases over $100 and more than 60 days in arrears. This is expected to double the department's caseload to approximately 1 million cases.
- ☑ Design and implement a computerized database to centralize information regarding each case.
- ☑ Establish a customer information center or network to answer debtor inquires and disputes.
- ☑ Contract with third parties, where necessary, to locate debtors and debtor assets.
- ☑ Give priority to collection of child support debt. For example, if a debtor has both a child support delinquency and a personal income tax delinquency, the board is to collect the child support delinquency first.

- *Second*, according to federal guidelines, the county collections agencies must remit the amount collected to the custodial parent within 48 hours of receipt. The board needs to explain what steps it will take to meet this requirement.
- *Third,* the expanded collections role gives the board greater discretion in researching and pursuing child support debt. Our understanding is the board plans to create a centralized database of collections information and make that database available to county child support staff. The board needs to explain how the integrity of the database and any private information, such as social security numbers, will be maintained in the interconnected system.

Analyst's Recommendation. In view of the many issues surrounding the restructured child support program, it is important that the board submit a complete proposal (coordinated with the Department of Child Support Services [DCSS]) on how the board will fulfill its responsibilities under Chapter 478 and Chapter 480. Pending receipt and review of such a coordinated proposal, we withhold recommendation on the $5.5 million ($1.9 million General Fund) and 34 positions requested to expand the board's collections programs.

Child Support Automation Project

We withhold recommendation on the proposed $14.1 million ($4.8 million General Fund and $9.3 million reimbursements) proposed for the child support automation project because the new state Department of Child Support Services has not yet identified its direction for the system and the Franchise Tax Board has indicated that a new, more complete proposal will be provided during budget hearings on the **2000-01 Budget Bill.** ***We further recommend that the Director of Child Support Services report at budget hearings as to the state's direction for the procurement of the new child support automation system.***

The Governor's budget proposes $14.1 million ($4.8 million General Fund and $9.3 million reimbursements) to reflect the shift of responsibility for the California Child Support Automation Project from the Health and Human Services Agency Data Center (HHSDC) to the board. As we discuss in the Health and Social Services chapter of this *Analysis*, recent legislation regarding the future of the state's child support system resulted in a significant change in the board's responsibilities. Specifically, Chapter 479, Statutes of 1999 (AB 150, Aroner), shifted responsibility for the procurement and implementation of the new statewide child support automation system from the agency to the board. However, the board is not the primary entity for developing the public policies for the state's child support system. Rather, the board will act as the "agent" for the newly created DCSS that is responsible for the state's child support program.

Procurement of New Statewide System. Chapter 479 mandated that the board act as the DCSS' agent for the procurement, development, implementation, and maintenance of the new single statewide system. This responsibility was given to the board on October 1, 1999. In addition, Chapter 479 appropriated $6.6 million in the current year to fund the board's initial project and transferred $5.7 million from the HHSDC to the board.

Complete Proposal Forthcoming. Because the process of developing the *2000-01 Governor's Budget* began prior to the effective date of Chapter 479, the board is still completing work on its full proposal for implementing its new mandates. We have been advised that a complete proposal will be forthcoming during budget hearings on the *2000-01 Budget*

Bill. That proposal should reflect the board's understanding of its full responsibilities and activities during 2000-01.

Coordination With Newly Created DCSS. At the time this analysis was prepared, the DCSS had not yet begun operations. Thus, DCSS had not yet specified its needs for the new automation system to be provided by the board. As we mentioned above, DCSS is the agency responsible for the state's child support program and the board is the DCSS's agent. Thus, we recommend that the new director of DCSS report at budget hearings as to the state's direction for development and procurement for the new statewide system. For these reasons, we withhold recommendation on the $14.1 million included in the Governor's budget for the child support automation system.

BUDGET FAILS TO REFLECT SCHEDULED SAVINGS

In 1998, the FTB contracted with an independent auditor to conduct a performance audit of the board. The audit results indicated that the board should be able to realize significant budget savings based on increases in electronic filing. The auditor further recommended phasing in these reductions in equal increments over five years to coordinate with the increases in alternative filing. In the *1999-00 Budget Act* the Legislature reduced the board's budget by 18 personnel-years and $513,000 (General Fund) to realize the first-year's increment of savings from reducing staff. In addition, the Legislature reduced the board's 1999-00 budget by $567,000 (General Fund) to realize the first-year's increment of savings the board has when it ceases to mail tax booklets to taxpayers who filed either electronically or used a tax preparer to submit their return in the previous year. The Governor's budget does not fully account for the second-year savings increments for these two activities. These issues are discussed below.

Filing Workload Reduction

We recommend the Legislature delete $366,000 (General Fund) to fully reflect the second-year savings resulting from a reduction in filing staff. (Reduce Item 1730-001-0001 by $366,000.)

The board's budget-year proposal includes a reduction of 18 personnel-years and $147,000 related to the second-year savings associated with the filing staff reduction. This reduction, however, does not reflect the *full* $513,000 in scheduled savings. Instead, the board proposes to leave $106,000 in the budget and redirect $260,000 to increase marketing efforts to encourage more taxpayers to use electronic filing methods. The board indicates that this increased marketing effort will ensure that it meets its increased electronic filing goals. The board, however, already successfully markets these filing methods through a current marketing campaign and publicizes the availability of these filing methods on its Web site and in all its tax booklets.

In fact, between tax years 1996 and 1998, there was a large increase (over 170 percent) in electronic filing and telephone filing, and the board is projecting a 30 percent increase in these filings for the 1999 tax year. The board has not provided evidence that increasing the marketing of these efforts is needed.

Consequently, we recommend that the Legislature delete $366,000 to reflect the full, second-year savings related to reduced filing workload.

Savings From Reduction in Tax Booklet Mailings

We recommend the Legislature delete $567,000 (General Fund) from the board's budget to reflect the reduction in mailing tax booklets related to the increasing number of taxpayers that file either electronically or use a tax preparer. (Reduce Item 1730-001-0001 by $567,000.)

In 1999-00 the Legislature reduced the board's budget by $567,000 (General Fund) to realize the savings the board has when it ceases to mail tax booklets to taxpayers who either filed electronically or used a tax preparer to submit their return in the previous year. This reduction was the first of the five-year scheduled reduction mentioned above. The Governor's budget, however, does not include the second-year savings related to the increasing number of taxpayers who file electronically or file through a tax preparer. Thus, we recommend the Legislature delete $567,000 from the board's 2000-01 budget to reflect the second year of scheduled five-year reduction.

BUSINESS TAX REPORTING PROGRAM

We recommend the Legislature delete $69,000 to administer the Business Tax Reporting program because when the mandate for this program was repealed in the current year, the board retained the associated administrative funds and position. (Reduce Item 1730-001-0001 by $69,000 and one position.)

Prior to the current fiscal year, every city in California that assessed a business tax and maintained a computerized record keeping system was required to annually furnish specific information to the board. The board then used this information to identify self-employed individuals for tax enforcement. Cities could file a claim to have certain costs—administrative and operational—associated with providing the data to the board reimbursed by the state. This mandate was repealed, per the board's proposal, in the current year. The board indicated that, in the aggregate, the information was not yielding sufficient returns for the costs incurred. The board believed that it would be more efficient to repeal the mandate and contract with those cities whose business tax information yielded the greatest revenue returns.

The budget-year proposal consists of $1 million (General Fund) to purchase the business tax information from specific cities and $69,000 (General Fund) for one position to administer the program.

When the mandate was repealed, the board's workload associated with the city tax information ceased. However, the board did not take a corresponding reduction in its budget. Consequently, the board should now be able to absorb the workload associated with purchasing the tax information from the cities within existing resources. Therefore, we recommend the Legislature delete the $69,000 and one position requested for administration of the program.

DEPARTMENT OF INFORMATION TECHNOLOGY (0505)

The Department of Information Technology (DOIT) is responsible for planning and overseeing the state's uses of information technology (IT). The department is responsible for ensuring that appropriate plans, policies, and procedures are in place to assure successful implementation of IT projects.

The budget proposes $9.7 million ($8.9 million from the General Fund and $750,000 from reimbursements) for support of the department's operations in 2000-01, a decrease of $18.4 million, or 64 percent, below estimated current-year expenditures. The budget reduction results primarily from the completion of the state's year 2000 (Y2K) remediation activities. The budget proposes 44 personnel-years for the department in the budget year.

In addition, the budget proposes $10 million from the General Fund in Item 9905 to fund IT innovation. Although these monies are not included in the DOIT budget, the department will play a central role in the disbursement of these monies. We discuss this proposal below.

Proposed IT Innovation Fund Not Justified

We recommend that the Legislature reject the request to create a $10 million information technology innovation fund because the proposal contains a number of serious flaws. (Delete budget bill Item 9905-001-0001.)

The budget proposes $10 million from the General Fund to support "innovative information technology activities." The funds would be appropriated in budget bill Item 9905, which contains provisions that specify the process for distribution of the monies. According to the Governor's budget summary, the funds would be used to ". . . take quick advantage of creative new technology applications in state government . . ." According to the administration, the request is based on the model established by the Legislature and the administration in the *1999-00 Budget Act* to fund unexpected Y2K activities.

Proposal. Under the proposal, monies in the item would be allocated by a new Information Technology Innovation Council. The council would be composed of two representatives of the Governor's Office, two cabinet level agency secretaries or their designees, the State Chief Information Officer (the Director of DOIT) or his designee, and the Director of the Department of Finance (DOF) or his designee.

The request states that, based on policies and guidelines to be developed and published by the Council, departments would submit proposals to DOIT for review and evaluation. Final selection for funding would be made by the council. After the council has made its selection, the Legislature will receive notification 30 days prior to DOF allocating money from the item.

Departments would have up to three years (2000-01 through 2002-03) to expend the allocated funds. Projects needing additional funds above the initial allocation would address their funding needs through the annual budget process.

It is also our understanding that the administration will propose trailer bill language to support this proposal. The specific trailer bill language has not been provided, however, it is our understanding that the language will not be substantially different from the proposed budget bill language.

We have a number of concerns with this proposal.

Lack of Defined Selection Criteria. Although the proposal indicates that the council will develop policies, procedures, and criteria for use of the funds, none of that information was available at the time this analysis was prepared. Thus, it is unclear what kind of proposals will be considered "innovative," how the proposals will be evaluated, and how the selection process will occur.

Council Composition Is Narrow. The composition of the council that will set the criteria for the use and distribution of the monies is too narrow in that it is composed entirely of administration representatives.

Will Only General Fund Departments Be Eligible? Because the budget proposes to use only General Fund monies to support innovative IT activities, it is unclear whether non-General Fund supported departments could receive funding. If such departments are not eligible for funding, this would exclude a number of major state agencies that are supported by special funds or federal funds, such as the Departments of Motor Vehicles, Employment Development, and Caltrans. If the administration had intended to use this fund for a broad range of services, provisions for the use of special and nongovernmental funds sources should have been included.

The DOIT's Resources May Be Diverted From Its Original Mission. The administration advises that DOIT will evaluate each of the proposals for funding with the final selection being made by the council. This means that DOIT will be taking on another responsibility before it has completed the tasks that were originally assigned to it by the Legislature, such as publishing policies and ensuring that IT projects are being successfully implemented. We believe that this additional task of evaluating proposals will divert its existing resources from its original mission and is, therefore, not appropriate at this time.

Use of the Y2K Fund Model Has Limitations. According to the administration, a model similar to one used for funding Y2K remediation activities will be adopted. In our view, however, the Y2K process was far different because Y2K remediation was limited to a single set of activities that were well-known beforehand. The innovation fund appears to be much broader and may address many different goals depending on the individual proposal.

In addition, we believe the Y2K funding process, whereby total funding was appropriated and the Legislature received 30-day notification of proposed expenditures, was not always used appropriately by the administration. Many of the Y2K funding requests to the Legislature over the past nine months were to back-fill funds that had already been expended without prior legislative authorization. Thus, we have concerns about establishing another funding mechanism that provides the administration virtual control over appropriated funds with very limited legislative review and oversight.

What Is the Real Problem? Finally, it appears that the administration is using this proposal to address a more fundamental problem facing state IT: the processes by which IT projects are funded. State IT project development, procurement, and implementation does not easily fit with the state's budget process. This is because project development and implementation activities frequently do not coincide with the appropriations process. We believe that, while the administration's proposed innovation fund attempts to get around that problem, what is really needed is a new funding model for state IT projects. Such a model should recognize the multiyear planning and procurement phases of such projects with adequate provision for legislative oversight and review.

Analyst's Recommendation. For these reasons, we recommend that the Legislature reject the request for a General Fund savings of $10 million. We suggest that the administration reexamine the funding and procurement model used for state IT projects, and if necessary, return to the Legislature with requests for legislative changes.

New DOIT Organization Structure Proposal Forthcoming

The Department of Information Technology (DOIT) indicates that it will provide the Legislature with a proposal for a new organizational structure and a new model for ensuring the success of state information technology projects. We recommend that the Legislature not act on the proposals until DOIT adequately demonstrates how the proposals will assist the department to achieve its legislatively-mandated responsibilities.

With Y2K activities successfully completed, DOIT has indicated that it will spend the next few months developing a proposal to present to the Legislature supporting a new organizational structure for the department. In order to assist its review, we provide the Legislature with a brief update on DOIT's current legislation, DOIT's major accomplishments to date, and identify DOIT's unmet legislative mandates.

The DOIT's Enabling Legislation. In 1995, the Legislature enacted major reform legislation relating to the planning, implementation, and oversight of the state's IT activities. This legislation—Chapter 508, Statutes of 1995 (SB 1, Alquist)—was the result of several legislative hearings and various reports by our office, the Bureau of State Audits, and the Governor's Task Force on Government Technology and Procurement. The Legislature determined that major reform was necessary in order to address multiple serious problems affecting the state's IT activities. California state government spends more than $2 billion annually on these activities.

The centerpiece of this reform was the establishment of a new department (DOIT), reporting directly to the Governor. The department was assigned many specific responsibilities which, if accomplished, would improve the state's ability to apply IT in a cost-effective manner and improve the Legislature's confidence in major IT initiatives. This legislation also included a sunset date of July 1, 2000.

Sunset Extended Until 2002. The Legislature enacted Chapter 873, Statutes of 1999 (AB 1686, Dutra) to extend DOIT's sunset to July 1, 2002. Chapter 873 essentially reiterated the provisions of Chapter 508. Figure 1 shows the major responsibilities assigned to DOIT by Chapter 873.

The DOIT's Accomplishments to Date. In our view, DOIT has on balance added value to the state's IT program. It has:

- Enacted policies that have significantly shifted procurements from technology-specific and custom-developed solutions to business based, "best value," and commercial off-the-shelf software solutions.

- Strengthened the roles of the data centers in becoming the primary providers of data processing services for state departments.
- Completed a data center consolidation study which concluded that there are limited opportunities for outsourcing and minimal cost savings from consolidating state data centers.
- Provided the leadership that allowed the state to successfully complete Y2K remediation.

Figure 1

Department of Information Technology Major Responsibilities Under Chapter 873, Statutes of 1999 (AB 1686, Dutra)

- ☑ Oversee the management of information technology (IT) in state agencies, with the authority to suspend or terminate projects.
- ☑ Develop and implement a strategy to facilitate information sharing among state computing systems.
- ☑ Determine which IT applications should be statewide in scope, and ensure that such applications are not developed independently or duplicated by state agencies.
- ☑ Develop and maintain a computer-based file, accessible to the Legislature, of all approved IT projects.
- ☑ Develop statewide policies and plans that recognize the interrelationships and impact of state activities on local governments, including local school systems, private companies that provide services to state agencies, and the federal government.

What Still Needs to Be Done? Even though DOIT has accomplished a number of major activities, we believe that it has not met all of the Legislature's expectations. Figure 2 summarizes the activities that we believe DOIT was legislatively mandated to either implement or complete but has yet to accomplish fully.

Overall, we believe DOIT has had difficulty in achieving its three primary objectives: (1) providing the strategic vision and planning for the use and management of the state's IT, (2) developing and issuing policies and guidelines, and (3) enforcing compliance with those policies.

Strategic Plan and Vision Needs to Be Formulated. When it was created, the Legislature envisioned that DOIT would provide the strategic vision for the state's approach to using and implementing IT in state government. It was also envisioned that DOIT would formulate a plan on how to achieve that vision. Unfortunately, that has not materialized. As DOIT presents its proposal for a new organizational structure, we believe that the key elements to ensuring the success of the state's IT will be DOIT's commitment to providing a consistent vision and workable plan on how to meet the challenges that face the state's IT.

Mandated Policies Not Completed. One of the key components in DOIT's enabling legislation, after planning, is the development of policies and guidelines to direct the state's IT program. The DOIT has issued some policies and attempted some reforms. However, as Figure 2 shows, there are a number of significant policies that have not been completed.

Over the past three years, the Legislature, through the budget and the supplemental report, has specifically directed DOIT to issue policies related to project oversight, project management training, procurement alternatives, project sizing, and project delegations. Most of these policies have not been issued. We believe that the forthcoming DOIT proposal must provide a plan on how DOIT will accomplish the objective of policy development and issuance, outline what specific policies will be developed and issued, and identify when this will occur.

The DOIT Has Had Difficulties in Enforcing Its Policies. For the few policies that it has issued, DOIT continues to have difficulties in enforcing its own policies and is apparently reluctant to intercede in departmentsto undertake those enforcement activities. As we note in our analysis of the Department of Motor Vehicles (DMV) (in the Transportation chapter), DMV continues to struggle in implementing its IT projects, however, DOIT continues to approve new DMV projects. In addition, departments continue to pursue procurement practices that are contrary to DOIT's published policies. Although DOIT has increased the amount and level of independent oversight that is now required on almost all IT projects, it still continues to have difficulties in effectively monitoring and overseeing a number of the state's major IT projects. Any forthcoming proposal will need to address how DOIT will ensure that departments are complying with state policies, what actions DOIT will take when compliance has not been achieved, and how DOIT will increase the success of state IT projects.

How Should the Legislature Review DOIT's Upcoming Proposal? Even though the Legislature has provided direction to DOIT through both its enabling legislation and subsequent legislative actions, we believe it has not met all of the Legislature's objectives. When the new proposal is presented this spring, we recommend that the Legislature evaluate the extent to which the proposal answers the following questions:

- ***Strategic Plan and Vision.*** Does it state how the state's IT will be positioned for the future? Does it address how DOIT is going to make state IT projects successful?
- ***Development of Policies and Guidelines.*** Does it identify the mandated policies to be issued and set a timetable for doing so?
- ***Enforcement of Policies.*** Does it demonstrate how DOIT is going to be more active in its policy enforcement role?

Figure 2

Department of Information Technology's Legislatively-Mandated Activities Not Fully Met[a]

Development of Strategic Plan and Vision

- Defining the appropriate use of information technology (IT) in state government.
- Requiring department's IT direction to be consistent with department's business plan.
- Promoting reforms regarding classification and retention of IT professionals.
- Specifying projects that will be statewide in scope.
- Implementing a project database for the Legislature's use.

Development of Policies and Guidelines

- Defining criteria for advanced technology projects.
- Implementing corrective action procedures for problematic IT projects.
- Establishing telecommunication policies for state networks.

Enforcement Policies

- Enforcing consistent project and contract management practices.
- Enforcing a consistent statewide strategy for making IT systems compatible.
- Enforcing policies on the one-time collection of data and information.
- Requiring contractor payment schedules to be based on the successful completion of previous phase.
- Monitoring projects for compliance to statewide project and contract management policies.
- Reviewing post-implementation evaluation reports for IT projects.
- Enforcing solutions to information security problems.

[a] As outlined in Chapter 508, Statutes of 1995 (SB 1, Alquist) and Chapter 873, Statutes of 1999 (AB 1686, Dutra).

- ***Implementation.*** Does it contain a work plan, with deliverables and due dates, demonstrating DOIT's commitment to accomplishing its legislatively-mandated objectives of planning, policy development, and enforcement? Is the plan reasonable and achievable in the time frames presented?

We recommend that the Legislature not act on any forthcoming DOIT restructuring proposal until these questions are adequately answered and the Legislature has had a reasonable period to evaluate the proposal.

Health and Human Services Agency Data Center (4130)

The Health and Human Services Agency Data Center (HHSDC) provides information technology services, including computer and communications network services, to the various departments and other organizational components of the Health and Human Services Agency. The center also provides services to other state entities and various local jurisdictions. The cost of the center's operations is fully paid by its clients.

The budget proposes $293 million for support of the data center in 2000-01, which is an increase of $15.1 million, or 5.4 percent, above estimated current-year expenditures. The budget includes a number of increases for workload, the largest of which is a request for $16.8 million for additional data processing and storage capability and telecommunications equipment. It also includes a number of decreases for completion of various aspects of certain large information technology projects.

Data Center Operations

The HHSDC Should Follow State Policies for Reporting on Projects

We recommend that the Legislature adopt supplemental report language directing the Health and Human Services Agency Data Center to report project expenditures in a manner consistent with information technology project reporting requirements contained in the State Administrative Manual, Budget Letters, and the State Information Management Manual.

The budget contains 18 proposals for HHSDC of which 13 are for information technology projects. The project-related proposals are submitted to the Legislature in order to report changes in estimated expenditures or fund sources for previously approved projects. This information is provided for both the current and budget years. Unfortunately, the information provided is of limited value to the Legislature as we discuss below.

Limited Information on Overall Costs of Projects. Each year HHSDC reports to the Legislature at least twice (in the January Governor's budget and again during the spring) as to budget adjustments for each information technology project. These reports, however, do not clearly indicate what HHSDC's total expenditure authority is for each particular project nor do they provide a clear indication of the estimated total project cost. Instead, the administration requests that the Legislature simply adjust expenditure authority on a year-to-year basis without a full understanding as to how the requested budget adjustments affect the *total* costs over the *entire* duration of the project.

For example, HHSDC is responsible for planning the procurement of the replacement for the In-Home Supportive Services (IHSS)/Case Management Information and Payrolling System (CMIPS). The May Revision proposal for the 1999-00 budget requested an increase of $507,000 in HHSDC's expenditure authority for this project. The proposal stated that the procurement planning would be complete by July 2001. The proposal did not contain information concerning HHSDC's expenditure over the duration of the project nor did it address total project costs. With release of the Governor's 2000-01 budget proposal, HHSDC is requesting an increase of $589,000 in expenditure authority for this project. Because HHSDC only reports its project activities in limited time sequences, the Legislature is never fully informed as to what it is agreeing to over the long term when it makes annual funding changes.

Data Center Allowed to Not Follow Existing State Policies. We believe this problem could be remedied if HHSDC were required to report project costs consistent with the State Information Management Manual (SIMM). The SIMM requires departments to provide detailed project costs broken down by specific categories for the life of the project. These specific categories include, for example, the total number of state personnel-years (PYs), and total costs for those PYs. The SIMM also describes what proposed expenditures should be in each of the categories. This categorization provides consistency of expenditure reporting for all state information technology projects. In addition, this detail allows both the control agencies and the Legislature to understand from a consistent fiscal perspective what is necessary to successfully implement a project. Because the majority of the funding for HHSDC projects is provided from federal funds, the state's control agencies (Department of Information Technology [DOIT] and Department of Finance [DOF]) have not required HHSDC to report project costs consistent with SIMM project expenditure reporting.

Analyst's Recommendation. Given the large number of information technology projects, the length of time it takes to develop and implement them, and the escalating costs of projects, we believe that it is appropriate for the administration to provide detailed information on the total costs of projects so that the Legislature can perform its oversight responsibilities.

Thus, we recommend that HHSDC be directed to report project costs in accordance with DOIT and DOF information technology project expenditure reporting policies and guidelines. In addition, we recommend that the Legislature direct HHSDC to include in its annual budget proposals current HHSDC expenditure authority over the duration of the project, approved project costs, and the proposed annual changes in expenditures for the project. This can be accomplished with the following supplemental report language:

> It is the intent of the Legislature that the Health and Human Services Agency Data Center (HHSDC) report project costs, project expenditures, and budget requests in a manner consistent with information technology project reporting requirements and budget change proposal requirements as stated in the State Administrative Manual, Department of Finance Budget Letters, and the State Information Management Manual. The HHSDC budget change proposals which support information technology projects and are provided to the Legislature shall indicate HHSDC's total current expenditure authority for the project, total proposed expenditure authority adjustments for the project, the number of years for the project, and the project's total approved cost.

The HHSDC Budget Control Language Needs Modification

We recommend changes in the proposed Health and Human Services Agency Data Center budget control language to clarify legislative intent and to ensure consistency between the state's two major data centers.

Provision 1 of HHSDC's budget control language allows the Director of Finance, upon a 30-day notification to the Legislature, to authorize the data center to spend funds in excess of its budgeted appropriation. This provision, which has been part of the annual budget act for several years, was originally adopted by the Legislature in order to allow HHSDC to respond quickly to unanticipated workload growth occurring in its client departments.

We are concerned that the Provision 1 language is overly broad and has allowed the administration to adjust HHSDC's expenditure authority for *workload* that could have been anticipated and, therefore, should have been presented to the Legislature during the budget hearing process. For example, in the current year, the Director utilized Provision 1 authority to propose an increase in expenditures to support some administrative functions that were not tied to new or unanticipated workload growth.

We think that the Legislature should clarify this language to ensure that this provision is used in accordance with legislative intent—to respond to unanticipated workload growth. We recommend the Legislature amend Provision 1 as follows (modified language is in italics):

> Notwithstanding any other provision of law, the Director of Finance may authorize expenditures for *unanticipated workload resulting from services provided to client departments* for the Health and Human Services Agency Data Center in excess of the amount appropriated no sooner than 30 days after providing notification in writing to the chairperson of the fiscal committee of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, or no sooner than such lesser time as the Chairperson of the committee, or his or her designee, may in each instance determine.

Consistency Needed in the Data Centers' Budget Control Language. The *2000-01 Budget Bill* proposes a new provision for the state's other major data center, the Stephen P. Teale Data Center (TDC), which would specify that TDC cannot use expenditure authority approved for one project to fund activities of another project. The proposed budget language provides clear direction that authorized expenditure authority must be used *solely* for the project for which it was approved and not for some other project.

The budget does not propose similar language for HHSDC. We believe that proposed budget language for TDC is consistent with legislative intent as to how a data center's expenditure authority should be used. Therefore, we recommend that the Legislature adopt the following budget control language in the HHSDC budget:

> Expenditure authority provided in this item to support data center infrastructure projects may not be utilized for items outside the approved project scope.

Proposed Upgrade to Electrical System Raises Questions

We withhold recommendation on $788,000 proposed for electrical generators and upgrades to the center's power supply system, pending receipt and review of additional information. We recommend that the Legislature consider the proposal a capital outlay project, rather than part of the center's support budget.

The budget proposes $788,000 to purchase electrical generators and upgrade the power supply system at the data center's facilities on Alhambra Boulevard in Sacramento. According to the center, this is the first of a five-year request for funding that would total about $3.9 million, with ongoing costs of $265,000 annually thereafter.

Proposal Raises Questions. Our review of this proposal raises a number of questions. First, the proposal itself is not clear as to the nature of the problem that the center is trying to address nor what the state would be "buying" with the requested funds. Second, it is not clear how this proposal takes the center's existing power backup system, which includes both generators and service from the local utility company, into account when considering the center's overall power supply needs. Third, it appears that the project may be inappropriately budgeted in the center's support budget, but should instead be considered a capital outlay project. Finally, this proposal is not complete because it indicates that the center will submit another budget request in the spring for funding to correct potential points of failure in the existing power system.

Clarification Needed. Normally, given this amount of uncertainty, we would recommend that the Legislature reject the proposal. However, given the importance of addressing potential power supply problems at the center, we think that the administration should have the opportunity to submit additional information to clarify the proposal.

Thus, we withhold recommendation, pending receipt and review of additional information. At the time the Legislature reviews the additional information and is ready to take action on the proposal, however, we recommend that the Legislature consider it a capital outlay project, rather than in the center's support budget.

SYSTEM MANAGEMENT SERVICES

Responsibility for Projects to Be Determined

Last year, the Legislature directed the Health and Human Services Agency Data Center to report by April 2000 on potential alternatives for the placement of various Department of Social Services projects. We recommend that the Legislature take no action on the budgets for these projects until it reviews the findings of that report.

In 1995, the Department of Social Services (DSS) transferred to HHSDC responsibility for three of the state's largest information technology projects. The projects were to automate the Aid to Families with Dependent Children (AFDC) program (subsequently, the California Work Opportunity and Responsibility to Kids [CalWORKs] program), child welfare services, and child support. The projects were transferred due to the difficulties DSS was experiencing in developing the projects. Since that time, HHSDC has been given responsibility for developing several other social services-related projects such as the Electronic Benefit Transfer Project and IHSS/CMIPS.

The budget proposes an additional $1.7 million and 37 PYs for HHSDC to support these automation projects in the budget year.

Transition Report Forthcoming. In *the Supplemental Report of the 1999 Budget Act,* the Legislature requested that HHSDC assess whether the projects should continue to be the responsibility of the center. The Legislature directed the data center to provide a project transition plan to assess potential alternatives for the placement of the DSS projects currently administered by HHSDC. The report is to include:

- A methodology describing how this transition could be accomplished including strategies, time schedules, and the receiving department's capacity and readiness to assume responsibility which would ensure continued project success.
- Clear definitions of which organizations will have responsibility for the ongoing support, operation, and maintenance of the systems (i.e., including state and county entities).
- A determination of the appropriate phase at which the project could transition.

The report is due to the Legislature by April 1, 2000.

Decision on Staffing Increases Should Await Recommendations of Report. Given that the findings of this report could have a significant affect on the amount of money and personnel that would be needed in either HHSDC's or other departments' budgets in 2000-01 and beyond, we recommend that the Legislature take no action on the data center's DSS project proposals until after it has an opportunity to review the report.

Support for Interim Child Support Systems Needs Clarification From New Department

Because the new state Department of Child Support Services has not yet identified the direction for its interim child support automation systems, we withhold recommendations on proposed funding for these systems pending the receipt of additional information. We recommend that the Director of Child Support Services report at budget hearings on the state's direction for support, maintenance, and operation of the interim automation systems supporting the counties' child support enforcement services.

Changes in HHSDC's Responsibilities. As we describe in our recently released report (*Child Support Enforcement: Implementing the Legislative*

Reforms of 1999), recent legislation has made significant changes in the state's child support system. These changes have important implications for HHSDC. Specifically, Chapter 479, Statutes of 1999 (AB 150, Aroner), shifted responsibility for the procurement and implementation of the new statewide child support automation system from HHSDC to the Franchise Tax Board.

The budget proposal reflects this change by decreasing HHSDC's expenditure authority by $5.4 million and 5.7 PYs in the current year and $6.6 million and 7.6 PYs in the budget year.

The HHSDC Maintains Interim Systems. Chapter 479 mandated that the state assume an active role in overseeing the maintenance and operation of the *interim* systems—those systems that the counties must operate until a new statewide system is operational. This responsibility was assigned to the new Department of Child Support Services (DCSS), in consultation with HHSDC.

Interim System Support Proposal Premature. The budget proposes expenditures of $15.5 million for HHSDC to support the interim systems. The proposal includes funds to continue data conversion tasks, support for the historical data base, and consulting services for county interim systems evaluations. We believe that this proposal is premature because the new department administering the child support program has not yet determined the direction of the interim automation system for this program, as we discuss below.

New Department to Specify Interim Systems Needs. At the time this analysis was prepared, the new DCSS was not yet up and running. Thus, DCSS had not been able to specify its needs for the new interim system provided by HHSDC. Because a more detailed proposal should be forthcoming identifying the interim system needs as specified by DCSS, we withhold recommendation on HHSDC's expenditure authority for the interim child support systems.

In addition, as we said in our recent child support report, we believe that DCSS, which is the agency responsible for the state's child support program, should be the lead agency for the child support program and the department responsible for the automation system's operation should be viewed as DCSS's agent. For this reason, we recommend that the new director of DCSS report at budget hearings as to the state's direction for support, maintenance, and operation of the automation systems supporting the counties' child support enforcement services.

CHILD WELFARE SERVICES/ CASE MANAGEMENT SYSTEM

Proposal to Convert Consulting Funds to New Positions Is Premature

Because the report due to the Legislature concerning the placement of various social services automation projects (including Child Welfare Services/Case Management System [CWS/CMS]) has not been provided and the new maintenance and operations contract for CWS/CMS has not been awarded, we recommend that the Legislature deny the Health and Human Services Agency Data Center's request to convert consulting services dollars into funding for an additional 23 permanent positions.

The CWS/CMS provides a statewide database, case management tools, and reporting system for the state's CWS program. The project has completed development and the system is in operation in all 58 counties. The project has now moved into the maintenance and operation (M&O) phase.

Procurement for New Maintenance Contract Underway. As directed by DOIT, DOF, and the federal government, HHSDC developed a Request for Proposal (RFP) to competitively procure an M&O contract for the ongoing support and maintenance of the CWS/CMS system. The state released the RFP in June 1999. The administration has not provided a schedule as to when the new M&O contract is expected to be awarded.

We understand that the current M&O contract is set to expire in July 2000, and will need to be amended to provide ongoing support until the procurement of the new contract is complete. The costs of the contract amendment is not known at this time.

The budget requests to convert $1.7 million currently budgeted for consulting services to personal services to establish 23 permanent positions to support the CWS/CMS system.

Request for Additional Positions Is Premature. We believe that this request is premature for several reasons. First, the M&O contract is not in place and the specifics of the contract could make a difference as to the level of state funding necessary. Second, as we mentioned earlier, the project transition report describing which department should be responsible for various automation projects is still forthcoming. Consequently, it is not known what the plan will propose with regard to the future of the system.

Finally, DSS has indicated that it is currently reevaluating how to better support the counties and the state using the CWS/CMS system. We believe that such a reevaluation is appropriate. This is because the project has completed its development and implementation stages and is in fact no longer a *project* but rather an *operational system*. The manner in which a department supports an operational system is much different than the manner in which a department supports a project. The CWS/CMS is a good case in point. The processes and structures that were designed to support the CWS/CMS *project* may no longer have relevance for a fully operational CWS/CMS *system*.

For these reasons, we recommend that the Legislature not approve the request to establish permanent positions, but rather maintain the funds in HHSDC's consulting services budget. We believe that this approach would give DSS the maximum flexibility to restructure its policies and strategies to support an operational system such as CWS/CMS. We suggest that once DSS has developed its policies and strategies for supporting CWS/CMS and the new M&O contract has been awarded, DSS should provide a more comprehensive proposal to the Legislature to adequately support a fully operational CWS/CMS system that will meet the business needs of California's CWS program.

Software Maintenance Proposal Is Premature

We recommend a reduction of $5.1 million proposed for Child Welfare Services/Case Management System maintenance and operation activities because the request is premature. (Reduce Item 4130-001-0632 by $5.1 million.)

Five-Year M&O Plan. In addition to being directed to procure a new M&O contract, HHSDC was directed by DOIT and DOF to prepare a five-year M&O plan. This plan is to describe the replacement schedule for CWS/CMS hardware and software and the budget changes necessary to meet these schedules. The CWS/CMS M&O plan prepared by HHSDC contains three major funding components:

- Scheduled equipment replacements.
- Annual software maintenance activities.
- Other support activities.

The budget requests a total of $20.3 million for these replacements and activities in the budget year.

Scheduled Equipment Replacements Make Good Sense. The CWS/CMS M&O plan provides replacement schedules for the equipment-related system components for each of the five years of the plan. The budget for 2000-01 includes $15.2 million to replace 10,500 personal computers and 242 laptop computers. We concur with this request in that it is consistent with prudent replacement schedules.

Changes to the CWS/CMS Software. The CWS/CMS M&O plan also includes $5.1 million for the two other components related to maintaining and enhancing the CWS/CMS application. First, the annual software maintenance component consists of making changes to the software to either fix known problems or enhance the ability of the existing system to carry out more functions. In addition, there are other activities consisting of consulting services provided by the current M&O vendor for planning, project management, and local technical support.

Software Changes Must Be Minimized Until New M&O Contract in Place. As we pointed out earlier, HHSDC is in the process of procuring a new M&O contract. We have been informed that the federal government has stated that there should be no enhancements to CWS/CMS until the new M&O contract is in place. Given this direction from the federal government, we think it is premature to request funding for additional changes to the software. We note that the current CWS/CMS budget already contains $6.2 million specifically for software changes which the state can use to request software modifications from the current M&O contractor.

Analyst's Recommendation. With the procurement of the M&O contract still underway and the need to minimize changes to the application during this period, we recommend that the Legislature approve only the request for $15.2 million for scheduled replacements, and deny the $5.1 million related to application maintenance activities.

STATEWIDE AUTOMATED WELFARE SYSTEM

Four Consortia Approach. The purpose of Statewide Automated Welfare System (SAWS) is to provide improved and uniform information technology capability to county welfare operations. The system is being delivered through a state partnership with the counties, which have chosen to be in one of four consortia. Figure 1 shows the four consortia, the participating counties, and the current status of each consortia.

The SAWS Consortium Planning and Management. The HHSDC provides oversight for the four SAWS consortia. Oversight consists of preparing project documents, procuring Independent Verification and Validation services, reviewing consortia deliverables, and approving and tracking expenditures. The data center's current year expenditure's for the consortia planning and maintenance are $5.3 million with this increasing by $1.3 million in the budget year.

Figure 1

Statewide Automated Welfare System (SAWS) Consortia

	Status	Proposed Budget Change
Interim SAWS (ISAWS)		
35 counties: Alpine, Amador, Butte, Calaveras, Colusa, Del Norte, El Dorado, Glenn, Humboldt, Imperial, Inyo, Kern, Kings, Lake, Lassen, Madera, Marin, Mariposa, Mendocino, Modoc, Mono, Monterey, Napa, Nevada, Plumas, San Benito, San Joaquin, Shasta, Sierra, Siskiyou, Sutter, Tehama, Trinity, Tuolumne, Yuba	Working in all 35 counties.	-$11.8 million
Los Angeles Eligibility Automated Determination, Evaluation, and Reporting (LEADER) System		
1 county: Los Angeles	Countywide implementation in progress. Completion scheduled for July 2000.	None
Welfare Client Data System (WCDS)		
18 counties: Alameda, Contra Costa, Fresno, Orange, Placer, Sacramento, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, Tulare, Ventura, Yolo	Software development in progress. Consortium wide implementation to begin 2002.	None
Consortium IV (C-IV)		
4 counties: Merced, Riverside, San Bernardino, Stanislaus	Procurement in progress.	None

The SAWS Technical Architecture (SAWS-TA) Project Terminated. In addition to the four consortia, HHSDC was also responsible for the SAWS-TA Project. This project intended to (1) enable the exchange of data among the four consortia for eligibility, antifraud, and case management purposes; (2) provide an interface for the consortia with other state automation systems; and (3) connect the consortia and state agencies in order to meet state and federal reporting requirements. The project was discontinued in February 1999 due to cost overruns, increases in the project's scope, and the inability to implement the technology that would have connected the consortia systems together.

Welfare Data Tracking Implementation Project (WDTIP) Started. The SAWS-TA Post Implementation Evaluation Review (PIER) recommended that the state undertake two separate projects which would be needed to calculate time-on-aid and connect the four consortia systems together. The first of these projects is WDTIP which will calculate the time-on-aid and then allow this client information to be viewed from the county-based systems. The WDTIP project will include county data conversions, data base implementation, and user training. The budget proposes $930,00 from various funds in the current year for counties to begin the data conversion tasks. For the budget year, a decrease of $5.6 million is proposed to reflect approved federal spending levels.

Does the SAWS Consortia Approach Still Make Good Sense?

We recommend that the Legislature direct the Health and Human Services Agency, in conjunction with the Department of Information Technology and Department of Finance, to reexamine the need for a consortia-based approach for welfare automation and report during budget hearings on the costs and benefits of pursuing four separate consortia and potential changes in automation funding responsibilities between the state and the counties. Until this information is provided to the Legislature, we recommend that the Legislature deny any proposed funding changes for Statewide Automated Welfare System-related activities.

The consortium approach was established in 1995 for the purpose of addressing the needs of the counties for locally-based and designed welfare automation systems. At that time, it was unknown as to what would be necessary to implement the consortium approach in terms of time, costs, and technology. Now, five years later, some of that information is known. In addition, two of the four consortia (Interim SAWS [ISAWS] and Consortium IV [C-IV]) are at important junctures in their development.

For these reasons, we believe it is an opportune time for the Legislature and administration to review the lessons the state has learned so far, identify what still needs to be accomplished, and reexamine the current approach in light of our knowledge to date.

What Do We Know So Far? Five years after the state embarked on the consortia approach to automation, we know that (1) costs are considerable, (2) substantial work still needs to be accomplished on all of the consortia, (3) connecting the consortia together will be difficult, and (4) the current automation financing arrangement does not account for changes in law that occurred after the consortia approach was enacted.

Consortium Costs Are Considerable. When the state undertook the four-consortia approach, little was known about what the approach would cost. It is now clear that the state's costs are considerable. Project costs of the Los Angeles system (Los Angeles Eligibility Automated Determination, Evaluation, and Report [LEADER]) will be $198 million and the total costs of the Welfare Client Data System (WCDS) consortium over ten years are projected to be $483 million. We know that the total costs for ISAWS, including the costs for the original development effort, recent year 2000 equipment replacements, and the infrastructure upgrade, is $331 million. The total project cost for the SAWS-TA Project was $23 million, and the WDTIP project is currently estimated to be $16 million. The cost for HHSDC's planning and oversight is $52 million.

Together these estimated costs for SAWS automation total about $1.1 billion. When the potential costs for the successors to the SAWS-TA project (approximately $200 million), the C-IV project (in the range of $200 million to $500 million), and a new proposed ISAWS procurement (probably the same range as C-IV) are factored in, the state's total cost for welfare automation could be $2 billion.

Considerable Work Still Ahead on All Consortia. Although each of the four consortia is at a different stage of implementation, all have considerable work still ahead.

The LEADER is expected to be in operation throughout Los Angeles County by July 2000. When countywide implementation is complete, LEADER will go through a period of stabilization—that period after which a system is implemented, when various problems get addressed, and the system is fine-tuned for performance. The LEADER staff have also indicated that the system will need additional enhancements to meet legislative mandates such as an interface with the new Electronic Benefits Transfer (EBT) system and incorporating eligibility for family coverage in the Medi-Cal Program (so-called "1931(b)" eligibility).

The WCDS signed its contract with Electronic Data Systems and UNISYS in October 1999. The next two years will consist of designing, programming, and testing the new system. The pilot is expected to begin in the Spring of 2002. The consortium-wide implementation is expected to be complete in 2003.

The C-IV consortium has completed its procurement and is now awaiting state approval to sign its contract. The administration has not indicated what the expected total project cost may be; however, it is safe to assume that the cost should be somewhere between $200 million and $500 million based on the experiences of the other three consortia. It can also be assumed that the implementation schedule for this project will be similar to the schedules for the other three consortia meaning that consortium-wide implementation would be completed in about three years after the contract is signed.

Although ISAWS is operating in all counties that are part of the consortium, the budget proposes $400,000 for the consortium to begin planning for a new procurement which could have significant policy and fiscal implications. From a policy perspective, the proposal states that ISAWS will consider whether to continue its current system, consolidate with another consortium, or procure a new system. The budget proposal is the first step towards pursuing an activity that could result in another procurement and development project with costs in the range of $200 million to $500 million.

Connecting the Consortium Systems Together Will Be Challenging. One of the major objectives of the SAW-TA Project was to connect the separate consortium systems together. One of the reasons that the project was terminated was that the state was unable to implement a technology to make these connections. With the information derived from the SAWS-TA PIER, it is clear that connecting the consortium systems is going to be a difficult task. The technical solution necessary for establishing the connection and providing value to county business practices will be complex. As the number of systems increases, the complexity for connecting them will also increase. The costs associated with making these connections are unknown since the level of complexity is unknown, the technical solution is unknown, and some of the consortia are not even developed.

Welfare Reform Has Changed the Fiscal Responsibilities for Automation. With the 1996 welfare reform and block grants, the funding structure for state and county activities dramatically shifted. Specifically, the federal welfare reform legislation ended the state/federal matching system that existed in the former AFDC program. Instead, California receives a federal Temporary Assistance for Needy Families (TANF) block grant. Under the federal block grant approach, all marginal costs, including those for welfare automation, become *state and local* costs from the federal perspective.

Chapter 270, Statutes of 1997 (AB 1542, Ducheny) created the CalWORKs program (California's version of TANF). Among many significant changes, this legislation fixed the counties total costs for CalWORKs and food stamps administration at their 1996-97 levels. Thus, all marginal program costs, including those for automation, are *state costs*.

Because counties have no marginal program costs, their fiscal incentives to consider the cost side of the cost-effectiveness equation for automation approaches in their consortia have been diminished. Finally, we note that Chapter 270 created a county performance incentive system whereby the savings achieved from client exits due to employment and grant reductions due to recipient earnings are transferred to the counties. By the end of 1999-00, counties will have received approximately $1 billion in these performance incentive funds.

Where Should the State Go From Here? Based on the lessons learned from the previous SAWS experiences and the tasks still needing to be accomplished, we suggest that there are several issues that the Legislature needs to consider as it reviews the SAWS-related budget proposals, both now and in the future, including whether (1) to allow the ISAWS consortium to develop a new system and (2) whether to modify the existing four consortia approach.

Another New System for ISAWS. We are concerned about the ISAWS consortium starting another planning effort given the estimated additional costs of a new system. The initial legislative direction was based on pre-welfare reform mandates. It is our belief that the Legislature did not envision the consortia procuring more than one system with a potential cost of hundreds of millions of dollars.

Time to Reconsider Four-Consortia Approach. Finally, with welfare reform changes implemented, two large procurements completed, a better picture of potential costs revealed, and a technical architecture project that proved unsuccessful, we believe that it is time to review the state's current approach and ask whether the consortium approach continues to be a cost-effective solution that makes good technological and fiscal sense for the state.

We believe that there are two areas that should be reconsidered regarding the SAWS automation effort. First, we believe that the number of consortia needs to be considered. It may be possible to reduce the number of consortia from four to either two or three, which would (1) reduce the state's costs considerably and (2) make the technical solution for connecting the consortia together much easier.

Second, if there is a genuine business need at the county level for four separate systems, then we believe it is also time to reconsider how the funding for those systems is shared between the state and the counties, especially given the funding changes that occurred in welfare reform. Currently, counties have no marginal cost for automation, and will have received approximately $1 billion in performance incentives by the end of 1999-00. The Legislature could opt to have the counties pay for certain types of automation enhancements with their performance incentive funds.

Analyst's Recommendation. For these reasons, we recommend that the California Health and Human Services Agency, in cooperation with

DOIT and DOF, report during budget hearings on the cost and benefits of pursing the four separate consortia, potential funding shifts between the state and the counties, and if necessary, identify legislative changes that may be necessary to redefine the consortium strategy. Until this information is provided to the Legislature, we recommend that the Legislature reject any proposed funding changes for SAWS-related activities.

STATUS OF OTHER PROJECTS

Electronic Benefits Transfer

The EBT is the electronic transfer of funds to welfare recipients. This includes food stamps and welfare cash benefits for the CalWORKs program. The system uses debit card technology and retailer terminals to automate benefit authorizations, delivery, redemption, and financial settlement, thereby eliminating paperwork. The HHSDC is responsible for planning, developing, and implementing EBT technology statewide for food stamps and CalWORKs.

Multiple-Vendor Approach. Chapter 270, Statues of 1997 (AB 1542, Ducheny), required that the state certify *one or more* vendors by July 1, 1998, as eligible to contract with counties to develop and implement an EBT system. The HHSDC, working with DSS and the counties, developed a strategy in which the state would contract with and certify EBT processors. The counties, grouped as consortia, would then select and contract with one or more processors to implement EBT in the counties.

Single-Vendor Approach. In response to concerns expressed by the counties, HHSDC changed its strategy from multiple vendors to a *single* vendor to implement an EBT system statewide. Chapter 329, Statutes 1998 (AB 2779, Aroner), made this change in law to permit this approach. The new approach also required a delay in the procurement by 20 months. The Invitation to Partner was released in October 1999 and the contract is expected to be awarded in September 2000.

State Fingerprint Imaging System (SFIS)

The SFIS is a system which will automate the collection, interpretation, and storage of fingerprints for persons applying for public benefits. The purpose of the system is to reduce welfare and food stamp fraud. The HHSDC originally intended to award a contract for the system in late 1997, but a bid protest delayed execution of the contract into 1998. Before the contract could be executed, however, HHSDC canceled the procurement in response to the Governor's March 1998 executive order requiring departments to rebid all state contracts that had not yet been executed. (The executive order was in response to a federal court ruling which found that provisions of state contract law related to participation goals for minority- and women-owned businesses were unlawful.)

Project Status. Due to the Executive Order, the state had to rebid the contract in June 1998. The HHSDC issued its intent to award the contract in March 1999, however, a protest was filed and was not resolved until June 1999. The final contract for $19.9 million was awarded in September 1999.

The Legislature was notified in September that the total project costs for SFIS are now expected to be $46.5 million over eight years. The project is divided into three Phases with each phase representing geographic areas in the state. Phase I consists of implementing Colusa, San Joaquin, Sutter, Yuba, Merced, Sacramento, Stanislaus, and Solano Counties. Phase I implementation is scheduled to begin and be complete this year.

The IHSS/CMIPS

The IHSS program was established in 1973 in DSS as a program to provide in-home supportive services to qualified aged, blind, and disabled persons. In 1979, DSS contracted with Electronic Data Systems for the development and operation of the IHSS/CMIPS system. This contract has been rebid twice and amended several times.

In 1998, DSS was directed by DOIT and DOF to reprocure the contract. In addition, DSS felt that the new system should include functionality which would enable access to all IHSS county workers and their offices. In accordance with Executive Order D-3-99, the procurement was put on hold until completion of the state year 2000 efforts. The project was approved to begin in January 2000. As with other DSS-related projects, HHSDC was assigned responsibilities for the procurement activities.

STATE CONTROLLER
(0840)

The State Controller is responsible for (1) the receipt and disbursement of public funds, (2) reporting on the financial condition of the state and local governments, (3) administering certain tax laws and collecting amounts due the state, and (4) enforcing unclaimed property laws. The Controller is also a member of various boards and commissions, including the Board of Equalization, the Franchise Tax Board, the Board of Control, the Commission on State Mandates, the State Lands Commission, the Pooled Money Investment Board, and assorted bond finance committees.

The Governor's budget proposes expenditures of $109 million ($72.3 million from the General Fund) to support the activities of the State Controller in 2000-01. This amount is an increase of $8 million, or 7.9 percent, above estimated current-year expenditures. This includes requested funding for the Controller's main budget bill item (Item 0840) and for two information technology projects within a separate budget bill item (Item 0841) titled the State Controller's Statewide Information Technology Projects.

Budget Request. The budget proposes a number of augmentations for support of the Controller's activities in 2000-01. The major proposals include the following:

- $7.8 million for the design and development phase of the 21st Century Project, a project to replace the state's employment history and payroll systems. The funding for this project will decrease to $4.1 million in 2001-02.
- $839,000 and authority to use 15.5 existing unfunded positions to meet increased workload in the Bureau of Unclaimed Property. (We discuss this proposal below.)
- $150,000 to process notifications and resulting claims in the Bureau of Unclaimed Property, and $72,000 to research the workload

impact of addressing the backlog of notifications. The budget also requests changes to budget control language included in the *1999-00 Budget Act* that restricts expenditures on notifications to owners of unclaimed property. (We discuss this proposal below.)

- $585,000 in reimbursements for the testing, piloting, and initial implementation of an Automated Statewide Travel Expense Reimbursement System.

- $439,000 to process an increase in the state mandated cost reimbursement workload.

Legislature Should Consider Alternatives to Address Backlog in Unclaimed Property Program

The budget proposes additional resources to (1) meet the projected ongoing workload of processing unclaimed property and (2) research the potential additional workload that would result from reducing the backlog of notifications to potential owners of unclaimed property. We recommend approval of funding to meet the ongoing workload needs. In addition, we recommend the Legislature consider two alternative approaches to addressing the backlog of notifications.

As indicated above, the budget proposes augmentations totaling $1.1 million for the Bureau of Unclaimed Property. The first request is $839,000 to handle ongoing workload. The second requests relief from budget bill language that places restrictions on the notification of owners of unclaimed property. Related to this second request is $150,000 and two permanent positions to handle anticipated workload resulting from lifting the restrictions. Finally, the budget requests $72,000 and one limited-term position to study the potential workload impact from reducing the backlog of unclaimed property notices waiting to be sent out.

Background. Since 1959, banks and other institutions have been required by law to remit unclaimed property to the state. Examples of such property include bank accounts, safe deposit box contents, stocks, and the proceeds of insurance policies. Property is deemed to be unclaimed when an account has remained dormant for three years and efforts by the institution holding the account to locate the owner have been unsuccessful. The unclaimed property is then transmitted to the State Controller, who maintains records of all such property and attempts to identify the owners. Because the state is essentially holding unclaimed property in trust until a legal owner is identified, a portion of unclaimed property funds is returned annually to claimants. In general, the Controller (1) sends notifications to apparent owners and (2) processes the resultant claims.

According to the State Controller's Office, the state currently holds in excess of $2.6 billion in unclaimed property belonging to approximately five million individuals and organizations. Historically, the state receives about $300 million annually in unclaimed property funds pending efforts by the Controller to locate the owners. Annually, the state pays out about $150 million of these funds to approximately 117,000 claimants. The Governor's budget assumes the state General Fund will receive net revenues of $170 million from unclaimed property in 1999-00, but will drop to $71.2 million in 2000-01, based on implementation of the proposed changes.

1997 Law Change. Prior to 1997 the Controller was required to notify the apparent owner of any account valued at $25 or more. Since 1997, the Controller has been required to request the Franchise Tax Board (FTB) to match the social security number from an unclaimed property account, if one has been provided, to the address for the apparent owner of the account. If that address is different than the one originally provided to the Controller and the account is valued at $50 or more, a notice to the apparent owner must be sent to the new address.

Restrictions on Notification. Beginning in 1992-93, budget act language has restricted the amount of funds that the Controller could spend on mailed notices. The *1999-00 Budget Act* essentially limited these expenditures to $15,000.

Increased Unclaimed Property Claims. The budget proposes $839,000 and authority to use 15.5 existing unfunded positions to meet projected ongoing workload demands. According to the Controller's Office, increased awareness of California's Unclaimed Property Program though national news releases, television talk shows, audits, and the creation of the Controller's Office Internet site have resulted in a 168 percent increase in claims workload. The Controller's Office projects another 50 percent increase based on the experience in comparable states after the introduction of an interactive Internet site for searching unclaimed property. The number of unclaimed property reports from holders has also increased by 30 percent since 1995-96. Without additional resources, the Controller must redirect staff to claims processing and away from updating owner account information, limiting the public's ability to search for unclaimed property.

Backlog of Notifications to Potential Owners of Unclaimed Property. Currently, there is a significant backlog of notifications that must be processed. This backlog began in 1990-91.

The actual number of notifications to be sent depends on which law is applied to the backlog. If the 1997 law, which requires notification in cases where there is an FTB address match to a social security number, is applied to the entire backlog, 476,000 notices must be processed. If the pre-1997 law is applied to only the backlog that occurred prior to 1997, then an unknown number of notices would be mailed. This application of law could substantially increase the number of notifications that must be processed and therefore increase the number of resultant claims.

Impact of Notification Requirements. There is a direct relationship between the number of notifications made by the Controller and the number of claims filed by legal owners of unclaimed property, and, consequently, the amount of money paid out to claimants. Reducing the backlog would accelerate, for a time, the filing of claims by legal owners of property transferred to the state.

There are a number of alternatives the Legislature may wish to consider when addressing the backlog of unclaimed property:

- ***Retroactive Application of the 1997 Notification Requirements.*** The 1997 law requires notification if the FTB matches a new address to an apparent owner of an account valued at $50 or more. The Controller estimates that retroactive application of the 1997 notification requirements would result in 123,000 claims over a five-year period. Processing this additional workload would require seven limited-term positions in addition to the two permanent positions required to process an estimated 18,000 annual claims. The cost of processing the backlog under these conditions is $371,000 annually for five years and $134,000 annually thereafter.

- ***Pre- and Post-1997 Application of Notification Requirements.*** The Controller estimates that application of the 1997 law for *all* accounts (valued at $50 or more) received in 1997 and later, combined with application of the pre-1997 law (accounts of $25 or more), would result in 202,000 claims over a five-year period. The increase in claims is due to the pre-1997 requirement that notification be made to all apparent owners with accounts valued at $25 or more, regardless of a new FTB address match. The actual number of accounts falling into this category is unknown. The Controller estimates that the number of claims resulting from this application of law is around 202,000. To process this backlog, the Controller would require more than the seven limited-term positions. Exactly how many additional positions would be needed is unknown due to the uncertainty surrounding the number of accounts and resulting claims that would result.

- ***Funding a Position to Research the Workload Impact and Alternatives for the Backlog of Notices.*** The Governor proposes a limited-term research position to determine the workload impact of the alternative application of notification requirements. The number of claims resulting from the backlog of notices not sent from 1990-91 to 1999-00 is hard to determine. For example, there may be owners who were not notified by the Controller, but have already claimed their property. They may be counted as part of a notification backlog, but would not result in new claims. The workload impact is determined by which application of law is chosen and estimations of the number of claims that would result.

What Should the Legislature Do? We believe the public is not well served by the current situation because statute requires the Controller to audit *holders* of unclaimed property, but the Controller is not authorized to seek out the *owners* of that property. This is especially important because private "heir finders" can purchase account information from the Controller and then charge a premium to identify unclaimed property to potential owners.

At a minimum, funding for the new permanent positions to begin notifications in the budget and future years should be approved in order to keep the backlog from growing. If the Legislature wishes to eliminate the backlog (and, thus, potentially find the owners of unclaimed property more quickly), the application of the pre- and post-1997 notification requirements would reach the largest number of apparent owners. While the exact number of accounts in this category is unknown, the Controller has estimated the number of resultant claims to be 202,000.

The Governor's proposal for a limited-term position to research the workload effect of addressing the backlog is not necessary because the Controller knows the level of funding needed to process any given number of claims per year. Given this information, the Controller could be funded at the level of 202,000 claims on a limited-term basis and submit a deficiency letter for the budget year should the number of claims be higher than estimated.

Addressing the notification backlog could result in a reduction in General Fund revenues from unclaimed property beyond the amount already assumed in the Governor's budget. However, given the projected General Fund surplus, dependence on unclaimed property revenues is less significant this year providing an opportunity for the Legislature to consider an aggressive approach in returning unclaimed property to its rightful owners.

SECRETARY OF STATE
(0890)

The Secretary of State, a constitutionally established office, has statutory responsibility for examining and filing financial statements and corporate-related documents for the public record. The Secretary, as the chief elections officer, also administers and enforces election law and campaign disclosure requirements. In addition, the Secretary of State appoints notaries public, registers auctioneers, and manages the state's archival function.

The budget proposes total expenditures of about $78 million for the Secretary of State in 2000-01. This is $7.1 million, or 10 percent, more than estimated current-year expenditures. Expenditures from the General Fund total about $33 million, a decrease of $3.7 million, or 10 percent, compared to estimated current-year expenditures.

The lower General Fund expenditures is primarily because less money is needed than in 2000-01 to pay for programs the state mandates upon local government, particularly those establishing rules regarding elections.

The overall net increase in expenditures for the Secretary of State's office is due primarily to an increase in spending from the Business Fees and the Business Reinvestment funds. Legislatively enacted changes in the schedule of business fees are expected to generate additional fee revenue. These additional resources would be combined with previously accumulated fee revenues to finance a proposed information technology project to improve the office's business-related filing operations.

Significant Savings From Purge of Voter Rolls, Mixed Results From Calvoter Project

We recommend that the Secretary of State report at budget hearings regarding: (1) why direct savings from the Calvoter project are not offsetting ongoing state costs for the new voter registration tracking system, (2) what steps the state should take to improve its financial return from the project, and (3) how the $3.5 million state loan for the computer system can be deemed paid given the statutory language authorizing the project.

Removal of "Deadwood" From Voter Rolls Required. Chapter 5, Statutes of 1996 (SB 1313, Mountjoy) requires county registrars of voters to periodically verify the residence of voters and remove from the rolls those who have moved outside that county. The legislation was intended to reduce the cost to the state and to local governments of conducting elections by reducing the printing and mailing of official elections materials to so-called "deadwood"—households listed on voter rolls with an invalid, duplicate registration.

Last month, the Secretary of State reported that 1.5 million duplicate registrations were removed in advance of the November 1998 and March 2000 elections due to the requirements of Chapter 5. Based on the ballot pamphlet costs of $1.20 per registered voter for the March 2000 ballot cited by the Secretary of State, we estimate that Chapter 5 will result in state savings of more than $1.8 million for the March 2000 election. In addition, county governments will enjoy significant additional savings on the costs of mailing local ballot materials.

Calvoter Project Initiated. Chapter 913, Statutes of 1995 (AB 1701, McPherson) directed the Secretary of State to establish a statewide computer system comprised of voter registration data to facilitate the removal of duplicate registration of voters. The Secretary of State contended at the time that this project could also save the state and the counties millions of dollars annually by paring "deadwood" from the voter rolls. For example, change-of-address information filed with the Department of Motor Vehicles is being used to alert a county registrar of voters when a registered voter has moved out of that county and is no longer eligible to vote there. The Secretary of State also cited other potential benefits from creating an automated voter registration tracking system, including a reduced risk of voter fraud.

Chapter 913 provided a $3.5 million loan from the General Fund to the Secretary of State to develop the voter registration tracking system and specified that the loan be repaid out of state savings on printing and mailing costs made possible through the new system. The loan is repayable with interest by December 31, 2000, but no procedure or penalty is specified in the law in the event of its nonpayment.

Additional General Fund appropriations not subject to repayment have been provided to the Secretary of State's office for implementation and ongoing operation of the system. According to a Post-Implementation Report (PIER) on the Calvoter project released in November 1999, about $7 million will have been spent on the Calvoter system by the end of the current fiscal year. About $1.2 million is provided in the 2000-01 budget plan for ongoing state support for the Calvoter system.

Project Results Reported. The original Feasibility Study Report outlining the project specified that the new computer system was to have been deployed in all California counties as of November 1997. Full deployment was delayed until the following year because county election officials needed more time to help implement the new computer system.

The PIER indicates that the Secretary of State was unable to access some state and federal data sources that had been sought in order to discover duplicate voter registrations. However, the report does indicate that the Secretary of State was generally successful in resolving the complex technological problem of establishing a system linking the Secretary of State's voter registration system with county election voter registration systems across the state.

The PIER prepared by the Secretary of State's office states that the Calvoter project resulted in a reduction in the state's costs of printing and mailing ballot pamphlets by approximately $1.2 million per election. The basis for this savings estimate was not identified in the report.

Financial Returns So Far Do Not Offset Project Costs. Chapter 913, the law authorizing the Calvoter project, directed the Secretary of State to provide reports to the Legislature and the Director of Finance every six months to account for the number of duplicate voter registrations eliminated and the savings that directly accrued to the state as a result of the new computer system.

In its December 1999 report, the Secretary of State indicated that 525,574 duplicate registrations were eliminated as of the end of 1999 by the Calvoter system. Based on the Secretary of State's standard assumption that each duplicate registration costs $1.20 in state funds for printing and mailing an unneeded ballot pamphlet, we estimate that the total state savings achieved in the March 2000 election will be about $630,000, about half of the $1.2 million per election in savings cited by the PIER and about half of the ongoing, annual cost to the state for operating the Calvoter system.

Other Savings Cannot Count Against Loan. In his report last month on the results of the Calvoter project, the Secretary of State suggested that savings resulting from the Chapter 5 requirements for paring voter rolls should be counted toward repayment of the $3.5 million loan for the Calvoter project. The Secretary of State indicated that, if Chapter 5-related savings from the November 1998 and March 2000 elections are counted, along with anticipated savings from the November 2000 election, he deems the loan to have been paid off in its entirety.

However, the state law authorizing the Calvoter project specifies that only voter registrations eliminated directly by the new computerized voter registration system should be counted toward repayment of the loan. The measure further states that duplicate voter registrations removed as a result of other state laws are *not* to be counted toward repayment of the loan. Only recently has the Secretary of State's office indicated to the Legislature that the state's financial return from the Calvoter project was being diminished because of the Chapter 5 requirements.

The PIER report prepared by the Secretary of State's office does not outline any further steps to improve the state's financial return on its $7 million investment to date in the Calvoter project. Nor does the report indicate how the $3.5 million loan will be repaid by the end of this year.

Analyst's Recommendation. The release of the PIER formally concluded the implementation of the Calvoter project, but left a number of important issues unresolved. Accordingly, we recommend that the Secretary of State report at budget hearings regarding: (1) why direct savings from the Calvoter project are not offsetting ongoing state costs for the new voter registration tracking system, (2) what steps the state should take next to improve its financial return from the project, and (3) how the $3.5 million state loan for the computer system can be deemed paid given the statutory language authorizing the project.

Business Program Computer Project Unauthorized

We withhold recommendation on a request by the Secretary of State for $8.6 million to upgrade the office's computerized systems for managing corporate and other public records because the project has not yet been approved by the appropriate state agencies.

Business Programs Automation. The proposed budget for the Secretary of State would provide about $8.6 million from two related business fee funds for the first phase of the Business Programs Automation project. The budget request indicates that the project would address significant problems in the corporate and other business registration programs for which the Secretary of State is responsible. Those problems include inefficient processing of corporate filings and backlogs of tens of thousands of documents, difficulty in responding to requests for public records and information, and potentially serious mistakes in record keeping.

Advance review and approval by specified state agencies is ordinarily required under state administrative rules before funding can be budgeted for a new information technology project. This project has not received all of the necessary reviews and approvals. Nonetheless, the Department of Finance included funding for this project in the proposed state budget plan, along with budget bill language providing that the funds could not be spent until those required approvals were obtained.

Analyst's Recommendation. Without prejudice to the possible merit of this project, we withhold recommendation on the $8.6 million funding request and recommend that the budget bill language be deleted.

We believe it is premature to appropriate funds for this project until the appropriate state agencies have settled on a specific procurement process, agreed upon the scope and timetable for the project, and determined the exact funding needed to proceed during the budget year. If those steps are accomplished before the Secretary of State's budget is heard in subcomittee, the Legislature would have the information it needs to make a sound decision on the merits of the project. If those steps have not been completed by budget hearings, we would recommend that the Legislature not approve the project at this time.

New Fee Revenues Should Offset General Fund Support

We recommend that net General Fund support for the Secretary of State's office be reduced by $2.6 million to account for new revenues from registration of domestic partnerships and the expedited handling of corporate documents. We also recommend approval of the full funding and positions sought to implement these two new fee-supported programs. (Reduce Item 0890-001-0001 by $2.6 million, adjust amount payable from Business Fees Fund under 0890-001-0001 Schedule (e) and 0890-001-0228 by the same amount.)

New Fee-Based Programs. The proposed budget for the Secretary of State implements several programs required by state legislation, including Chapter 588, Statutes of 1999 (AB 26, Migden) to allow certain couples to register as domestic partners. The budget plan would provide $147,000 from the General Fund in the 2000-01 fiscal year to implement the program. The Secretary of State's budget request estimates that the registration fees for domestic partnerships would generate $100,000. However, the budget request for the Secretary of State does not take this estimated revenue into account.

The spending plan also includes a separate request for $923,000 in the budget year to implement Chapter 999, Statutes of 1999 (SB 408, Alpert). This legislation allows the Secretary of State to collect special handling fees of up to $1,000 from corporations that are willing to pay for expedited processing of corporate filings. Last year, the Secretary of State's office estimated that the measure would generate $2.5 million in revenues for the state. However, the additional revenue projected to result from Chapter 999 is not taken into account in the Secretary of State's budget request.

Analyst's Recommendation. We recommend approval of the positions and funding requested by the Secretary of State to fully implement both the domestic partnership and the expedited document-handling programs. However, we believe it is appropriate to offset the General Fund costs of operating the Secretary of State's office with the new revenues expected to be generated by these programs. These changes should have no effect on the implementation of the Secretary of State's new or existing programs.

We have been advised by the Secretary of State's office that there are technical concerns with the requirement in Chapter 999 that fees generated under the new law be accounted for as reimbursements of expenditures. Thus, we recommend the adoption of budget bill language that would allow these fees to be budgeted in the same fashion as other business fee revenues. The budget bill language would state:

> Provision X. Notwithstanding Section 12208(d) of the Government Code, special handling fees may be accounted for as expenditures from the Secretary of State's Business Fees Fund.

STATE TREASURER
(0950)

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

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

The Governor's budget proposes expenditures totaling $22.5 million for the Treasurer's Office in 2000-01, which represents a decrease of 47 percent from the current-year's expenditures. The request includes $9.9 million from the General Fund, a 51 percent decrease from 1999-00. This decrease is a result of a one-time payment in the current year of $14 million for a state-mandated investment reporting requirement by local authorities. The ongoing annual cost beginning in the budget year for this program is $3 million.

No Basis for Augmentation for Rent Increases

We recommend the Legislature delete $186,000 from the General Fund request for increases in facility rent because we find no analytical basis for granting an adjustment to the Treasurer's Office that has been denied to virtually all other state agencies. (Reduce Item 0950-001-0001 by $186,000.)

The Governor's budget includes a request to increase facilities operations funding by $186,000. The proposed additional funds will be used to offset higher rental costs set by the Department of General Services.

The request is based on cost increases the office indicates have occurred since around 1996-97.

Our review found that only the Treasurer's Office and four other agencies—the State Library and the Departments of Industrial Relations, Fair Employment and Housing, and Justice—received budget augmentations for rental increases in state buildings. Presumably, all other state departments will absorb the rent increases.

We can find no analytical basis for granting an augmentation to pay for rent increases for these five departments when other departments and agencies are not provided such funds. We note that the administration's own budgeting guidelines indicate that departments will not receive funding for such price increases. Consequently, we recommend the Legislature delete $186,000 under Item 0950-001-0001.

We discuss this issue in greater detail in our analysis of the Department of Finance's budget in this chapter.

Local Investment Reporting Mandate Not Necessary

We recommend that the Legislature enact trailer legislation making local compliance with the investment report mandate optional, because the requirement (1) costs significantly more than the Legislature anticipated and (2) no longer appears necessary to promote local oversight. (Delete Item 0950-295-0001 for a savings of $3,342,000.)

In the aftermath of the Orange County bankruptcy, the Legislature sought to increase the level of local investment oversight by imposing various investment reporting requirements on local governments. Specifically, Chapter 783, Statutes of 1995 (SB 564, Johnston) requires local agencies to prepare:

- An annual local investment policy. In the case of counties, the policy must include (1) criteria for selecting security brokers and dealers and (2) a list of the securities and instruments allowable by law.
- Quarterly reports, including a description of all the investments held by the agency or managed by contracted parties, the investments' current market value, and a statement as to whether the portfolio is in compliance with the investment policy and will meet local cash flow needs for the next six months. Pursuant to a request by the Legislature, we submitted a report in January examining the need to continue this mandate. Our report found that the ongoing cost of the investment report mandate is more than 20 times greater than the Legislature anticipated when en-

acting the requirement. In addition, given the significant changes to the legal, financial market, and professional standards governing local investment practices, we found that the reporting mandate no longer appears necessary to promote local oversight.

For these reasons, we see no basis for the state to continue to mandate the form and substance of local investment reports. While the Legislature may wish to leave the language describing the local investment reports in statute as a *guide* for local officials, we recommend the state mandate be eliminated. Enacting this change in trailer legislation this year would eliminate the need for the $3,342,000 proposed for local government reimbursement under Item 0950-295-0001.

Should the Legislature wish to provide a modest enhancement to local governments' existing strong incentives to oversee local investments, we recommend the Legislature consider enacting legislation requiring local investment officials to annually report to their local governing board on the extent to which their investment oversight and reporting practices meet the fiduciary and prudent investor standard in state law, and conform with the standards recommended by the Governmental Accounting Standards Board and major professional public finance associations. Such legislation would impose a state mandate, however, the cost of the mandate would be minimal.

In addition, should the Legislature wish to provide financial assistance to local governments to facilitate efforts to upgrade local investment monitoring and reporting, the Legislature may wish to consider providing funding for one-time technology grants.

DEPARTMENT OF GENERAL SERVICES (1760)

The Department of General Services (DGS) is responsible for providing a broad range of support services to state departments and performing management and oversight activities related to these services. It provides these services through three programs: statewide support, building regulation, and real estate services.

The Governor's budget proposes total expenditures of $734 million from various funds (including $55.6 million from the General Fund) to support the activities of DGS in 2000-01. This is $13.3 million, or 1.8 percent, above estimated current-year expenditures.

Building Regulation Services. Proposed budget-year expenditures for these services are $30.6 million, or $0.4 million more than the estimated current-year level. The major change in this program budget is the addition of 2.8 personnel-years and $253,000 for handicapped accessibility plan checking by the Division of the State Architect.

Real Estate Services. Proposed budget-year expenditures for these services are $325.1 million, or $8 million more than the estimated current-year level. Major increases are:

- 123.2 personnel-years and $12.1 million for staff to manage the design and construction of new state buildings and facilities.
- 57 personnel-years and $5.7 million for operation and maintenance staff, and $7.6 million for rental payments, for the new California Environmental Protection Agency building in Sacramento.
- $3.4 million for deferred maintenance projects at various state facilities.
- 0.9 personnel-years and $8.1 million to fund administrative support and payment of natural gas purchases in the Natural Gas Services Program.

- 23.5 personnel-years and $1.9 million for operation and maintenance staff and costs for various state facilities.

Statewide Support Services. Expenditures for statewide support services are $364 million in the budget year, representing an increase of $3.1 million, or less than 1 percent, over estimated current-year expenditures. The amount includes several small increases and reductions to programs. The largest request is $15.3 million for local assistance proposed to upgrade 9-1-1 telephone system switching equipment in the current and budget years.

BUILDING REGULATION SERVICES

Access Compliance Plan Check Staff

We recommend deletion of 2.8 personnel-years and $253,000 for the Division of the State Architect because there is insufficient documentation that the positions are needed. (Delete $253,000 and 2.8 personnel-years from Item 1760-001-0006.)

The Division of the State Architect reviews plans for buildings constructed with state funds and public schools for compliance with handicapped accessibility regulations. The division's actual and estimated plan checking workload is shown in Figure 1.

Figure 1

Department of General Services
Division of State Architect
Access Compliance Workload

Budget Year	Number of Projects Checked
1997-98 (actual)	3,859
1998-99 (actual)	3,628
1999-00 (estimated)	4,263
2000-01 (estimated)	4,263

The division bases its estimates for 1999-00 and 2000-01 on an assumption that the construction value of all plans it will review in 1999-00 and 2000-01 will be $2.8 billion, the average cost of each project will be the same as it was in 1998-99 ($662,000), and the time to check each project will be the same as in 1998-99 (4.4 hours per project). The division provides no information to substantiate these assumptions. It does not show why the total construction value of projects to be checked would increase, and why the average project cost and time to check the plans would be the same as in 1998-99. In the absence of such information, we recommend the Legislature delete funding for these additional positions.

REAL ESTATE SERVICES

Project Delivery Behind Schedule

The capital outlay program managed by the department's Real Estate Services Division has more than doubled in the last five years. A number of projects funded in this period have not been completed in accordance with schedules approved by the Legislature. We recommend the Legislature adopt supplemental report language directing the department to adopt project delivery goals and report annually on its performance.

The DGS manages most of the state's general capital development program. With some exceptions, it is the builder of most of the state's offices and institutional buildings. The DGS program is managed by the Real Estate Services Division (RESD). The capital outlay program managed by RESD has more than doubled in the last five years and a number of projects have not been completed in accordance with schedules approved by the Legislature. This raises questions about the reasons for the delays, and what steps can be taken to keep projects on schedule.

How Is the Real Estate Services Division Doing? To understand how well RESD has been able to meet schedules approved by the Legislature, we looked at the division's *June 30, 1999 Quarterly Status Report* (received September 15, 1999). The phase of each project we examined was the latest one for which funding had been appropriated. For most projects this was the construction phase, but for many, only earlier phases—such as working drawings or preliminary plans—had been funded. We compared the original schedule established for that phase of the work with the current schedule provided by DGS. In this way we could see if completion of a phase had been delayed, and by how much. Our findings are summarized in Figure 2. It shows that three-fourths of the projects have been delayed more than three months, and one-fourth of the projects are experiencing a delay of more than a year.

The data displayed above are based on schedules prepared by RESD at the time the Legislature was asked to appropriate funds. These schedules were based on RESD's knowledge of the project and the process required to complete these projects. Although some delays in the schedule may have been out of DGS's control, it is clear that there is room for improvement in the department's meeting of schedules.

Figure 2

Department of General Services Project Completion Delays[a]

Project Completion Delay	Projects Number	Projects Percent
Less than 3 months	61	24%
3 to 5 months	51	20
6 to 11 months	76	30
12 to 17 months	25	10
18 months or more	37	15
Total	**250**	**100%**

a Compares the original and current schedules for latest funded phase of 250 major capital outlay projects.

Recommendation. We recommend the Legislature adopt supplemental report language directing the department to submit a report to the Legislature annually on November 1 identifying project delivery improvement goals, its record for meeting schedules during the past year, reasons specific phases of project work were not completed on time, and steps it is taking to improve performance.

Public Utilities Commission Building Special Repairs

We recommend the Legislature delete $267,000 for maintenance and repairs because the request includes capital outlay projects that have not been justified and an unnecessary infrastructure study. Further, we withhold recommendation on the $460,000 balance of the request pending receipt of information justifying the need for and cost of the remaining projects. (Delete $267,000 from Item 1760-001-0666[a].)

The budget proposes expenditures of $727,000 for maintenance and repairs at the San Francisco state building occupied by the Public Utilities Commission (PUC). (The same amount is proposed in the commission's budget for transfer to the Service Revolving Fund.) These repairs were identified in a $1.9 million five-year maintenance plan developed by the DGS. No information has been provided on the proposed projects other than a list of projects in the maintenance plan. The proposed projects include (1) $165,000 for upgrading the building security system and elevators (the security system proposal is a three-year $508,000 project); (2) regular maintenance, such as window leak repairs; and (3) a $102,000 infrastructure study to identify other repairs needed to comply with current codes.

We recommend deletion of the $165,000 for building upgrades and the $102,000 for the infrastructure study. The security system upgrade, if justified, should be requested as a capital outlay project. The infrastructure study is unnecessary because it is not required as a matter of course to continually renovate buildings to comply with code changes. No issues or concerns have been identified that would warrant undertaking this study. Thus, we recommend that the Legislature delete $267,000 from the request. (We recommend corresponding reductions in the PUC budget under Item 8660.)

STATEWIDE SUPPORT SERVICES

Master Plan Due on Public Safety Radio Microwave Network

The Department of General Services was required by the Legislature to submit a master plan for the Public Safety Radio Network by December 1, 1999, but the department has not provided the report.

In response to a budget proposal in the *1999-00 Governor's Budget* last year, the Legislature adopted supplemental report language directing DGS to provide a master plan describing the administration's plan for the maintenance and operation of the microwave network supporting the state's public safety radio network. The Legislature directed the department to include the following in the master plan:

- An assessment of whether the microwave technology recommended by DGS in a 1994 report continues to be the preferred option, in light of the current state of the art in communications technology.
- A summary of the regulatory environment within which the system will operate, with specific emphasis on the impact of personal communication systems on the communications spectrum available to the network.
- A quantified summary of system usage by agency, both state and nonstate.

- A comprehensive estimate of all costs associated with the analog-to-digital conversion, including the cost of tower and vault replacements, renovations, and modifications.
- A recommendation for an equitable allocation of the cost of conversion among state agencies.
- A schedule for implementation of the plan.

The supplemental report language directed DGS to submit the master plan to the Legislature by December 1, 1999. At the time this analysis was completed, the Legislature had not received the report. According to DGS, the report is still under review within the administration.

Big Investment Proposed for New Radio System; Many Questions About Implementation Strategy Remain

The budget proposes $1.8 million for design of a new public safety radio network, which is projected to take 15 years to implement and cost $3.5 billion to complete. We withhold recommendation on the proposal pending (1) receipt and review of the microwave master plan, which was due on December 1, 1999; and (2) information on how the department will address a number of uncertainties in its implementation plan.

The budget requests $1.8 million from the DGS Service Revolving Fund to begin design work for a new public safety radio network, known as the Public Safety Radio Integrated Systems Management (PRISM) Project, in the budget year. The request is the first of a multiyear effort with projected total costs of $3.5 billion.

The Proposal. The proposal calls for the state to invest over a 15-year period in an integrated radio system which will provide both voice and data communications to state public safety agencies. Figure 3 displays the implementation phases and the associated costs by phase. Funding for the project would be provided in the budgets of ten different departments for payment to the DGS Service Revolving Fund. The ten departments are:

- California Highway Patrol.
- Department of Corrections.
- Department of the Youth Authority.
- Department of Justice.
- Department of Transportation.
- Department of Forestry and Fire Protection.

- Department of Fish and Game.
- Department of Parks and Recreation.
- Department of Water Resources.
- Office of Emergency Services.

Figure 3

Public Safety Radio Integrated Systems Management Project

(Dollars in Millions)

Phase	Length (In Years)	Cost of Phase	Cost to Operate Current Systems	Total Costs
Phase I—Design network	2[a]	$3	$141	$144
Phase II—Conduct pilot	3[a]	92	123	215
Phase III—Statewide implementation	11	2,419	726	3,145
Totals	**15**	**$2,514**	**$990**	**$3,504**

[a] Phases I and II will overlap in 2001-02.

As the figure indicates, the administration plans to seek $2.5 billion over the next 15 years to build and implement the PRISM system. Because the new system will be implemented in phases, the Legislature will be asked to continue to fund the existing radio system until full implementation is realized in 2015. The projected cost to continue the existing system is about $1 billion over the 15-year period. Thus, the *total* cost of the proposal over the next 15 years would be $3.5 billion, and the $1.8 million proposed for the initial design work in the budget year is only a very small portion of the total cost.

Current Public Safety Network. The state's public safety radio network consists of separate public safety radio communications systems used by the ten departments identified above. Each of these departments has its own radio systems and uses distinctly different radio frequencies which do not consistently communicate with one another during incidents requiring mutual aid. In addition, some of these public safety systems are 25 years old and do not incorporate modern technological advances.

Strategic Plan and Cost Benefit Analysis Completed. In response to these communication system deficiencies, the ten departments began a strategic planning process in 1994 to review the capabilities of the existing radio systems. Based on that review, the departments developed long-term strategies for consolidating the current voice and data radio systems into an integrated public safety system for the state. After completion of this strategic planning effort, the state conducted a cost-benefit analysis examining the alternatives for an integrated state radio system. The result of that analysis is reflected in this proposal.

Current Public Safety Microwave Network to Be Part of PRISM. We understand that the proposed PRISM network will use the state's current microwave network as one of its components to provide radio communications. In fact, the microwave network will act as one of the main infrastructure components for the new system. Thus, improving and maintaining the state's microwave network will be necessary during the next 15 years.

We have an number of concerns regarding the administration's PRISM proposal which we discuss below.

Microwave Master Plan Needed. As we indicated earlier, the administration's master plan for the public safety radio microwave network has not yet been presented to the Legislature. In our view, it will be important for the Legislature to review the master plan to understand the department's long-term plans for the state's current microwave network, how the current network will enhance the investment in PRISM, and the future funding requirements for maintaining and enhancing the current microwave network.

Implementation Strategies Are Uncertain. With a 15-year implementation plan and the expectation of annual multimillion dollar investments, we think that the administration needs to advise the Legislature how it plans to implement the PRISM system. These strategies need to encompass how the *new* radio system will be "rolled-out," how the *old* radio system will be phased-out, and how new technologies will be phased-in.

Implementation Strategy Should Allow Reduced Funding for Current System. Under the administration's plan, both the old and new systems would be maintained during the *entire* 15 years of implementation. We are concerned that full funding over the entire 15 years for the old system may not be necessary. It is unclear whether the administration has considered implementation strategies that would allow portions of the old system to be discontinued or shut down earlier than others, thus reducing costs of operating the old system sooner and providing the opportunity to redirect those funds to the new system.

Implementation Strategy Should Set Priorities and Contingencies in Case Funding Not Available. In our discussions with DGS, it was unclear if the implementation strategies accounted for the possibility that full funding may not be available over 15 years. For example, state revenues could become tighter at some point in the future because of an economic downturn or a change could occur in the funding priorities of the Legislature or Governor. It is also unclear from our discussions with DGS whether funds provided in the earlier years of implementation would yield any usable products should funding not be available in later years.

We believe that DGS should develop implementation strategies that set clear *priorities and contingencies* in the event future funding is not available. Ideally, DGS would develop components of the system that could operate independently of future components and would build upon the investments of previous years. This could be achieved, for example, through implementation strategies that bring the new system online by department or geographic region.

Implementation Plan Should Be Able to Incorporate New Technological Advances. The Legislature needs to be assured that technological advances in the communications industry can be readily incorporated in the state's public safety radio network, and that those advances will enhance and benefit the previous years' investment. Communications technology is one of the most rapidly advancing industries in the world today. Satellite technology, in particular, has changed the way that people communicate. We believe that it is appropriate to assume that future improvements in satellite technology will have application in the public safety communications systems. It is not clear that these possibilities have been considered by DGS and, if they have, at what point during the 15 years they could be incorporated to enhance the investment achieved from the previous years.

Analyst's Recommendation. For these reasons, we withhold recommendation on the proposal pending (1) receipt and review of the microwave master plan, which was due on December 1, 1999; and (2) information from DGS on how it will address uncertainties in the department's implementation plan for PRISM, including:

- Whether and how the implementation strategies would allow portions of the old system to be discontinued as the new system is developed.
- Priorities and contingencies in the implementation plan in the event that full funding is not available in the future.
- How the implementation strategy will incorporate future advances in technology in the communications industry.

Public School Construction Web Site Proposal Not Justified

We recommend that the Legislature reject the proposal for $3.3 million in the current year and $2.4 million in the budget year to build a new public school construction Web site because information proposed for the Web site is already available on individual departments' Web sites which could be easily linked with minimal or no cost. (Reduct Item 1760-001-0001 by $2.4 million.)

The budget requests $3.3 million in the current year and $2.4 million in the budget year to develop and implement an Internet Web site which would provide information on school construction. It is estimated that the project cost over six years will be $8 million. The Web site would include information from the three state departments involved in public school construction.

Background. Currently, three state departments—DGS (through the Division of State Architect and the Office of Public School Construction), the Department of Education (SDE), and the Department of Toxic Substances Control (DTSC)—provide oversight of local school construction. Figure 4 displays the oversight roles of each department. Each department has its own set of forms and internal processes to accomplish its oversight activities listed in Figure 4.

Figure 4

State's Oversight Roles in School Construction

Department	Role
Department of General Services, Office of Public School Construction	• Reviews school districts' funding eligibility. • Allocates school construction funds. • Audits school construction expenditures.
Department of General Services, Division of State Architect	• Reviews and approves school site plan. • Certifies school construction plans for structural safety. • Reviews and inspects school construction sites.
Department of Education	• Reviews and approves school plan. • Reviews and approves school site.
Department of Toxic Substances Control	• Reviews and approves school districts' initial environmental assessments. • Conducts school site environmental assessments. • Oversees clean up for contaminated sites.

Each department maintains a separate Web site. In general, these Web sites provide information on school construction specific to that department. The total annual cost for support of the three departments' existing Web sites is $425,000.

According to these departments, there are several problems with these current Web sites. For example, school districts have difficulties in easily obtaining information on how the state school construction process operates (basically, the process flow among the three departments). Also, they maintain that it is difficult to obtain information on the status of particular construction approvals.

Project Proposal. The DGS proposes to develop a new interactive Web site, incorporating the existing information from the three departments. The Web site will consist of:

- Printable forms that school districts can print out and send in.
- Capability to request information packets.
- Workflow diagrams that school districts can use to understand how the state project approval process works.
- A database which will contain the school construction status information from the three departments.
- Capability to query approval status of school construction projects.

Data Already Available. During our review of this budget request, we examined the Web sites of each of these departments and found that much of the information proposed for the new site is already available on the existing Web sites. For example, SDE's Web site allows school districts to print out forms, identify consultants for each county, print out current publications, and view current regulations. The DGS's Office of Public School Construction Web site also allows school districts to print out forms and regulations, and it allows Internet users to find out, through an interactive query facility, the status of school construction approvals.

Given that most of the information is already available and accessible, we do not believe that an additional expenditure of $8 million is warranted, especially when compared to the relatively minor costs of operating the existing Web sites. In addition, the existing Web sites could easily be linked together at minimal or no costs. For this reason we recommend that the request be denied.

We are aware that many concerns have been raised in the past with respect to the oversight and the overall burdensome process related to school construction projects. This proposal, however, does not address those concerns.

Update Needed on California Integrated Information Network (CIIN)

The state's telecommunications network has experienced a number of problems over the last year. We recommend that the Department of General Services report during budget hearings on the status of the network problems, the network contract, and progress made towards reducing the risk of disruptions in the future.

The budget includes $30.8 million for DGS to support the state's telecommunications system, which is essentially the same spending level as in the current year.

The CALNET System. In 1996, DGS began the divestiture of the state's telecommunications operations, known as CALNET, and the procurement of telecommunications services from another firm. CALNET, which was developed in the early 1990s was never fully accepted by state departments as DGS had planned. As a result, it never generated the revenues anticipated and, in fact, experienced losses over several years. Because CALNET was losing money, the state decided to sell off its hardware and procure these services from a vendor without owning the equipment. In January 1997, DGS released its strategic plan for providing statewide telecommunications services, known as the California Integrated Information Network (CIIN). The plan included moving to a privately owned and operated network, which would involve a contract with a vendor which could cost up to $500 million over five years.

The CIIN Contract. Shortly after the release of the CIIN strategy, the state began the procurement process for the new telecommunications contract. In December 1998, the administration signed a contract with Pacific Bell (PacBell)/MCI to provide voice and data communication services to state and local entities. The annual contract amount is estimated to be about $100 million.

State agencies began to utilize the new telecommunications service in January 1999. The conversion of voice communications has been completed and has experienced very few problems.

Frame-Relay Network Experiences Major Problems. The second component to be converted to the CIIN contract was the state's "frame-relay" network which provides the data communications for the state's information technology systems. The conversion of the frame-relay network was also started in January 1999 but was halted in April 1999 due to the severity of the network problems being reported by several departments throughout the state. The operations of a number of the state's major departments, including the Departments of Motor Vehicles and Health Services, were severely disrupted by these outages, and delays occurred in providing services during the months of March through July 1999.

In response to the reported problems, DGS hired an Independent Validation and Verification (IV&V) contractor to assess the problems and provide recommendations to the state for improving the situation. The key findings were:

- Failures occurred because the vendor's operational processes and procedures were inadequate.
- Communications procedures between the vendor and state were lacking which affected decisions to cease transition activities.
- The vendor's frame relay network was unstable, and when changes were introduced into the network, the network was disrupted.
- The vendor put the frame relay network into production before it was ready.
- The vendor did not have a process in place to identify and correct problems which would have allowed the company to provide important information to the state.
- The vendor did not coordinate its activities with DGS and the state's two primary data centers.

State Has Taken Actions to Remedy the Problems. Because the focus of the CIIN contract was on selling off state-owned hardware, the state did not pay full attention during contract negotiations to some contract provisions that would have provided the state greater protection and redress of performance problems. For example, the state can only terminate the contract during the fourth quarter of a year after performance has not been achieved for three consecutive quarters. This means that services dependent upon technology would have to be disrupted for virtually an *entire year* before the administration can terminate the contract.

In spite of this contract deficiency, once the outage problems became apparent, DGS took a number of immediate actions to remedy them, most importantly addressing the problems directly with Pacific Bell (PacBell). The DGS established a communications procedure, problem identification and correction procedure, and implementation process which provided the state the opportunity to make all decisions concerning conversions to the PacBell network.

In addition, it is our understanding that DGS has reached agreement with PacBell and MCI to renegotiate the contract. The department has also hired another consulting firm to help develop, as part of the new contract, improved "service level agreements"—measurable and time-specific statements of service that a contractor is responsible for maintaining.

PacBell has also put a number of changes in place to address the IV&V report's findings. Specifically, it has revised its operational procedures to ensure that all equipment is fully configured to provide uninterrupted service, upgraded a number of components in the network to be more "state of the art," installed backup telephone circuits in case the primary circuit is disrupted, and increased coordination with the state on all activities.

What Can the State Do to Decrease Its Vulnerabilities in the Future? We think that DGS deserves credit for aggressively addressing the problems with CIIN. We also believe, however, that there are additional steps that the state can take as it reexamines the contract that may reduce the risk of future disruptions.

Specifically, we believe that the state can:

- ***Establish a "Network Policy Board."*** The CIIN contract was designed to allow any California governmental entity (state or local) to receive reasonably priced telecommunications services through the contract. However, DGS, in consultation with the state's two major data centers and the Department of Information Technology, is the primary entity establishing the network policies. Since this contract was constructed to allow services to many entities, the state should consider establishing a policy board which would be responsible for advising on contract issues and statewide telecommunications policies. The board should have a broader representation of stakeholders such as city and county representatives and representatives from other state-level entities such the Public Employees' Retirement System. This would ensure that the policies for telecommunications could meet the needs of a broader set of users.
- ***Build Backup Systems Into the Network.*** There should be backups built into the network components for any critical function that the state delivers electronically, such as telephone circuits. Many times backups are not built into network systems because doing so increases operational costs. However, during times of network disruptions, such backups may be the only reason the system is up and running.
- ***Use Multiple Vendors in Network Components.*** The state should not be reliant on a single vendor for component in the network

which could be provided by one of several different vendors. Reliance on one vendor makes the state more vulnerable to defective components, vendor price increases, and outdated equipment.

- ***Use the Public Network***. The CIIN contract required that PacBell develop a network that would be used only by the state, similar to what it had under CALNET. What this has meant, however, is that the state network may not have the same capacity of a public network, which is used by the public, private businesses, and other governmental entities. The state should consider the benefits and risks of using the public network instead of requiring operation of its own network.

Analyst's Recommendation. Although DGS has taken important steps to correct network problems, given the importance of the state's telecommunications network in delivering services to the public, we think that the Legislature should maintain close oversight of CIIN and any future contracts. Thus, we recommend that DGS report to the Legislature during budget hearings on the status of network problems, the CIIN contract, and the progress the state has made in decreasing the risk of disruptions in the future.

One-Stop E-Business Center Proposal Not Justified

We recommend that the Legislature deny the request for $2.1 million to create an electronic business center, because the proposal lacks specificity as to its scope and future phases, and the information proposed for a new Web site is already available, making the proposed new site unnecessary. (Reduce Item 1760-001-0001 by $2.1 million.)

The budget proposes $2.1 million from the General Fund for creation of an "e-business center" to provide government services to businesses electronically. The budget indicates that this request represents the first phase of a five-year proposal which will result in costs of up to $90 million.

For the budget year, the request proposes to implement Phase I, which consists of:

- Establishing a project team composed of five personnel-years.
- Creating a one-stop Web site to be used by businesses. The Web site will consist of unspecified information, printable forms, and the ability to obtain assistance from government.

- Conducting surveys of businesses and state departments. These surveys will be used to determine future information technology projects.
- Conducting a reengineering study to determine steps that the state can take to provide seamless services to businesses.
- Developing the implementation plan for future efforts.

The request also states that DGS will acquire consulting services to complete all of the Phase I tasks.

Data Already Available. The proposal indicates that the Phase I Web site will incorporate into one Web site the existing state government Web sites, although it does not describe what specific information will be available. Forms and information that departments have currently on their individual Web sites will be available from this one Web site. Since the information is already available, and the cost for maintaining that information is already currently part of baseline budgets, it is unclear why additional funds beyond a minimal amount would be needed to link the sites together for activities that are already funded. In addition, to the extent that the administration's intent is to make contacts between businesses and government easier or more efficient, there should be reduced costs to government agencies. This proposal, however, does not recognize any such savings.

Long-Term Proposal Lacks Detail on Scope and Future Plans. The proposal contains very limited information about its overall objectives and scope. It does not define what benefits government and business will receive from a projected investment of up to $90 million. In addition, it does not outline what will be accomplished in the phases of the project or the costs of future phases.

Analyst's Recommendation. Given the fact the information proposed for the new Web site is already available and the proposal lacks specificity, we do not believe that an additional expenditure of $2.1 million is warranted. For these reasons, we recommend that the request be denied.

HOUSING AND COMMUNITY DEVELOPMENT (2240)

The mission of the Department of Housing and Community Development (HCD) is to help promote and expand housing opportunities for all Californians. As part of this mission, the department is responsible for implementing and enforcing building standards. The department also administers a variety of housing finance, economic development, and rehabilitation programs. In addition, the department provides policy advice and statewide guidance on housing issues.

The budget proposes expenditures of $268 million for 2000-01. This is a 26 percent increase from estimated current-year expenditures. The proposed General Fund appropriation of $117 million is a 194 percent increase over the current year and accounts for 44 percent of the department's proposed funding. This growth in General Fund spending results largely from two proposals for one-time spending from the Governor—$50 million for the California Teachers Homebuyers Assistance Program and $26 million for the Child Care Facilities Financing Program (both of which are discussed below). Federal funds account for $108 million, primarily for the Community Development Block Grant and Home Investment Partnership Act programs. A number of state special funds provide the remainder of the department's funding. The department has a proposed staffing level of 475 personnel-years.

Below, we review the Governor's proposals for teacher recruitment, child care facilities, and funding for homeless shelters.

Teacher Housing Incentive Funds Will Not Achieve Objective Effectively

The budget proposes $50 million in one-time spending for the creation of the California Teachers Homebuyers Assistance Program. We recommend deleting this appropriation and instead using the funds, in

combination with other teacher recruitment funds, for local school district block grants. (Delete Item 2240-108-0001.)

Governor's Proposal. The budget proposes the creation of the California Teachers Homebuyers Assistance Program, with a one-time appropriation of $50 million. The program is designed to address problems with the recruitment and retention of teachers in low-performing schools. The funds would be used by the department to contract with the California Housing Finance Agency (CHFA) to administer the program. Teachers working in low-performing schools would be eligible for a $10,000 loan towards the purchase of a home. For those teachers that remained in the school for five years, the entire loan would be forgiven. For those teachers leaving their position before the end of five years, a pro rated portion of the loan would be forgiven, with the remainder due to be repaid (at 3 percent annual interest). The CHFA intends to spend $2.5 million of the $50 million appropriation in administrative costs over the course of the five-year loan period.

Proposal Mistargets Recipients. While we agree with the administration that low-performing schools face serious problems recruiting and retaining quality teachers, this proposal mistargets recipients. Specifically, we have the following concerns with the proposal:

- ***Overly Broad Definition of Low Performance.*** Under the Governor's proposal, any school scoring below the *50th* percentile on the state's "Academic Performance Index" would be considered "low-performing." Thus, by definition, *half* of the state's schools would be eligible sites for the housing incentives. This definition of "low-performance" is overly broad and has no relationship to the nature of the problem that the proposal seeks to address. The most definitive available study of teacher recruitment and retention problems in California's low-performing schools—recently released by the Center for the Future of Teaching and Learning—concluded that serious teacher recruitment problems are concentrated in approximately 20 percent of the state's schools. The administration's proposal goes far beyond that target level.
- ***No Limits on Recipients***. In providing the $10,000 loans, the administration does not plan to differentiate among recipients' circumstances. Instead, any teacher would be eligible for the program on a first-come, first-served basis. The program would have no limits on household income or home purchase price. For instance, the program would not distinguish between recently hired teachers purchasing their first home and established veterans at a low-performing school moving from an existing home into a

more expensive one. Most importantly, local schools and school districts would have no input into the selection of recipients. Consequently, by not distinguishing between applicants, the program would fail to target those teachers who are (1) most likely to require incentives to teach for a low-performing school or (2) most likely to help the schools meet the educational needs of their pupils.

- ***Ignores Renters.*** The program makes no effort to retain and recruit teachers who desire to rent their home. Since many newer teachers may not be ready to make a home purchase, the program's focus could miss an important segment of the population.

Local Flexibility Would Improve Recruitment. A state-directed recruitment program for teachers would be unable to adapt to the wide variation in local circumstances. Therefore, we recommend that the Legislature use any funds it intends to spend on teacher recruitment on block grants to school districts. Local districts would be able to use these funds in the manner they determine most effective in recruiting and retaining teachers. We also recommend that recruitment dollars be more targeted to the most troubled schools. Please see the Education chapter of this *Analysis* for additional information on our recommendation to provide block grants for teacher recruitment.

Child Care Program Unable to Spend Budgeted Funds

The budget proposes $26 million in one-time spending for the Child Care Facilities Financing Program's Direct Loan Program. We recommend reducing this amount to $5 million to better reflect the amount of funds that the program can realistically distribute. (Reduce Item 2240-109-0001 by $21 million.)

Funds Still Available From 1997-98. The Child Care Facilities Financing Program was created by Chapter 270, Statutes of 1997 (AB 1542, Ducheny) and funded with $7 million in one-time funds through the 1997-98 budget. The funds were split into three programs:

- ***Loan Guaranty Program.*** A fund to guarantee private-market commercial loans for child care facility expansions, renovations, and equipment ($3.5 million).

- ***Family Child Care Homes Microloan Program***. Direct loans of small amounts (maximum of $25,000) to family child care homes serving more than six children ($0.5 million).

- ***Direct Loan Program***. Direct loans with below-market interest rates to child care providers for the purchase, expansion, or improvement of their facilities ($3 million).

Due to administrative delays in implementing these programs, funds are still available in each of the programs:

- As the guaranty program is able to guarantee $4 in loans for each $1 appropriated, $10 million in loan capacity remains available.
- The microloan program has yet to make any loans and is still being developed by department staff.
- The direct loan program took more than two years to make its first loan and has made just two loans thus far—totaling slightly more than $1 million. Accounting for administrative expenses, nearly $1.7 million is still available for loans.

The direct loans, as well as the guaranties, are made by the Trade and Commerce Agency's (TCA) Small Business Development Corporations through an interagency agreement with HCD.

New Augmentation Proposed. The budget proposes a one-time augmentation to the direct loan program of $26 million. Of this amount, the budget proposes to spend $1 million on administrative costs, split between HCD and TCA. The department would expect to loan these additional funds over a 30-month period.

Concerns With the Proposal. We have two major concerns with the administration's proposal:

- ***Complicated Administrative Structure.*** The loan program's structure does not lend itself to efficient decision making. Instead, three bodies—HCD, TCA, and the local development corporation—review each loan application. The HCD develops the loan application materials and attempts to market them, while the corporations are the entities that are responsible for finding borrowers and packaging applications. Approval by both TCA and HCD is necessary before a loan is approved.
- ***Demand for Funds Modest.*** While HCD believes it can commit $25 million in loan funds over the next two and a half years, it is clear that the program has no need for this level of funding in the budget year. Over the past year in which funds have been available for lending, the level of applications has been extremely modest.

Reduced Appropriation Recommended. Accordingly, if the Legislature considers child care facilities a funding priority, we recommend providing a $5 million appropriation—sufficient funding for the budget year. Once these funds are expended, the department could seek additional funding from the Legislature. At that point, the Legislature would have better information as to the level of demand for the program and the program's administrative capacity. Accordingly, we recommend reducing the proposed appropriation by $21 million. Current law has established a precedent that 3 percent of the appropriation is available for administrative expenses, which we feel is an appropriate level to encourage the involved parties to streamline the program's structure.

Homeless Funds Should Be Combined Into Single Program

To increase the effectiveness of homeless funding, we recommend that $773,000 in cold weather homeless funds be combined with the existing $2 million in homeless funding for a single program allocation. (Delete Provision 1 of Item 2240-105-0001.)

Current-Year Cold Weather Funding Unused. The Emergency Housing Assistance Program (EHAP) is a grant program that provides funds to local governments and nonprofit organizations to support shelters and services for the homeless. As has been the case in recent years, the budget proposes an appropriation of $2 million to fund EHAP local assistance grants. The 1999-00 budget passed by the Legislature included a $1.365 million augmentation for EHAP, which the Governor vetoed. Subsequent legislation (Chapter 793, Statutes of 1999 [AB 612, Jackson]) appropriated the same level of vetoed funds to both HCD ($773,000) and the Military Department ($592,000) for the funding of cold weather shelter facilities. Funding in the Military Department's budget was designated for the use of National Guard armories as homeless shelters in those counties which have available armories. For those counties without an available armory, funding was made available through HCD to each county government for alternative sites. Of the 22 counties eligible for HCD allocations from this cold weather funding, 7 counties—totaling 48 percent of the allocation—*declined* to accept the funding.

Governor Proposes to Continue Funding. The Governor's budget proposes the continuation of this $1.365 million in cold weather funding on a permanent basis. For the $773,000 included in HCD's budget, converting Chapter 793's appropriation into a permanent program presents two major problems.

- ***Funding Requirements Too Specific.*** While the regular EHAP program allows the department to select grant recipients from among both counties and nonprofit shelter providers, the cold weather supplement requires that the funds only be available to the county government. Thus, although a nonprofit provider might be able to provide shelter services more efficiently, they are not eligible for the supplemental allocation. Furthermore, if the county government declines to accept the funding, no homeless funding is provided to that area.

- ***Excessive Administrative Effort.*** By continuing the separate cold weather funding, the administration's proposal creates a second ongoing homeless services program—with separate applications and separate contracts. As we have noted over the past two budget years, the EHAP program suffers from high administrative costs. Extending the supplemental cold weather program will prevent the department from implementing cost savings previously identified.

Combine Funding. Rather than continue to fund homeless services through two separate allocations, we recommend combining the dollars and distributing them through the normal EHAP allocation. This would (1) allow each county to use its allocation most effectively and (2) eliminate unnecessary restrictions and contracts. If, however, the Legislature chooses to continue funding the use of the National Guard armories for homeless services, then the cold weather allocations for counties without armories could simply be added to their normal EHAP allocations.

TRADE AND COMMERCE AGENCY (2920)

The Trade and Commerce Agency, created in 1992, is 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 $318.9 million from various funds, including $81.7 million from the General Fund, for the agency in 2000-01. The total budget is $150.2 million, or 89 percent, more than estimated current-year expenditures. This increase is due primarily to the carryover of $222.4 million in the Infrastructure Bank for local infrastructure projects that is expected to be spent in 2000-01 rather than the current year. Proposals for the budget year total $35 million and include the "New Economy Initiative," loan and grant programs, and resources for the agency's Web site and regional offices.

NEW ECONOMY INITIATIVE

We recommend that the Legislature delete $7.7 million of the $14.7 million (General Fund) request for the "New Economy Initiative" because some proposals are conceptual and the agency has not demonstrated the need for others. Further, we withhold recommendation on $1.2 million for the Manufacturing Technology Program pending receipt and review of the final report on the agency's operation of of this program as required by the* 1999-00 Budget Act *and updated funding information. (Delete $665,000 from Item 2920-001-0001 and $7,000,000 from Item 2920-101-0001.)

The Governor's budget proposes $14.7 million (General Fund) for a "New Economy Initiative"—$13.7 million for local assistance and $1 million for state operations. Figure 1 shows the three components of the proposal. Of the $13.7 million requested for local assistance, $6.7 million, or 49 percent, is to continue or augment existing programs.

Figure 1

New Economy Initiative

(In Thousands)

	Proposed Amount
Information Technology and E-Commerce	
• ***Next Generation Internet Network.*** State match for establishing a center to develop software applications to take advantage of high-speed Internet network infrastructure.	$5,000
• ***E-Commerce in Rural Areas.*** Eight $250,000 grants to rural communities to improve access to e-commerce for small- and medium-sized businesses.	2,094
Air and Space Industry	
• ***Aerospace Retention/Joint Strike Fighter Competition.*** Compete for aerospace-related projects ($250,000 for two years only).	$358
• ***Space Commerce.*** One-time funding to continue Space Flight and Highway to Space Grant programs and activities to attract VentureStar development.	3,459
• ***Supplier Database.*** Maintain database (assembled by Southern California Edison) of California companies that supply defense- and space-related activities (two years only).	213
Manufacturing	
• ***California Technology Investment Partnership Program.*** Increase number of matching grant awards for existing program.	$2,252
• ***Manufacturing Technology Program.*** Increase state support to maintain $33 million program level.	1,199
Agency Support	$156
Total	**$14,731**

Information Technology and E-Commerce

This component includes the *Next Generation Internet Network* and the *E-Commerce in Rural Economic Regions Demonstration Project*.

The *Next Generation Internet Network* is a proposal from a nonprofit organization under consideration by the federal government for funding. The still-developing proposal would establish nonprofit centers in five high-tech areas nationwide, including Los Angeles and San Jose/Silicon Valley, to support joint projects between companies and universities to develop software applications for the general market that take advantage of the capabilities of high-speed Internet network infrastructure. According to the agency, the $5 million request is to fund part of one center. The agency has indicated that there are federal funds for which the agency also can compete, but the agency has not yet applied for these funds. In the absence of federal funding, the agency believes that the nonprofit group involved with the proposal would provide additional funds.

The *E-Commerce in Rural Economic Regions Demonstration Project* proposal includes $2.1 million for one position and eight $250,000 grants to rural communities to improve access to e-commerce for small- and medium-sized businesses. Projects could include developing a telecommunications plan to identify hardware needs, resolving rural network problems, technology application, and training and development programs.

At this time, these two proposals are more conceptual in nature and are not supported by any definitive information. For example:

- ***Next Generation Internet Network***. This proposal lacks specific funding commitments from the federal government and the nonprofit organization involved. In addition, the agency has not applied for existing federal funds because the proposal has not been developed. Furthermore, while the agency indicates an estimated cost of $5 million to $10 million for the proposed center, it is not clear what amount of federal and nonprofit support the center may receive or what the total cost will be. It is also not clear what the ongoing costs will be.
- ***E-Commerce in Rural Economic Regions Demonstration Project***. This proposal lacks criteria for evaluating applications.
- ***Both Programs***. For both programs there are no measurable outcomes from the state's investment.

Given the lack of details for these projects, as well as the lack of specific outcomes, we recommend deleting the $7.1 million request.

Air and Space Industry

This component includes the aerospace retention and Joint Strike Fighter activities, a space commerce package, and a supplier database project.

The *aerospace retention and Joint Strike Fighter* activities are allocated $358,000 and one position for an ongoing effort to lobby the federal government and contractors to locate the assembly, testing, and other work related to the Joint Strike Fighter project and other U.S. Department of Defense contracts in California. It is not clear why more staff is needed for these efforts since the agency has its Red Team program to attract and retain large investments and the Governor has an office in Washington, D.C. If this proposal is a priority, the agency should direct existing resources to these efforts. Consequently, we recommend the Legislature delete the proposal.

The *supplier database* project would take over from Southern California Edison (SCE) a database compiled by SCE of California companies that supply goods and services to the state's aerospace manufacturing industry. The budget proposes $213,000 and one position to maintain and analyze the database for two years. It is not clear why the state should maintain a list of suppliers, what statewide purpose it would serve, and what would happen with the database after two years. In addition, this proposal raises the question of whether the state should have similar databases for other industries. Consequently, we recommend that the Legislature delete the proposal.

Manufacturing

This component includes the California Technology Investment Partnership and the Manufacturing Technology Program.

The *Manufacturing Technology Program (MTP)* funds three centers that provide consulting services and technical assistance to small- and medium-sized manufacturers. In addition to the $6.7 million in state funding for the program, the centers also receive federal funds, fees paid by clients, and in-kind services. Federal funding for each center decreases over six years from one-half federal support to one-third. The proposed $1.2 million augmentation would pick up part of the federal support scheduled to end in the budget year.

The *1999-00 Budget Act* required the agency by September 1, 1999 to (1) develop a small manufacturers competitiveness strategy and specific program goals for MTP and (2) take control of the program from the centers. In September, the agency advised the Legislature that it would submit a final report in April 2000. In addition, at the time this analysis was written, the agency had not provided updated information on budget-year funding for each center. As a result, we withhold recommendation on the $1.2 million request, pending receipt and review of the finalized competitiveness strategy and the funding information noted above.

OTHER ISSUES

Small Business Loan Guarantee Program

We recommend the Legislature delete the request for $3 million (General Fund) for the Small Business Loan Guarantee Program because (1) an annual General Fund appropriation to pay for bad loans creates a poor incentive for selecting good loans and (2) the authorizing legislation directs the program to be self-sufficient. (Delete $3 million from Item 2920-011-0001.)

The Small Business Loan Guarantee Program guarantees bank loans made to small businesses that otherwise would not receive the loans. Current law specifies that the program should (1) have a *maximum* ratio of 4-to-1 for guaranteed loans to reserve funds and (2) be self-supporting (that is, not dependent on the General Fund). The program currently has reserves of approximately $33 million and is leveraged at a ratio of 2.8-to-1. In 1998-99, the program guaranteed 731 loans. Eight Financial Development Corporations (FDCs) around the state administer the program. Program operations are funded by a $2 million annual appropriation from the General Fund, fees paid by borrowers, and interest earned on the reserve. Because these resources have not covered all operating expenses, some ongoing costs are funded from the reserve fund as well.

The budget proposes $3 million from the General Fund to pay program operating costs (including about $1.8 million in loan losses each year) and end the current practice of using reserve funds to cover expenditures, as described above. The *Supplemental Report of the 1999-00 Budget Act* required the agency to submit a report on the program by January 1, 2000 to address the following:

- Alternative methods of allocating loan reserves to maximize performance.
- Raising borrower fees to cover more of the program costs.
- Merging the program with another existing loan program.
- Alternatives to the current pay-for-performance component of the contracts with the FDCs, which is based not on loan performance but the number of loans made.

At the time this analysis was written, the agency had not submitted this report to the Legislature. The Legislature required this report to address concerns regarding the program's structure—in particular, the pay-for-performance provisions of the FDC contracts and the poor incentive created by an annual General Fund appropriation to cover loan defaults, both of which remove the cost of bad loan decisions from the FDCs. Because the General Fund augmentation creates the wrong incentive and because the statutory direction is that the program should not be dependent for monies on the General Fund, we recommend the Legislature delete the request.

Replacement of Underground Storage Tanks

We recommend that the Legislature approve for one year only (instead of the two years requested) the $5 million proposal to provide grants to businesses to replace underground gasoline storage tanks because (1) the two-year grant effort cannot exceed an estimated $7.5 million and (2) this preserves the legislative oversight specified in statute to appropriate grant funds needed for the program.

Chapter 812, Statutes of 1999 (SB 989, Sher) established new environmental standards for underground gasoline storage tanks and authorized the agency to use existing funds for grants or loans to small businesses to replace underground storage tanks. Chapter 812 specifies that *grants* are subject to legislative appropriation and cannot exceed 33 percent of total funds awarded (grants and loans) to comply with the new standards. While tanks within 1,000 feet of public drinking water wells must be in compliance by July 1, 2001, most businesses have until December 31, 2003 to comply. The agency estimates that $22.5 million will be needed over the next two years to address tanks not in compliance. Based on the 33 percent limit, only $7.5 million in grant funds would be available.

The agency, however, is requesting $5 million in grant funds in each of the next two years—for a total of $10 million. This exceeds the $7.5 million estimate of grants allowable by $2.5 million. We recommend that the Legislature approve the $5 million proposal for one year only. This accommodates the possibility that grant demand might be skewed toward the first year of the program, while preserving the Legislature's oversight role specified in Chapter 812 to appropriate grant funds needed for 2001-02.

Biomass-to-Energy Incentive Grant Program

We recommend that the Legislature delete the $10 million (General Fund) proposal for a biomass-to-energy grant program because the proposed program duplicates the Energy Commission's Renewables Program and has no defined criteria for awarding the funds. (Delete $10 million from Item 2920-101-0001.)

The budget proposes a one-time $10 million (General Fund) appropriation for an incentive payment program to subsidize biomass facilities that convert agricultural waste into electricity. Grants would be awarded to air quality management districts, based on criteria yet to be established. The districts would make the incentive payments to the facilities, also based on criteria yet to be determined. The agency intends to promote legislation to create a tax incentive in future years.

The Renewables Program in the Energy Commission already subsidizes biomass facilities based on criteria developed to implement the program. In view of this existing program, it is not clear what the benefits would be to establish a similar program in the agency.

California Arts Council
(8260)

The California Arts Council carries on a range of activities in order to further the arts in California. The council's enabling legislation directs it to (1) encourage artistic awareness and expression, (2) assist local groups in the development of arts programs, (3) promote the employment of artists in both the public and private sectors, (4) provide for the exhibition of artworks in public buildings, and (5) ensure the fullest expression of artistic potential. In carrying out this mandate, the Arts Council has focused its efforts on the development of competitive grant programs to support artists and organizations in various disciplines. In addition, in recent years the Legislature and Governor have also included funds in the Arts Council's budget for distribution to specific museums and other cultural institutions.

The Governor's budget proposes expenditures of $54 million, mostly General Fund, for support of the council in 2000-01. This amount represents an increase of $2.2 million, or 4.4 percent, above estimated current-year expenditures. This increase is somewhat misleading, however, because the 1999-00 budget included one-time grants to museums and cultural institutions that mask the impact of a 2000-01 proposal to create a $10.1 million Arts in Education Program. This proposal represents a 50 percent increase to the council's ongoing programs. The Governor's budget also includes a one-time $10 million augmentation for an Urban Public Park at the Performing Arts Center of Los Angeles County.

New Arts in Education Program Poses Questions

The Governor's budget proposes $10.1 million for the creation of an Arts in Education Program which would augment existing grant programs and establish a new Adopt-A-School Program. Whether the Legislature wishes to approve the augmentation for the existing programs is a matter of policy preferences and priorities for General Fund resources.

We withhold recommendation on $1.5 million proposed for the new "Adopt-A-School" Program, pending receipt and review of program details and clarification from the council as to how funds will be spent.

As indicated earlier, the budget includes $10.1 million from the General Fund for an Arts in Education Program. This amount includes $8.5 million to augment existing council programs and $1.5 million for a new Adopt-A-School Program. In addition, the budget proposes $125,000 and two new positions for administration of the programs.

Augmentation for Existing Programs. The budget proposes to distribute $8.5 million to existing grant programs as follows: (1) $3.5 million for Artists in Residence, (2) $2.5 million for Organizational Support, (3) $1 million for Performing Arts Touring and Presenting, (4) $500,000 for California Challenge, and (5) $1 million for State-Local Partnership. Using these programs, the new funds would be allocated to increase grants to those artists and organizations that serve K-12 students. The proposal would provide a substantial boost in funding for the council's existing grant programs, ranging from 25 percent in the Organizational Support program to more than 80 percent in the Performing Arts Touring and Presenting program.

Our review indicates that the augmentation is consistent with the Arts Council's overall mission to expand resources for the arts. We believe that the council's existing grant allocation process, which distributes monies based on merit using a competitive process with peer review panels, is appropriate and well-equipped to distribute additional grant funds. In addition, we think that the existing process contains adequate mechanisms to protect the state's interests by ensuring a degree of state oversight and accountability from the grantees.

Ultimately, however, we believe that whether the Legislature wishes to approve an increase in funding of this magnitude is really a matter of the Legislature's policy preferences and its priorities for the use of new General Fund resources.

New Adopt-A-School Program. The new Adopt-A-School Program would receive $1.5 million and be established in 2000-01. According to the council, the art, corporate, and nonprofit sectors will be encouraged to "adopt" a school to work on arts education projects of mutual interest. At the time this analysis was prepared, the Arts Council had yet to fully develop this program and was unable to provide information on how the $1.5 million will be allocated. For this reason, we withhold recommendation on the Adopt-A-School Program, pending receipt and review of a detailed program and expenditure plan.

Funding for Urban Public Park Not Justified

We recommend a General Fund reduction of $10 million for the Urban Public Park at the Performing Arts Center of Los Angeles because funding it as an arts project is not appropriate. If the Legislature wishes to support projects such as this, it should establish a new grant program that would allow this and other similar projects to compete for state funds. (Delete Item 8260-103-0001)

The *1999-00 Budget Act* provided a one-time appropriation of $5 million for the Performing Arts Center of Los Angeles County to oversee the construction of Phase I of the Urban Public Park. Phase I of the Urban Public Park is the public gardens surrounding the Walt Disney Concert Hall. The Governor's budget requests an additional $10 million to be used for Phase II, which will turn the existing concrete Music Center plaza into an urban public park and festival site, providing a setting for outdoor performances and festivals and space for retail businesses.

We have several concerns with this proposal. First, the Arts Council was able to provide little information about the plans for this project. The only information available about Phase II is that it includes garden spaces, landscaping, artistic lighting and paving, water features, colorful banners, and outdoor seating.

Second, based on the description provided, it appears that Phase II is not really an art project consistent with the council's existing programs, which promote *artistic services* to the public, but rather an urban renewal or park and recreation project. As such, funding from other sources, such as funds for state or local parks projects, may be more appropriate.

For these reasons, we find that the proposal is not justified and recommend that it be deleted.

Even if it is determined that Phase II should be considered an arts project, we note that *earmarking* funds for a particular project is inconsistent with the Arts Council's funding process which disperses awards on a competitive grant basis. If the Legislature wishes to fund these types of projects, it should create a new grant program within the Arts Council. This would allow the council to establish guidelines and directions for applicants and a competitive peer review process to determine how grant funds are expended, which would provide more accountability. This process would require submission of a comprehensive description of the Phase II plans, allow for a complete analysis of the merits of such a project, and permit it to be considered alongside other potentially meritorious projects that may be submitted by other arts organizations throughout the state.

DEPARTMENT OF PERSONNEL ADMINISTRATION (8380)

The Department of Personnel Administration (DPA) manages the nonmerit aspects of the state's personnel system. (The State Personnel Board manages the merit aspects.) The Ralph C. Dills Act provides for collective bargaining for most state employees. Under this act, DPA is responsible for (1) reviewing existing terms and conditions of employment subject to negotiation, (2) developing management's negotiating positions, (3) representing management in collective bargaining negotiations, and (4) administering negotiated memoranda of understanding (MOUs). The DPA also is responsible for the compensation and terms and conditions of employment of managers and other state employees not represented in the collective bargaining process.

The budget proposes a realignment of the department to create a Policy and Operations Division. No new funding or positions are requested for this reorganization. The new division will absorb (1) the Classification and Compensation Division (38.9 positions) and (2) 16 positions from the Administration Division, including activities related to policy development, development of a new state payroll and personnel system, drug testing, and communications.

The budget proposes total expenditures of $47 million for support of the department in 2000-01. The principal funding sources are:

- $24.9 million from the General Fund.
- $15.4 million from reimbursements from other state departments.
- $5.9 million from the Deferred Compensation Plan Fund.

The proposed expenditures for DPA support are $8.7 million, or 23 percent, more than estimated current-year expenditures. This change includes (1) a $9.1 million General Fund increase to annualize the current-year cost of the new Rural Health Subsidy Program; (2) proposed expenditure increases of $0.9 million for administration of the rural health subsidy program, benefits administration analysis and workload, legal review of DPA contracting, and salary and benefit costing; and (3) $0.4 million for various employee and budget adjustments. These increases are offset by reductions of (1) $1.7 million in one-time expenditures related to the restructuring of Savings Plus deferred compensation program fees, a performance audit of the state's workers' compensation contract, and costs associated with the new MOUs.

Rural Health Subsidy Program

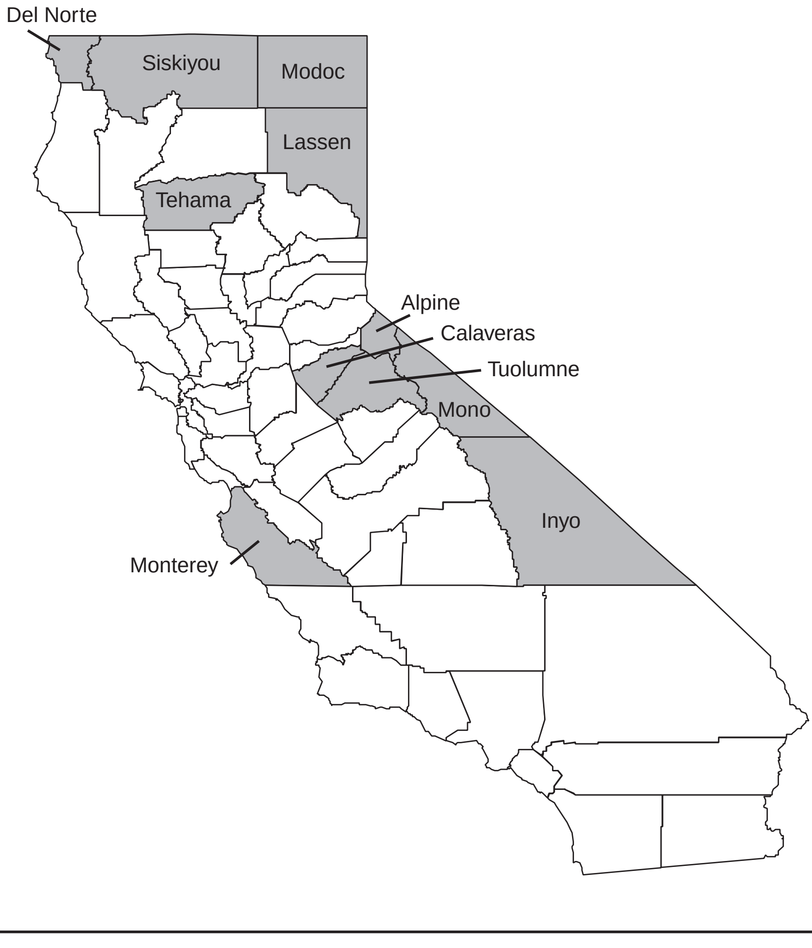
We withhold recommendation on (1) $18.3 million (General Fund) proposed in the Governor's budget for the 2000-01 cost of the Rural Health Subsidy Program and (2) $463,000 (General Fund) requested to implement the program, pending receipt of information from the Department of Personnel Administration (DPA) on current-year and projected budget-year eligibility, enrollment, and program costs. This information should be submitted to the Legislature prior to hearings on DPA's budget.

The DPA requests $18,763,000 from the General Fund for the rural health subsidy program established by Chapter 743, Statutes of 1999 (SB 514, Chesbro). This amount includes $18.3 million for benefit payments and $463,000 to administer the program, including *two five-year limited-term positions* and $315,000 for a contract with a third party to administer the program. Under the proposal, DPA staff would develop the program policies and procedures, answer questions about the program from other state departments and individuals, enroll employees and retirees, handle appeals, and oversee the contract. The third-party administrator would verify claims eligibility, authorize reimbursements, keep account records, send account information to enrollees, and provide customer service staff for inquiries related to program administration.

Program Established by Statute and Collective Bargaining. Effective January 1, 2000, Chapter 743 established a program to subsidize health care costs for state employees and retirees who live in rural areas without a health maintenance organization (HMO) option for health insurance (see Figure 1, next page). These individuals live in areas (1) that are not in the service territory of any HMOs approved by the Public Employees' Retirement System (PERS) or (2) where the PERS-approved HMOs are not accepting new enrollees. This program reimburses out-of-pocket health care costs that would normally be covered by a PERS-approved HMO, such as deductibles and coinsurance payments, as well as a portion of health insurance premiums in specified circumstances. The annual cost to cover the maximum reimbursable amounts (discussed below) for each eligible employee and retiree is to be paid by the General Fund, with reimbursements from special funds for employees and retirees whose salaries or pensions are paid from special funds.

Figure 1

Counties Without an HMO Option for State Employees and Retirees



Chapter 743 provides for reimbursement up to an amount agreed upon through collective bargaining for represented employees. The new MOUs establish a two-tiered system of reimbursements. Under this system, a separate account is to be established for each of the state's 21 bargaining units. The amount deposited in each account would be $1,500 times the number of eligible employees represented under the account. Under the first tier, an employee may receive annual reimbursements of up to $1,500. An employee who receives this maximum but has further claimable expenses can be reimbursed above the $1,500 under the second tier if funds remain in his or her bargaining unit account at the end of the year. (This would occur, for instance, if not all the eligible employees in the bargaining unit received the $1,500 maximum reimbursement.) If the total expenses claimed for this secondary reimbursement exceed available funds in the bargaining unit account, then the employee will receive a proportionate payment. Any funds remaining in an account at the end of the year will roll over to the next year and be available in addition to the $1,500 per eligible employee deposited into the account for that next year. The DPA established the same two-tiered system and a separate account for nonrepresented employees.

Separate accounts for Medicare and non-Medicare retirees will be funded in the same manner as the employee accounts—the maximum reimbursement (discussed below) times the number of eligible retirees. However, retirees do not have the secondary reimbursement option, even though funds remaining at the end of the year roll over, as with the employee accounts. Retirees not enrolled in Medicare may be reimbursed for deductibles only, up to $250 per year for an individual or up to $500 per year for two- or three-party enrollment. Retirees who are enrolled in Medicare Part B will automatically be reimbursed for the cost of their Part B premium, which is $45.50 per month or $546 per year.

Number of Eligible Individuals Unclear. Based on information provided by PERS regarding the number of retirees living in zip codes without a PERS-approved HMO and the State Controller regarding the number of state employees living in these zip codes, the Department of Finance (DOF) estimates the program benefits will cost $9.1 million in the current-year and $18.3 million in 2000-01. However, DPA has informed us that the department is still working with PERS to firmly establish the number of eligible retirees. Thus, when this *Analysis* was written, it was unclear how many people are eligible for this program. The number of eligible individuals affects not only the direct program costs but also the administrative costs because the proposed contract with the third-party administrator is based on a per person fee.

As a result, we withhold recommendation on the entire request, pending receipt of information from DPA on current-year and projected budget-year eligibility, enrollment, and program costs. This information should be submitted to the Legislature prior to hearings on DPA's budget.

Current-Year Costs. In addition, DOF has indicated that trailer bill legislation will be required to appropriate an estimated $9.1 million (General Fund) for the current-year cost of the program. The concerns outlined above for the amount requested for 2000-01 apply to this proposed amount as well. As a result, the Legislature should have the same data (discussed above) for the current year when considering this legislation.

Statute Requires Requested Positions to Be Permanent. In addition, the two positions requested are proposed as five-year limited-term to extend through the program's January 1, 2005 sunset date. Government Code Section 19080.4 specifies that limited-term positions cannot exceed two years. Therefore, if the Legislature approves positions with this funding request, the positions should be permanent to comply with existing law.

DEPARTMENT OF FINANCE
(8860)

The Department of Finance (DOF) advises the Governor on the fiscal condition of the state; assists in developing the Governor's budget and legislative programs; evaluates the operation of the state's programs; and provides economic, financial, and demographic information. In addition, the department oversees the operation of the state's accounting and fiscal reporting systems.

The Governor's budget proposes expenditures of $36.4 million to support the activities of DOF in 2000-01. This is an increase of $1.5 million, or 4.4 percent, above estimated current-year expenditures. The principal reason for the increase is the department's plan to establish 23 new positions, many of which would be established in the middle of the budget year, to accommodate additional workload.

Department Should Advise Legislature on Magnitude of Underfunding Problem

In recent years, the state has required departments to absorb price and cost increases and unallocated reductions. Among the consequences of this policy is a large number of positions deliberately held vacant by departments in order to generate savings to cover the additional costs. We recommend that the Department of Finance report at the time of the May Revision on the magnitude of this underfunding and strategies it would propose to address the situation.

Different Treatment of State Departments for No Apparent Reason. Our review of the Governor's proposed spending plan for 2000-01 found that the budgets of five departments—the Departments of Fair Employment and Housing, Industrial Relations, and Justice; the State Library; and the State Treasurer's Office—include augmentations to offset higher rental costs set by the Department of General Services for state-owned buildings. In our analyses of these five departments, we recommend that the funding requests be denied because we can find no analytical basis for granting an augmentation to these departments when other departments did not receive similar increases.

Requiring Departments to Absorb Cost Increases. In our view, the funding for rent increases is indicative of a larger problem with the state budget. That is, for a number of years, departments have not been provided with funds to cover price and cost increases.

For many years and through several administrations, departments have been forced to absorb a number of increases without augmentations to their budgets. These include: (1) costs for operating expenses and equipment that are higher because of the effects of inflation; (2) merit salary adjustments that all departments provide to eligible employees each year; and (3) "unallocated reductions" in which departmental budgets are reduced, but no accompanying changes are made to modify or reduce workload or program responsibilities. Many of these actions were taken to help the state address budget shortfalls.

Initially, absorbing these additional costs was not a problem for many departments because they were able to make their operations more efficient and redirect the savings. Over time, however, departments have had difficulty absorbing the costs and have resorted to other measures, such as simply not carrying out all of the responsibilities given to them in statute.

Many Positions Held Vacant. In addition, some departments have historically had to deliberately hold positions vacant to generate "salary savings" to cover costs that they have had to absorb. As of December 31, 1999, about 15 percent of all state positions were vacant. In some departments, the figure was much higher (for example, the Department of Mental Health had a 23 percent vacancy rate). Although the current strength of the state's economy and the tight job market is undoubtedly resulting in some positions going unfilled, it is also likely that substantial numbers of positions are not being filled in order to balance departmental budgets.

A high staff vacancy rate in a department may mean that it is not able to carry-out its program responsibilities because of lack of staff. This is a problem for the Legislature as it reviews individual budgets. It is also a problem given that the Governor's budget requests almost 6,000 additional positions for 2000-01, some of which would be for departments that currently have many positions unfilled.

Fiscal Situation Gives State Opportunity to Reassess Approach. Given the state's positive fiscal condition for the current and budget years, this is an opportune time to (1) assess the consequences of the policies of requiring departments to absorb price and cost increases and (2) reevaluate the high vacancy rates in many state departments.

We believe that such an assessment should be done across-the-board. Depending on the findings, the Governor and Legislature could decide which departments, if any, should receive additional funding, based on their priorities and the severity of the underfunding.

Given DOF's fiscal oversight role for the administration, it is in the best position to undertake such an assessment. For this reason, we recommend that the department report to the Legislature during budget hearings on the magnitude of the underfunding and strategies it would proposed to address the situation.

MILITARY DEPARTMENT
(8940)

The Military Department is responsible for the command and management of the California Army and Air National Guard and four other related programs. To support the operations of a force of 23,000, the department maintains a headquarters complex in Sacramento, 127 armories, 33 equipment maintenance facilities, and 10 air bases throughout the state.

The missions of the National Guard are to provide combat-ready forces to the federal government at the direction of the President, to contribute emergency public safety support at the direction of the Governor, and to otherwise assist the community as directed.

The *2000-01 Governor's Budget* proposes expenditures of $526 million by the department. Of that sum, $485 million would come from the federal government, although only $34.9 million in federal funds would be appropriated through the budget bill. The budget bill would also authorize the expenditure of $39.6 million from the state General Fund for the department, an increase of $14.5 million, or 58 percent, in the budget year. The balance of the request ($2.3 million) is from reimbursements and a special fund.

Juvenile Boot Camp Program Not Justified

We recommend the Legislature deny the request for $9.2 million from the General Fund to support Turning Point Academy, a juvenile boot camp, because (1) juvenile boot camps have been found to be ineffective, (2) the proposal is costly on a per-student basis and not well defined, and (3) the department lacks experience in working with a serious juvenile offender population. (Reduce Item 8940-001-0001 by $9.2 million.)

The budget proposes $9.2 million from the General Fund to establish "Turning Point Academy," a year-long residential military boot camp for serious juvenile offenders. These offenders would be students, age 15 to

17, who have been expelled from school for "zero tolerance" offenses—weapons possession, selling a controlled substance, or sexual assault and battery. According to the administration, the purpose of the program is to provide an alternative sanction to committing these offenders to the California Youth Authority (CYA).

According to the proposal, the program would begin with 20 students and increase by 20 students every two weeks. By January 2001, the program would be operating at full capacity, employing 103 military and 28 civilian educational staff to provide services to 160 students. Program activities would include educational services at Cuesta College (San Luis Obispo County), intense physical training, and substance abuse avoidance.

We have a number of concerns with this proposal.

Research Finds Juvenile Boot Camps Not Effective for Reducing Delinquency. Juvenile boot camp programs have repeatedly been found to be ineffective at reducing delinquency in numerous rigorous evaluations. Following program completion, boot camp participants have often been rearrested at a *higher* rate than participants in comparison treatment programs. A report released by the U.S. Department of Justice indicated that boot camps may fail to produce better outcomes than alternative treatment programs because boot camps place an emphasis on intense physical training, which may not address offender rehabilitation needs.

High Cost Per Student. The cost to treat each student in the academy, in the budget year, is about $58,000. In contrast, the annual cost to treat a similar offender in the CYA is about $36,000, and the annual cost to treat the most violent and emotionally disturbed CYA ward is about $45,000. The academy's higher cost per student might be justified if more services were provided than an offender might receive in an intensive or specialized program like those operated by CYA. However, the proposal indicates that offenders in the academy will *not* have access to specialized mental health, group counseling, drug treatment, or aftercare services that are available to CYA wards.

No Experience in Treating Juvenile Offenders. Although the Military Department currently operates several youth programs, these programs often require that participating youth be drug free, not on probation or parole for offenses other than juvenile status offenses, and not convicted of any felonies. For example, the department's Challenge Youth Program targets high school dropouts with no criminal history. Thus, the department is unlikely to have staff experienced with developing a program that can effectively meet the treatment needs of the target population of serious juvenile offenders.

Proposal Lacks Important Detail. The proposal indicates that trailer bill legislation will be proposed to address various issues. One of the more important issues concerns creation of a legal process by which juveniles will enter, proceed through, and exit the program.

Information about key program components is necessary for evaluating the proposal, but such details are currently unavailable. Furthermore, the proposal fails to address several issues that are important in the design of *any* juvenile offender rehabilitation program, including:

- A curriculum plan for training staff to interact with a juvenile offender population.
- A process for determining individual treatment needs, in addition to an educational plan.
- Providing aftercare to ensure that students do not reoffend upon program completion.
- Development of a rigorous plan for evaluating program outcomes.

Alternative Already Exists. It is not clear why this new program is necessary. The proposal contains no evidence that existing alternatives to deal with zero-tolerance offenders, such as alternative schools, are failing.

Analyst's Recommendation. For these reasons, we recommend the Legislature deny this proposal, for a General Fund savings of $9.2 million.

Funding for Oakland Military Institute (OMI) Not Justified

We recommend the Legislature reject the request for $1.3 million from the General Fund to establish the Oakland Military Institute because the program will be eligible for sufficient charter school funds through the State Department of Education. (Reduce Item 8940-001-0001 by $1.3 million.)

The budget proposes $1.3 million from the General Fund to establish the OMI. The majority of the cost would support 11 administrative and 6 instructor/mentor positions, with the remainder for operating expenses.

The OMI Proposal. The OMI is proposed as a joint effort of the Military Department, the City of Oakland, and the Oakland Unified School District to establish a military charter school for Oakland students in grades 7 to 12. Funds to support charter schools (both Proposition 98 and federal monies) are available from the State Department of Education (SDE). The funds requested in this budget proposal would be in addition to any charter school funds allocated by the SDE.

According to the administration, the program objective is to promote the academic achievement of disadvantaged students through the use of a strictly structured and disciplined environment. In addition to the standard state curriculum, students would receive instruction in military subjects, such as military customs, physical training, drill, and map reading. The OMI would start with a cadet class of 162 students and expand by one class per year for six years, until it serves 972 cadets in grades 7 through 12. The program expects to graduate at least 100 cadets annually.

Military personnel would be responsible for administration of the OMI, including activities such as budgeting, program management, policy development, and coordinating campus security. In addition to these duties, military staff would escort students to and from the school, provide instruction in military subjects, and serve as classroom mentors. The Oakland Unified School District would provide instructional staffing, books, and educational supplies; and the City of Oakland would provide facilities, furniture, and computers.

We have the following concerns with the proposal.

Existing Fund Sources Should Support Charter School Costs. The OMI is eligible for up to $300,000 in federally-funded charter school planning and implementation grants from the SDE. These funds have generally been used for charter school startup costs such as procuring facilities, equipment, and administrative staff. In addition, SDE would provide a standard annual allocation of about $6,000 per student (Proposition 98) to pay for costs such as ongoing administration, teacher salaries, educational supplies, and general operating expenses.

Funds provided through the SDE, both charter school grants and per student allocations, should be sufficient to pay for the standard costs for OMI facilities, administration, teachers, books, and supplies. Thus, it is not clear whether the city or school district would expend any of its own funds to support OMI.

No Clear Rationale for Additional Subsidy to OMI. The OMI plans to provide a specialized military curriculum. Thus, the proposal requests additional staff to provide military instruction, mentoring, and support related to security and school safety. Funds provided by SDE may be insufficient to pay for these costs.

We note that currently there are 220 charter schools in California and more schools are being established each year, most of which offer a specialized curriculum which differs from that of traditional public schools. The administration has not advanced any rationale for why this one proposed charter school—OMI—should receive an additional General Fund subsidy not provided to any other charter school in the state.

Effectiveness of Military-Style Schools Unsupported. There is no supporting evidence that military-style programs reduce dropout rates among disadvantaged students or facilitate their college enrollment. In addition, the Military Department has no experience in operating a military academy, thus making the academy's effectiveness less likely. Finally, OMI does not have a well-defined evaluation plan and no funds have been allocated in the budget for evaluation.

The OMI Will Have Increasing Long-Term Costs. Since the program plans to increase the number of cadets each year, the annual cost when the program is fully operational would be higher than the request currently before the Legislature, due to the increase in supervising military staff. At the time this analysis was prepared, the department was unable to provide a projection of program costs over the six-year phase-in period. Although the budget proposal is not for multiyear funding, the Military Department is likely to request additional General Fund support to implement the proposed six-year plan. Based on the first-year request, we estimate that the cost will increase by at least $250,000 annually.

Analyst's Recommendation. We recommend the Legislature deny the request for $1.3 million from the General Fund because funding to support basic charter school functions is already available from SDE. In addition, the unproven effectiveness of military educational programs does not justify the additional state subsidy to support the OMI. We note that this recommendation to deny funding to the Military Department for OMI does not preclude the Oakland Unified School District and the City of Oakland from using existing charter school fund sources and other sources (including local funds and private donations) to establish and operate an alternative charter school. Under this approach, for example, the school district could reimburse the Military Department for desired services.

Additional Support for California Cadet Corps Not Justified

We recommend the Legislature delete $1.5 million proposed for enhancements of the California Cadet Corps because the proposed augmentation to this existing elective activity has not been justified. (Reduce Item 8940-001-0001 by $1.5 million.)

Background. The California Cadet Corps is an educational program administered by the Military Department that currently serves 6,500 students in 61 public schools. The objective of the program is to reduce dropout rates and juvenile delinquency by increasing student discipline through military activities. The program is an elective activity which is not part of the state-mandated educational curriculum, but students may receive academic credit for military instruction in lieu of physical education. Program activities include instruction in military subjects such as leadership, first aid, drill, and military customs. Instruction at each school is provided by a credentialed teacher, who is appointed as Commandant of Cadets by the Adjutant General and is an employee of the school district.

In addition to the school-based program, selected students attend a ten-day training seminar that includes instruction in military subjects, physical fitness, record keeping, and outdoor living. Program expenses (such as educational materials) are paid for through the local school districts with the amount of funds provided based on average daily attendance allocations from the SDE. Currently, the program does not receive any funding through the Military Department.

Budget Proposal. The budget proposes $1.5 million from the General Fund for enhancements for the California Cadet Corps. Most of these funds would cover the costs uniforms for the 6,500 cadets and 6 military administrative positions, with the remainder for drill competition, camp, and training seminar expenses.

We have the following concerns with this proposal.

Schools Already Receive Funds for Elective Curriculum. Extracurricular activity expenses are generally the responsibility of the local school district. Each district allocates funds from its own budget to support expenses associated with such extracurricular activities such as sports teams, clubs, and the California Cadet Corps. Local Cadet Corps programs already receive funding from the SDE for military instruction. The majority of the proposed funds would be for uniforms and for activities which are not part of the school-based program. If these expenses are of a high enough priority, the local school districts could allocate funds to them.

No Evidence That Military-Style Programs Are Effective. Although this program has been in operation since 1911, no formal evaluation of the program's effectiveness in reducing juvenile delinquency or improving academic performance has been conducted.

Analyst's Recommendation. For the reasons stated above, we recommend that the Legislature reject the budget request for $1.5 million to enhance the California Cadet Corps program operations.

State Should Seek Federal Funding for Military Funeral Honors

We recommend the Legislature approve a one-time allocation of $1.3 million from the General Fund to implement the federal mandate for military funeral honors and direct the administration to seek federal funding for future years.

Background. The U.S. Department of Defense Authorization Act of 1999 states that a veteran is entitled to a military funeral and such a funeral must be performed upon request by the National Guard. Military funeral services have traditionally been provided by volunteers from all military services, but the military base closures which occurred during the past few years have reduced the personnel available to perform these services. In California, about 6,000 requests for military funeral honors are made annually. Due to the demographics of the veteran population, the number of funeral requests is expected to increase annually in the near future.

With current resources, the Military Department and Veteran Service Organizations have been able to meet about 4 percent of the demand for military funeral services. The Military Department expects to receive a share of federal funds appropriated for this purpose, but the amount will not exceed $80,000 annually.

Budget Request. In order to meet the demand for military funerals, the Governor's budget requests $1.3 million to establish 27 temporary help positions which would serve as a State Honor Guard and provide military honors at veteran funerals. Regional teams would be located in areas with dense veteran populations and daily funeral requirements. The funds would provide base pay and travel reimbursements to Guard members.

A Federal Responsibility. The provision of military funeral honors is a federal responsibility and should be paid for with federal funds. However, since the federal government did not allocate sufficient funds for this purpose, we recommend that the Legislature approve this budget request to fund military funeral honors for one year.

In addition, we recommend the adoption of supplemental report language instructing the Military Department, in partnership with the administration and the National Guard Bureau, to explore alternative federal funds to implement the military funeral mandate. The following language is consistent with this recommendation:

> The Military Department, in consultation with the administration, the National Guard Bureau, and its counterparts in other states, shall seek to obtain federal funds to implement requirements of federal law that entitle veterans to military funerals. The department shall report to the Legislature on December 1, 2000, on its progress in obtaining permanent federal funds.

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOMES OF CALIFORNIA (8955-8966)

The Department of Veterans Affairs (DVA) provides services to California veterans and their dependents, and to eligible members of the California National Guard. The principal activities of the DVA include: (1) providing home and farm loans to qualifying veterans using the proceeds from the sale of general obligation and revenue bonds; (2) assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service offices, and direct educational assistance to qualifying dependents; and (3) operating veterans' homes in Yountville, Barstow, and beginning this year, Chula Vista, with several levels of medical care, rehabilitation services, and residential services.

The budget proposes total expenditures of $341 million for DVA in 2000-01. This is $7.9 million, or 2.4 percent, more than the estimated current-year expenditures. Total expenditures from the General Fund during the budget year would be $65 million, which is $7.8 million, or 14 percent, more than the estimated current-year level.

This increase in the budget reflects the final staffing and funding for the activation of the new veterans' home in Chula Vista, along with significant new staffing and funding to address quality of care issues at Yountville and Barstow. Other DVA spending remains largely unchanged.

Veteran Health Care and New Veterans' Homes Pose Challenges for DVA

The changing health care needs of the state's veteran population and the expansion of the state's role as an operator of nursing homes for veterans have created significant challenges for the Department of Veteran Affairs. Because of deficiencies in the operations of the two existing homes, the budget proposes a significant increase in staffing for the homes in the budget year.

Aging Veteran Population. The DVA has provided home and farm loans, education and information services, and domicile and health care for several generations of California veterans. However, the changing demographics of California's veterans and their needs is presenting new challenges for the department. These changes are being driven predominantly by two groups of veterans: a World War II generation well advanced in years and a maturing Vietnam War generation approaching their early retirement years.

California's World War II veterans began moving into the Yountville Veterans Home in significant numbers in the late 1980s. Over the years, however, this population continues to move from independent residential living and domiciliary care within the home, where staffing requirements are low, into residential care facilities for the elderly and skilled nursing facilities, where the staffing requirements are higher. The Yountville and Barstow homes have had to make adjustments to their levels of care in order to accommodate more residents in the more staff-intensive levels.

Vietnam veterans, many with medical needs, have already begun to arrive at the veterans' homes, and although they share many of the basic characteristics of previous generations, these vets bring with them a unique set of health and social problems. Meeting these needs places substantial demands on DVA resources.

Increasing Role in Veteran Nursing Home Care. In recent years, DVA's mission has increasingly focused on nursing home operations. Currently, more than 84 percent of the department's total staff is dedicated to nursing home care. In addition, staffing for the homes has increased 93 percent since 1993-94 while staffing for other DVA programs and administration has declined by 12 percent.

In addition to the Yountville home, which can accommodate 1,125 residents in five levels of care, the Legislature has authorized four separate 400-bed facilities in Southern California. The first of these facilities was opened in Barstow in San Bernardino County in February 1996. A second southern California home in Chula Vista is now in the final stages of staffing and is scheduled to open by April 1, 2000. Chapter 91, Statutes of 1997 (SB 584, O'Connell) provides that additional veterans' homes are to be established in the future in Lancaster (Los Angeles County) and in Saticoy (Ventura County).

Serious Problems Cited at Homes. Both the Yountville and Barstow homes have had a number of difficulties in recent years, in part because of management problems and difficulties in hiring health care workers. A 1997 review of the Yountville home by the Bureau of State Audits pointed out serious deficiencies with overall staff utilization and the mix of beds for each level of care. In addition, reviews of the homes in recent years by the Department of Health Services (DHS) and follow-up actions by the U.S. Health Care Financing Administration have pointed out problems with the quality of care for patients, in part because of inadequate and poorly trained staff.

Although the Legislature has provided virtually all the resources requested by DVA in recent years to address issues raised in these reviews (and, in some years, even more than the department requested), problems of quality care and staffing remain unresolved.

Budget Proposes Substantial Increase in Positions. The proposed budget includes an augmentation for 129 new positions to address problems regarding quality of care and to implement new programs to recruit and retain staff. The requests fall into five broad areas:

- ***Patient Care.*** The budget includes 21 new positions to address health care issues raised by DHS and to insure continuous quality care for veterans. These positions generally include direct health care providers, such as nurses and physicians.
- ***Training and Quality Assurance***. The budget requests nine new positions at the Barstow home to provide additional staff training and ensure that staff competency levels remain current.
- ***Information Technology, Insurance, and Reimbursements.*** The budget requests 16.5 positions to gather, input, and monitor information used by the Veterans Home Information System (VHIS) to update patient files and secure payments and reimbursements from the federal government and private insurance companies for services provided to residents of the homes. Some of these positions are meant to relieve health care personnel of these information-oriented tasks and allow medical workers to return to their primary responsibility of patient care.
- ***Facilities and Maintenance.*** The budget requests 49 positions to maintain the Yountville and Barstow homes. The request would terminate contracts with the private sector to provide these services and instead bring this work in-house.
- ***Elimination of Salary Savings.*** The budget requests 27.8 positions to provide full-staff coverage and essentially eliminate salary savings requirements for critical health care positions at the Yountville and Barstow homes. We discuss this proposal below.
- ***Other.*** The budget also includes an additional chaplain position and five positions to consolidate contract functions into a single unit.

Figure 1 shows the requested positions by type and location.

Figure 1

Department of Veterans Affairs
New Positions Requested

2000-01

	Yountville	Barstow	Chula Vista	Head-quarters	Totals
Patient care	5.5	12.5	3.0	—	21.0
Training and quality assurance	—	7.0	—	2.0	9.0
Information technology, insurance, and reimbursements	8.5	2.0	3.0	3.0	16.5
Facilities and maintenance	29.0	20.0	—	—	49.0
Elimination of salary savings	21.6	6.2	—	—	27.8
Other	—	1.0	—	5.0	6.0
Totals	**64.6**	**48.7**	**6.0**	**10.0**	**129.3**

Our review found that several adjustments need to be made to the Governor's proposed augmentation, which we discuss below.

Additional Reimbursements Should Offset General Fund Costs

We recommend that the Department of Veterans Affairs submit a revised proposal at the time of the May Revision that fully accounts for additional federal funds and insurance reimbursements resulting from the homes' new information system and that the state's General Fund costs of operating the homes be adjusted accordingly.

The VHIS computer projects were designed to assist the homes in claiming federal funds and insurance reimbursements to offset the state's costs of operating the homes. The Feasibility Study Report justifying the projects estimated that they would generate $1.5 million in increased home revenues from federal funds and reimbursements in the first year of implementation (originally to be 1995-96, but actually 1999-00 due to delays) and $6.9 million in the second year (2000-01).

Our review indicates that this level of federal funds and reimbursements has not fully materialized. As a result, the General Fund will bear a larger share of the operating costs of the homes than it should. The DVA advises that it is currently implementing program modules that will allow the department to recover previously unrealized federal funds and reimbursements.

For this reason, we recommend that the department submit a revised proposal at the time of the May Revision that fully accounts for the additional federal funds and reimbursements resulting from implementation of the VHIS system. At a minimum, we believe that the budget request for $372,000 for additional staff to enhance the operation of the system should be offset by federal funds and reimbursements rather than paid for entirely from the General Fund.

Proposal to Eliminate Salary Savings Not Justified

We recommend that the budget's proposal to assume no salary savings for the home be rejected because it does not recognize the reality of staff turnover, for a General Fund reduction of $1.4 million. (Reduce Items 8960-011-0001 by $1.1 million and 8965-001-0001 by $319,000.)

Background. Each year, departments incur "salary savings." These savings result from two factors. First, departments experience vacancies in authorized positions because of delays in hiring staff for new positions, as well as filling existing positions, vacant due to staff turnover. Second, new staff are generally hired at salaries that are lower than the amounts budgeted for departing employees.

Generally, most departments experience a salary savings that is equivalent to about 5 percent of their personal services budget. In some cases, however, departments may deliberately hold positions vacant and generate a larger amount of salary savings in order to spend the money for some other purpose, such as to pay for merit salary adjustments or price increases which were not funded.

Budget Proposal. The budget proposes $1.4 million from the General Fund and 27.8 positions aimed at fully staffing all critical health care positions at the Yountville and Barstow homes. This proposal would essentially fund the positions at 105 percent of their costs and, thus, assumes no salary savings.

This budget proposal anchors its justification around "position vacancies" and salary savings but provides no justification based upon workload. We find no evidence that the department would be required to keep positions vacant in order to meet salary savings requirements. In our view, salary savings occur naturally because it is virtually impossible to keep all positions filled all of the time and, inevitably, new employees will fill positions at lower salaries than departing employees. Funding the positions at 105 percent of their costs does not recognize this and is an inappropriate way to develop a budget.

We would note that the budget proposes $4.5 million to reduce position vacancies by offering substantial salary inducements, student loan repayment assistance, and assistance in home purchases. These actions will help reduce the number of vacancies at the homes.

For these reasons, we recommend that the Legislature deny the proposal, for a General Fund savings of $1.4 million ($1.1 million at Yountville and $319,000 at Barstow).

Budget Assumes Unrealistic Hiring Schedule

We recommend that funding proposed for new positions be reduced by $965,000 to reflect a more realistic hiring schedule. (Reduce Item 8960-011-0001 by $473,000, Item 8965-001-0001 by $408,000, and Item 8966-001-0001 by $84,000.)

The budget provides full-year funding for all of the new positions, which essentially means that the department assumes that all of the positions will come on board on July 1, 2000. Even with the recruitment proposals included in the budget, we think that this assumption is unrealistic given the substantial amount of time it takes to recruit and hire new staff, especially health care professionals.

We think that the amount requested should be adjusted to assume that the positions will be phased in over a slightly longer period. A more realistic assumption, in our view, would be that positions will be filled by September 2000. This would not mean that the department could not fill the positions until September, but rather that they will be filled, *on average*, by September, with some positions being filled as early as July and some as late as December.

Thus, in order to account for this more realistic hiring schedule, we recommend a total reduction of $965,000 ($473,000 for Yountville, $408,000 for Barstow, and $84,000 for Chula Vista).

Uncertainty About Chapel and Cemetery Renovations at Yountville

We withhold recommendation on $2.4 million proposed for renovations to the chapel and cemetery at the Yountville home, pending receipt and review of information about the scope, costs, and timetable for the project.

The budget proposes $2.4 million for renovations and repairs to the chapel and cemetery at the Yountville home. Although we do not question the need for the renovations, our review of this proposal found that it lacks adequate information on the scope, costs, and timetable for the project. For this reason, we withhold recommendation, pending receipt of this additional information.

The Cal-Vet Home Loan Program Overhead Costs Continue to Climb

We recommend that the Department of Veterans Affairs report during budget hearings on (1) the reasons for the continuing increase in the overhead costs of the Cal-Vet Loan program and (2) steps it is taking to reduce those costs.

In our January 1998 report, *Rethinking the Cal-Vet Loan Program*, we reviewed the status of the Cal-Vet program and outlined a proposal to phase out additional Cal-Vet lending activity and to direct surplus Cal-Vet funds to programs that will benefit both aging war veterans and state taxpayers. We noted that far fewer veterans than in the past need home loans, but that these veterans have a growing need for medical care, nursing home care, Alzheimer's treatment, and other types of state assistance. We concluded that it was time to rethink the state's approach to veterans' assistance given the changes which have occurred in recent times.

Our review indicates that no significant changes have occurred since we first advised the Legislature of the condition of the program. The total number of loans in the Cal-Vet home loan portfolio declined by 2,647 loans (a reduction of 7.4 percent) in 1998-99, continuing a trend of the past two decades. Near the end of 1999, this decline, at least momentarily, seems to have flattened out. It is too soon, however, to conclude that the number of loans in the Cal-Vet portfolio has stopped shrinking.

Loan Overhead Costs Continue to Climb. Equally as troubling as the decline in the Cal-Vet loan portfolio is the continued escalating overhead costs to service these loans. Total program administration expenses increased from $25.6 million for 1998-99 to $28.2 million in 1999-00, resulting in the overhead cost per loan increasing to $814. Figure 2 (see next page) shows the trend in the overhead costs over the past ten years.

We are particularly concerned about this trend because discussions at a meeting of the California Veterans Board in November 1999 appear to indicate that DVA is considering adding a substantial number of additional staff to the Cal-Vet program, which would likely drive overhead costs even higher.

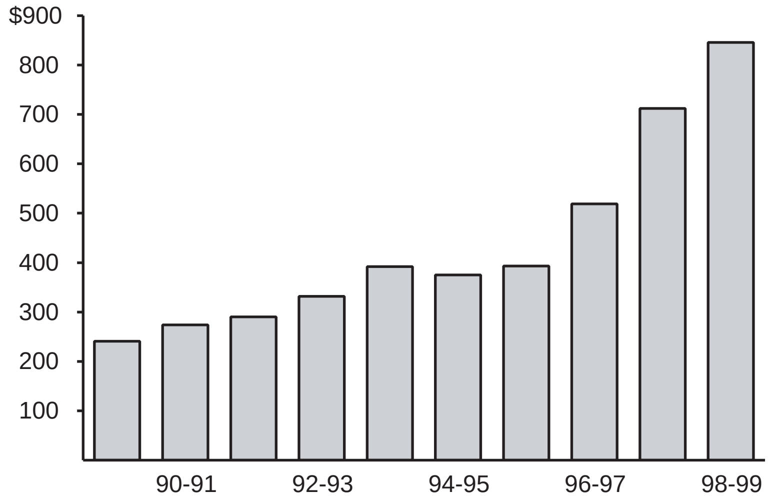
Although funding for the Cal-Vet program is not appropriated in the annual budget bill, we nevertheless believe that it is important for the Legislature to provide oversight of the program and to obtain an explanation from DVA on (1) the reasons for the continuing increase in the program's overhead costs and (2) steps it is taking to reduce those costs. We recommend that the department report to the Legislature during budget hearings on these issues.

We note that the Bureau of State Audits is conducting an audit of the Cal-Vet program, which it anticipates completing by the spring.

Figure 2

Cal-Vet Overhead Costs Continue to Climb

Overhead Cost per Contract



PUBLIC EMPLOYEES' RETIREMENT SYSTEM (1900)

The Public Employees' Retirement System (PERS) administers the retirement benefit program for state employees (excluding the University of California) and the health benefits program for employees and annuitants. The current value of the Public Employees' Retirement Fund is about $160 billion. As a result of Proposition 162, which was approved by voters in November 1992, PERS has authority to spend funds to administer the retirement program for state employees without appropriation by the Legislature. However, because the health benefits program is separate from the retirement program, the Legislature does approve the budget for the health program. The entire PERS budget, however, is included in the budget bill as an informational item, with budget bill language that requires PERS to report specified budget information to the Legislature.

The Governor's budget shows 2000-01 expenditures for PERS of $272 million, an increase of $1.8 million, or less than 1 percent, over estimated current-year expenditures. However, the PERS Board will approve the 2000-01 PERS budget in the spring. Thus, the budget amount reflects a continuation of existing activities and does not include any new spending proposals for 2000-01.

Large Growth in Expenditures Since Passage of Proposition 162

As noted above, the passage of Proposition 162 in November 1992 gave PERS authority to spend funds for administration of the retirement program for state employees without legislative appropriation. Figure 1 (see next page) shows expenditures and staffing levels from three years prior to Proposition 162 through 2000-01. In 1992-93, the year voters approved Proposition 162, investment operations expenditures—mostly external investment advisors—jumped from $6 million in 1991-92 to $45 million. The next year, investment expenditures nearly doubled again to $86 million. In the current year, investment spending is projected to be $85 million.

Similarly, spending for non-investment-related operations has increased from $50 million in 1991-92 to $186 million in the current year, an increase of 272 percent. Staffing has followed a similar course, rising from 802 personnel-years (PYs) in 1991-92 to 1,481 PYs in the current year, an 85 percent increase. In comparison, the State Teachers' Retirement System (STRS) employment grew by 29 percent and all other state employment, including higher education, increased by 16 percent in the same time frame.

Figure 1

Public Employees' Retirement System (PERS) Administrative Expenditures

(Dollars in Millions)

Year	Operations	Investments	Total	Personnel-Years
1989-90	$41.0	$5.0	$46.0	738.7
1990-91	51.7	1.2	52.9	783.5
1991-92	49.9	6.0	55.9	802.1
1992-93[a]	55.3	45.4	100.7	810.2
1993-94	64.3	85.8	150.1	870.3
1994-95	79.2	74.2	153.4	930.7
1995-96	90.5	75.3	165.8	943.6
1996-97	102.0	68.5	170.5	982.9
1997-98	136.0	67.9	203.9	1,100.8
1998-99	152.0	74.4	226.4	1,178.6
1999-00 estimated	185.5	84.8	270.3	1,480.9
2000-01 proposed[b]	187.0	85.1	272.1	1,472.9

[a] Voters approved Proposition 162, which granted PERS authority to spend funds without appropriations by the Legislature, in November 1992.
[b] Does not include any new spending proposals.

Information Technology Oversight

We recommend that the Public Employees' Retirement System explain to the Legislature during budget hearings (1) how it exercises oversight and control of its information technology projects and (2) why it does not submit its projects to the Department of Information Technology and the Department of Finance to take advantage of their expertise and the external accountability provided by their review processes.

To promote independent oversight of information technology (IT) projects, most departments are required to submit IT project proposals to the Department of Information Technology (DOIT) and the Department of Finance (DOF) for review and approval. This external oversight is designed to decrease project risk and increase the cost-effectiveness and efficiency of IT projects. Because of Proposition 162, PERS is not required to submit IT projects to DOIT or DOF for review and approval. Nothing precludes PERS from voluntarily doing so, however. We noted in our analysis of STRS that STRS has established an internal review process for proposed projects. The PERS, on the other hand, has indicated that it has no written internal procedures to review proposed IT projects. Nor does PERS exercise options for external independent oversight (such as, submitting its projects to DOIT and DOF or to a private entity for review).

Given this lack of internal and external oversight, it is not clear how PERS exercises sufficient control over its projects. Therefore, we recommend that PERS explain to the Legislature during budget hearings (1) how it exercises oversight and control of its IT projects and (2) why it does not submit its projects to DOIT and DOF to take advantage of their expertise and the external accountability provided by their review processes.

STATE TEACHERS' RETIREMENT SYSTEM
(1920)

The State Teachers' Retirement System (STRS) administers the retirement benefit program for public school teachers from kindergarten through the community college system. As a result of Proposition 162, which was approved by voters in November 1992, STRS has authority to spend funds to administer the teachers' retirement program without appropriation by the Legislature. Thus, the budget bill does not include items of appropriation. Instead, the STRS budget is presented as an informational item with budget bill language that requires STRS to report specified budget information to the Legislature. This informational item and budget language give the Legislature a degree of oversight of the STRS budget and activities.

The Governor's budget shows budget-year spending for STRS of $54 million, a $2.2 million, or 4.3 percent, increase in expenditures in 2000-01. This includes (1) $6.1 million in information technology (IT) projects, including funding for the State Teachers' Automation Redesign Team (START), proposed to begin operation in July 2000; and (2) $2 million for a variety of other augmentations. These increases are partially offset by reductions in one-time expenditures in the current year, primarily for IT projects.

Even though STRS is not dependent on legislative appropriations for its budget, STRS continues to submit budget change proposals for review by the Legislature during the budget process. We believe this cooperative approach to the budget process best serves the Legislature's and STRS' interests, and we encourage STRS to continue this practice.

Information Technology Oversight

Given the number of information technology-related projects the State Teachers' Retirement System (STRS) proposes, we recommend that STRS explain to the Legislature during budget hearings why it does not submit its projects to the Department of Information Technology and the Department of Finance to take advantage of their expertise and the external accountability provided by their review processes.

Figure 1 summarizes STRS' proposed augmentations for IT projects. As noted above, funding for these proposals totals $6.1 million. The proposals include a number of ongoing initiatives, such as:

- Positions to research and implement e-commerce technologies.
- Bringing servers in-house from Teale Data Center which is counter to the Department of Information Technology's (DOIT) approach of consolidating computing facilities at the state's data centers.
- Additional staff and ongoing maintenance for the STRS Web site.
- First-year funding for a $4.4 million imaging project to automate files for retrieval. According to Teale Data Center, other departments' imaging projects (1) have had extreme difficulty finishing on time and on budget and (2) require many business process changes for which departments are often unprepared.
- Automation of the file backup process, including ongoing equipment maintenance funding of $30,000, or about 25 percent of the equipment cost.

Figure 1

State Teachers' Retirement System Information Technology Proposals

(In Thousands)

State Teachers' Automation Redesign Team (START)	
Overtime and temporary help for implementation	$250
"Backfilling" positions temporarily redirected to START	422
Programming changes to implement benefit changes	600
Design changes postponed until after implementation	1,300
Subtotal	($2,572)
Other Projects	
Implement and support e-commerce technology	$164
Research and implement emerging technologies	89
Support for intranet system	181
Support for new e-mail system	73
Support for Web site	111
Imaging project to automate files for retrieval	2,557
Computer upgrades and leasing pilot project	182
Automate file backup process	148
Subtotal	($3,505)
Total	**$6,077**

In addition to these numerous proposed IT-related projects, STRS plans to bring its multiyear START project online in July 2000. As a result, STRS proposes $2.6 million for costs associated with implementing the new system. These include overtime and temporary help, "backfilling" to cover the work of positions previously redirected to work on START, and implementing system changes to account for new benefits, other legislative changes, and necessary design changes postponed until after implementation.

To promote meaningful oversight of IT projects, most departments are required to submit IT project proposals to DOIT and the Department of Finance (DOF) for review and approval. This external review is designed to decrease project risk and increase the cost-effectiveness and efficiency of IT projects. Because of Proposition 162, STRS is not required to submit IT projects to DOIT or DOF for review and approval. Nothing precludes STRS from voluntarily doing so, however.

The STRS has instead established its own internal review process for proposed projects. Given the number of IT-related projects STRS proposes, we recommend that STRS explain to the Legislature during budget hearings why it does not submit its projects to DOIT and DOF to take advantage of their expertise and the external accountability provided by their review processes.

HEALTH AND DENTAL BENEFITS FOR ANNUITANTS (9650)

This appropriation provides for the state's contribution toward health and dental insurance premiums for annuitants of the Judges', Legislators', District Agricultural Employees', and Public Employees' Retirement Systems, as well as specified annuitants of the State Teachers' Retirement System. The program provides annuitants the option of selecting from 20 state-approved health plans (depending on where an annuitant lives).

Budget-Year Costs Are Uncertain

We withhold recommendation on the $386.9 million General Fund request for annuitant benefits pending final determination of health insurance premium rates for calendar year 2001.

The budget proposes total expenditures of $386.9 million from the General Fund for health and dental benefits for annuitants in 2000-01. This is $39.6 million, or 11.4 percent, more than estimated expenditures for this purpose in the current year. This increase reflects expected growth in the number of annuitants and a dental insurance premium increase. It does not include any changes in health insurance premiums that would go into effect January 1, 2001. Figure 1 (see next page) displays General Fund expenditures for annuitant health and dental benefits for the three fiscal years starting with 1998-99. Although these costs are initially paid from the General Fund, the state recovers a portion of these costs from special funds (about 33 percent) through pro rata charges.

The actual amounts needed in the budget year are dependent on negotiations over health insurance premiums currently underway between the Public Employees' Retirement System and providers. These negotiated premium rates—which will cover the 2001 calendar year—should be available for review during legislative budget hearings. Pending receipt of the new rates, we withhold recommendation on the amount requested under this item.

Figure 1

Health and Dental Benefits For Annuitants

(In Millions)

Program	1998-99 Actual	1999-00 Estimated	2000-01 Budgeted
Health	$277.5	$312.7	$345.8
Dental	32.5	34.6	41.1
Totals	**$310.0**	**$347.3**	**$386.9**

AUGMENTATION FOR EMPLOYEE COMPENSATION (9800)

A significant portion of state government expenditures is for compensation of state employees. The Governor's budget projects $15.7 billion in salary and wage expenditures for more than 304,000 authorized personnel-years in 2000-01 (including $5.0 billion and nearly 96,000 personnel-years in higher education). Including benefits (such as contributions to retirement and health insurance), estimated employee compensation expenditures are projected to exceed $18 billion for the budget year.

Employee Pay/Benefit Increases

We withhold recommendation on $60 million ($30 million General Fund) requested for as yet unspecified employee compensation adjustments until the specific compensation proposals and the costs associated with each proposal are available for legislative review.

State Civil Service Employees. In September 1999, the Legislature approved memoranda of understanding (MOUs) for all of the state's 21 collective bargaining units. (This does not include employees in higher education.) These agreements replace the MOUs that expired June 30, 1999 and are effective for a two-year period beginning July 1, 1999. The new MOUs provide a 4 percent general salary increase retroactive to July 1, 1999 and another 4 percent effective September 1, 2000. For employees not covered by collective bargaining (such as managers and supervisors), the Department of Personnel Administration (DPA) approved a compensation package similar to that approved in the MOUs. Figure 1 (see next page) shows a history of general salary increases for state civil service employees and the consumer price indices for the United States and California since 1981-82.

Figure 1

State General Salary Increases

1981-82 Through 2000-01

Fiscal Year	State General Salary Increases	Consumer Price Index	
		United States	California
1981-82	6.5%	8.8%	10.7%
1982-83	—	4.2	2.3
1983-84	6.0	3.7	3.6
1984-85	8.0	3.9	4.9
1985-86	6.0	2.9	4.0
1986-87	6.0	2.2	3.3
1987-88	3.8	4.1	4.2
1988-89	6.0	4.6	4.8
1989-90	4.0	4.8	5.0
1990-91	5.0	5.5	5.3
1991-92	—	3.2	3.6
1992-93	—	3.1	3.2
1993-94	5.0	2.6	1.8
1994-95	3.0	2.9	1.7
1995-96	—	2.7	1.4
1996-97	—	2.9	2.3
1997-98	—	1.8	2.0
1998-99	5.5	2.1	2.3
1999-00[a]	4.0	2.5	3.2
2000-01[a]	4.0	2.6	2.9

[a] Legislative Analyst's Office estimate of consumer price indices.

Funding for the current-year costs of the new MOUs was included in Chapter 776, Statutes of 1999 (SB 339, Burton). The budget-year costs of the agreements (with the exception noted below) are included in each department's budget in the *2000-01 Budget Bill*.

The Governor's budget includes $60 million ($30 million General Fund, $20 million special funds, and $10 million nongovernmental cost funds) to provide unspecified *additional* employee compensation adjustments. According to the Department of Finance, these adjustments are to address pay issues (such as recruitment and retention pay differentials) that (1) are referenced in the new MOUs but not yet resolved or (2) were not part of the new MOUs. We withhold recommendation on the $60 million requested until the specific proposals, and the associated cost for each, are available for legislative review.

Employees in Higher Education. In higher education, the Governor's budget proposes $110 million for the University of California and $116 million for the California State University for employee compensation to provide salary and benefit increases to faculty and staff. Figure 2 shows how these amounts will be allocated.

Figure 2

Higher Education Salary and Benefit Increases 2000-01 Governor's Budget

General Fund (In Millions)	
University of California	
Merit salary increases	$39.0
Average 2 percent cost-of-living increase (effective 10/01/00)	35.2
Full-year cost of 1999-00 salary/benefit increases	14.1
Health and dental benefit cost increases	10.6
1 percent parity increase for faculty (effective 10/01/00)	6.7
Market adjustment increases for agricultural and information technology staff (effective10/01/00)	4.1
Subtotal	$109.7
California State University	
5 percent compensation pool (effective 7/01/00)	$94.3
Full-year cost of 1998-99 and 1999-00 salary/benefit increases	12.9
Health and dental benefit cost increases	9.0
Subtotal	$116.2
Higher Education Total	**$225.9**

TAX RELIEF
(9100)

The state provides tax relief—both as subventions to local governments and as direct payments to eligible taxpayers—through a number of programs contained within this budget item. The budget proposes total relief of $2.3 billion, of which almost $566 million is appropriated through the budget bill.

Of the items appropriated in the budget bill, the homeowners' exemption is the largest. This provision, which is required by the State Constitution, grants a $7,000 property tax exemption on the assessed value of owner-occupied dwellings, and requires the state to reimburse local governments for the resulting reduction in property tax revenues. The exemption reduces the typical homeowner's taxes by about $75 annually. The Governor's budget proposes an expenditure of $409 million on this program in 2000-01. This is an increase of $8 million, or 2 percent, which reflects the expected growth in the number of homeowners claiming the exemption.

The Vehicle License Fee Offset Costs Reflect Growing Tax Relief

The largest program of tax relief is the Vehicle License Fee (VLF) Offset, which is continuously appropriated and therefore does not appear in the budget bill. The VLF is an annual fee on the ownership of a registered vehicle in California, levied in place of taxing vehicles as personal property. The revenues are distributed to cities and counties. As part of the 1998 budget agreement, the VLF was permanently cut by 25 percent, with the potential of additional reductions beginning in January 2001 if specific revenue levels (or "triggers") are reached. As part of the 1999 budget agreement, the cumulative reduction was increased to 35 percent for calendar year 2000 only, without affecting the previously agreed to triggers. We are currently projecting that the first trigger will be reached in the budget year—continuing the 35 percent reduction for calendar year 2001.

For all VLF reductions, cities and counties continue to receive the same amount of revenues as under prior law, with the reduced VLF amounts replaced by General Fund spending. This spending, known as the VLF "backfill," is reflected in the tax relief budget item. The Governor's budget shows $1.712 billion for the offset in 2000-01. This is an increase of $362 million from 1999-00, which reflects the full-year fiscal impact of the 35 percent reduction. Our estimate of the budget-year expenditures for the VLF Offset is $82 million higher than the administration, due largely to higher projected growth of VLF revenues in the current year. Since the offset is continuously appropriated, any higher-than-expected expenditures would be reflected in a lower General Fund reserve amount.

Under our current revenue projections, we would expect that each of the maximum attainable trigger reductions will be reached through 2003-04, resulting in a permanent reduction of 67.5 percent. As a result, under our forecast, the offset cost would total more than $4 billion by 2003-04. Under current law, the *future* VLF percentage reductions would be lowered slightly to account for other tax relief that the Legislature has passed after 1998 (in order to keep *total* tax relief constant). Figure 1 shows the projected VLF backfill expenditures, as well as the corresponding VLF reduction percentages.

Figure 1

Vehicle License Fee (VLF) Backfill Projected Reductions and Costs[a]

(Dollars in Billions)

	Calendar Year				
VLF Reduction	**1999**	**2000**	**2001**	**2002**	**2003**
Current law[b]	25.0%	35.0%	35.0%	44.5%	65.0%
	Fiscal Year				
VLF Backfill	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**
Current law[b]	$1.4	$1.8	$2.2	$3.3	$4.1

a Legislative Analyst's Office estimates of future costs.

b Reflects tax reductions passed in 1999. Under the Governor's proposal, the VLF reductions would be 46.5 percent in 2002 and 67.5 percent in 2003, with slightly higher backfill costs in 2001-02 through 2003-04.

The administration proposes deleting the provision which lowers the VLF reduction percentages in cases of additional tax relief. As a result, under the administration's proposal, any other tax relief passed by the

Legislature after 1998 would not lower the future VLF reduction percentages, thereby increasing the level of total tax relief. Thus, in evaluating the Governor's proposal, the Legislature will face the basic issue of whether new tax relief proposals should be *in lieu* of VLF tax relief or *in addition to* VLF tax relief.

LOCAL GOVERNMENT FINANCING
(9210)

This budget item contains funding for local governments for four purposes:

- ***Citizen's Option for Public Safety (COPS).*** The COPS program was created in 1996 to provide local governments with funds for law enforcement. The budget proposes to expand the program's funding to $121 million in 2000-01, which we discuss below.
- ***Property Tax Administration Loan Program.*** This program was created in 1995 to provide forgivable loans to counties for additional spending on property tax administration. The budget proposes an appropriation of $60 million and to extend the program, which is due to sunset at the end of 2000-01. We discuss the Governor's proposal below.
- ***Special Supplemental Subventions.*** Three programs provide specified local governments with special funding: (1) qualifying redevelopment agencies for revenues lost as a result of the repeal of the business inventory exemption in 1984 ($3 million), (2) counties with no incorporated cities on the basis that they are not eligible to receive the city portions of the gas tax and vehicle license fee distributions ($147,000), and (3) cities which paid jail booking fees to counties in 1997-98 ($36 million, continuously appropriated).
- ***State-Mandated Local Programs.*** This item includes funding to reimburse local governments for costs incurred in complying with certain state-mandated local programs ($6 million).

The COPS Augmentation and Existing Funding Structure Flawed

We recommend the Legislature reject the Governor's proposed augmentation for the Citizens' Option for Public Safety program because the proposal contains a number of flaws. With regard to the base funding for the program, we recommend that the Legislature consider a number of modifications to the funding structure that would better target the funds, and adopt budget bill or trailer bill language to require law enforcement agencies to report on their use of the funds as a condition of receipt of such funds.

Background. In 1996, the Legislature enacted Chapter 134, Statutes of 1996 (AB 3229, Brulte), which created the COPS program. Under this program, counties and cities receive state funds, on a population basis, to augment public safety expenditures. The Legislature has provided $100 million for the program each year since 1996-97, for a total of $400 million through the current year. Under the terms of Chapter 134, the $100 million of COPS funds is allocated as follows:

- $75 million to cities and counties for front line law enforcement.
- $12.5 million to district attorneys for criminal prosecution.
- $12.5 million to sheriffs for county jail construction and operations.

Chapter 289, Statutes of 1997 (AB 1584, Prenter) clarified the reporting requirements of the program and required the State Controller to compile a summary report on the allocation and expenditure of the COPS funds. This report, which covers 1996-97 and 1997-98, was released in October 1999. Statutory authorization for the program expires at the end of the current-fiscal year.

The Governor's Proposal. The Governor's budget proposes to increase the General Fund allocation to the COPS program to $121.3 million and extend the program for five years to July 2005. The budget bill appropriates $100 million and adds a new provision that would allow the Department of Finance to augment the item by $21.3 million.

Under the Governor's proposal, the current $100 million will continue to be allocated as it has been previously. The additional $21.3 million would be added to the existing money for front line law enforcement and distributed to those local law enforcement agencies that would otherwise receive an allocation of less than $100,000. As a consequence of this proposal, all police and sheriff's departments would receive a COPS allocation of at least $100,000. Allocations to jails, local correctional departments, and district attorneys would not increase as a result of the total increase in program funding.

We have a number of concerns regarding the proposed augmentation which raise questions about the likely effectiveness of this proposal.

- ***Proposal May Not Actually Result in Additional Officers.*** The stated purpose of the Governor's proposed $21.3 million augmentation is to provide sufficient funding to all jurisdictions so that they can hire at least one new law enforcement officer because current allocations to some jurisdictions are too small to do so. However, law enforcement agencies would not be required to use the additional funds to hire additional officers. The COPS allocations could continue to be used for a variety of law enforcement expenses besides officer salaries, such as equipment and support services. In addition, based on our current calculations, we believe that the proposed increase may not even be sufficient to raise all law enforcement agency allocations to $100,000. This is because state population, which is the basis for the distribution, will likely increase by the time the money is distributed.
- ***Proposed Augmentation Benefits Only Very Small Jurisdictions.*** We estimate that the jurisdictions that would benefit from the increase in funding are those cities and counties with populations of 45,000 persons or less, and 15 of the potential beneficiaries are jurisdictions with less than 1,000 persons. Given that the state's worst crime problems are generally located in the larger urban areas, it is not clear that providing additional state monies to these very small jurisdictions will provide the maximum return in terms of public safety.
- ***Local Fiscal Condition Not Considered.*** We also note that some of the jurisdictions which would benefit from the augmentation have the clear ability to support law enforcement operations from their own local revenue sources. Examples include cities such as Atherton, Beverly Hills, Carmel-by-the Sea, Mill Valley, and San Marino.
- ***Hiring Additional Law Enforcement Has Hidden Costs.*** To the extent that jurisdictions do, in fact, hire additional officers, there are other costs beyond salary and benefits which may have to be paid for by the local jurisdiction. For example, an additional officer may require a full complement of equipment, a vehicle, and overhead costs. Additional officers are also likely to increase the number of arrests which could increase the costs

to the county and state judicial, public defense, and correctional systems.

For all of these reasons, we recommend that the Legislature reject the Governor's augmentation proposal and delete the proposed budget bill provision.

Analyst's Concerns With the Existing COPS Program. In addition to the problems in the Governor's proposed augmentation, there are several deficiencies in the existing program that should be addressed.

- ***Lack of Targeting.*** Continuing to allocate COPS funds on a population basis is unlikely to have a significant effect on statewide public safety, because population is not the most important determinant of crime rates. For example, a small jurisdiction in a rural area is likely to have a lower crime rate and different law enforcement needs than a jurisdiction of equal size that is part of an urban metropolitan area. Targeting law enforcement funds based on a combination of factors, such as population, crime rate, numbers of at-risk individuals, and economic demographics is more likely to result in increased public safety than the current distribution structure.
- ***Lack of Accountability.*** Currently, COPS monies are an entitlement in that jurisdictions are not required to meet any conditions in order to receive their allocation. Although the enabling legislation did establish minimal reporting requirements, no penalty exists for lack of compliance. The absence of a clear accountability mechanism has resulted in many jurisdictions reporting their COPS expenditures inaccurately or not at all.
- ***Lack of State Oversight.*** Under the current reporting procedures, jurisdictions are required to submit an annual report to the State Controller detailing the allocation and expenditure of COPS monies. The county auditor and city treasurer of each jurisdiction are responsible for recording monthly expenditures and the State Controller only reviews the annual report for minimal reporting compliance. There is no requirement for the state to ensure that jurisdictions are using the COPS funds in the manner which meets program objectives. While the annual reports provide information about whether funds are being spent on personnel or equipment, the reports contain no detailed information which could be used to determine statewide trends in law enforcement personnel and equipment needs.
- ***Lack of Evaluation Requirements.*** Generally, we believe that recipients of state grant funds should be required to evaluate their

efforts in order to measure their success. Although the objective of the COPS program—to increase the overall funds for law enforcement services—is broad, agencies should still be able to measure the impact of their specific COPS expenditure on public safety. For example, in the annual report, an agency should be able to discuss the impact of an additional officer or a new piece of equipment on public safety.

What Should the Legislature Do? Although the COPS program has been in operation for four years and has provided $400 million in local fiscal relief to law enforcement agencies, there is little information available about how well the program has worked or what the impact of augmenting public safety expenditures has been.

In the past, we have recommended that the Legislature make these funds more generally available for local fiscal relief. However, the Legislature has chosen to direct the money for local law enforcement purposes. The expiration of the COPS program at the end of the current year provides an opportunity for the Legislature to evaluate the current funding structure and consider changes which could increase the effectiveness of this program if it is extended for an additional five years.

Consider a Variety of Modifications, Including Better Targeting. Based on our review of the Governor's proposal and the existing COPS program, we recommend that the Legislature consider modifying the program in several ways. Specifically, we suggest that, at a minimum, the Legislature modify the allocation formula so that the money is better targeted to those jurisdictions with the most significant crime problems. This could be accomplished in a number of ways. For example, funding could be distributed so that all jurisdictions receive a *minimum base funding level*, regardless of population, with the remainder of the COPS monies allocated based on a formula that takes account of the relative crime problems across the state, such as each jurisdiction's average crime rate over a given period of time. An alternative approach would not provide a minimum base funding level. Rather, a portion of the total COPS fund could be distributed on a population basis and the remaining portion distributed based on each jurisdiction's average crime rate over a given period of time.

Increase Accountability and Oversight. Whether or not changes are made to the funding structure, we believe that additional accountability and oversight is needed in this program. We think that one way to accomplish this would be to require jurisdictions to file expenditure reports, as was intended by Chapter 289, as a condition of receiving the funds. In our view, this would not be an additional administrative burden on any jurisdiction. Thus, we recommend that the Legislature adopt the following language with respect to the program, either in budget bill Item 9210-101-0001, or in a budget trailer bill:

> Each jurisdiction shall receive their respective allocation from the Supplemental Law Enforcement Services Fund when the State Controller has certified that the respective jurisdiction has filed a complete expenditure report for the prior reporting period. Jurisdictions that fail to receive certification by September 1, 2001 shall forfeit their allocation. Jurisdictions shall forfeit the unexpended balance of their allocation, as of June 1, 2001. Any funds forfeited pursuant to this provision shall revert back to the General Fund.

Property Tax Administration Funding Not Ideal Approach

We recommend that the Legislature* not *extend the sunset of the Property Tax Administration Loan Program and instead consider alternatives that would provide a long-term structural improvement to the property tax system.

Background. Counties are the level of government with the primary responsibility for assessing property and collecting property tax revenues, totaling over $20 billion annually. County assessor offices assess the value of property, and then county tax collectors and auditors collect the revenues and allocate them among local governments. It is estimated that $400 million is spent annually on the property tax administration system.

In the early 1990s, county assessor offices suffered two financial strains:

- The property tax shifts—which redirected over $3 billion in property taxes from local governments to schools—forced counties to make budget cuts to many discretionary spending programs, including assessor offices.
- The statewide economic recession dramatically increased many assessors' workloads by requiring the processing of downward assessments and assessment appeals.

Since the property tax shifts reduced the share of each property tax dollar collected that goes to a county, counties experienced a decline in the financial incentive to invest in the property tax administration system. Although cities and special districts are required to pay for their share of property tax administration costs, school districts are not. As a result, counties pay more than 70 percent of property tax administration costs, yet they now receive less than 20 percent of the revenues.

Loan Program to Sunset. Although the property tax is a local tax it nevertheless benefits the state, as a result of California's education financing system. Under this system, increases in property taxes generally translate into reductions in the required state contribution for education. Recognizing the fiscal strains facing counties and the state interest in a well-administered property tax system, the Legislature created the Property Tax Administration Loan Program by enacting Chapter 914, Statutes of 1995 (AB 818, Vasconcellos). This program was later extended through 2000-01 by Chapter 420, Statutes of 1997 (AB 719, Torlakson). The legislation appropriates $60 million each year for loans to counties for additional spending on property tax administration. These loans may be forgiven if counties can demonstrate that they have generated or preserved sufficient revenues for schools to offset the costs of the loans. In recent years, 47 counties have participated in the program, with all the loans being forgiven (totaling $51 million in 1998-99). The Department of Finance is responsible for administering the program and determining whether to forgive the loans. Under current law, the program will sunset at the end of 2000-01. The Governor has proposed to modify and extend the program, but has yet to offer a specific proposal.

Short-Term Benefits but Long-Term Concerns. The program was designed as a short-term solution to the growth of assessor workload backlogs. In this regard, the program has been relatively successful. By both increasing property tax revenues to governments and helping to ensure that taxpayers receive a fair assessment, the program has strengthened the property tax administration system. Work backlogs in most counties have been significantly reduced. However, extension of the program is not the most effective method for achieving a stable and efficient property tax administration system in the long term. Below, we discuss a number of the problems with the program.

- ***Does Not Address Underlying Disincentives***. While providing an infusion of needed funding into many counties' property tax administration systems, the loan program does nothing to alter the underlying disincentive for counties to invest in their own systems. A county continues to receive a very small proportion of the benefits for each dollar it chooses to spend on property tax administration.

- ***Awkward Governance Structure.*** For the majority of their budgets, assessors seek approval from their county Boards of Supervisors. However, for the portion of their budget funded from the loan program, the assessor instead seeks approval from the state Department of Finance. The state must try to evaluate the funding needs of local departments, each with their own set of circumstances. Thus, the program creates an awkward system in which an assessor's budget is reviewed twice but never from a comprehensive perspective. The current system also creates a sizable workload for the Department of Finance. Each year, the department must review and renew contracts with up to 58 counties and then evaluate each county's performance to determine whether its loan ought to be forgiven.

- ***Nonuniform Benefits.*** While the loan program has benefitted many counties, 11 counties have elected not to participate for administrative or political reasons. Therefore, the benefits of the program have not been uniform across the state. Moreover, the program does not adjust to the changing demands of individual assessor offices. The maximum loan amounts for which each county is eligible is set in statute and has not been amended since the program's inception.

Options for a Permanent Solution. Continuing the property tax administration loan program could be considered in two contexts: (1) improving the property tax administration infrastructure and (2) providing general fiscal relief to counties. Based on which of these goals is a higher priority, the Legislature could implement one of the following options in place of extending the sunset of the loan program. We believe each of these options would offer a better *long-term* approach.

- ***State Share of Growth Cost***. One option would be for the state to pay for the schools' pro rata share (about 52 percent) of all *growth* in property tax administration expenditures. Counties would be required to continue to maintain their baseline spending on property tax administration with the costs shared along their current ratios. However, *increases* in administration costs would be paid for by *all* of the entities benefitting from property taxes—according to their share of the benefits. Counties would, therefore, make future decisions about whether to spend additional dollars on property tax administration knowing that the benefits of such investments would be commensurate with their costs. If statewide property tax administration costs increased by 5 percent, this option would cost the state about $10 million annually. This option is discussed in more detail in *The 1997-98 Budget: Perspectives and Issues* (please see pages 215 to 226).
- ***State Share of All Costs.*** Another option would be for the state to simply pay for the schools' entire share of property tax administration costs (base and growth), at a cost of about $200 million. Since state funds would replace county funds already invested in the property tax administration system, we would expect counties to spend most of these savings on priorities outside of the

property tax system. This option, therefore, is primarily one that promotes general fiscal relief to counties. It would, however, establish the same type of positive incentives for future spending as the incremental cost option discussed above (though at a much higher state cost). The implementation of this option was included in Chapter 84, Statutes of 1999 (AB 1661, Torlakson)—contingent on the passage of a constitutional amendment by November 2000 which reforms local government finance.

- ***Use Funds for Broad Fiscal Reform.*** The Legislature has expressed a long-standing concern with improving local government finance (beyond just the property tax administration system). As we discuss in our recent report *Reconsidering AB 8: Exploring Alternative Ways to Allocate Property Taxes* (please see *The 2000-01 Budget: Perspectives and Issues*, Part V), setting aside funds for the implementation of a local finance reform proposal could ease the fiscal impact of the proposal on local governments. One option for setting aside funds would be the redirection of funds currently allocated for various local government subvention programs (created partly in response to the impaired fiscal capacity of local governments). If the reform proposal addressed the disincentives for counties to invest in the property tax administration system, then the $60 million allocated for the loan program could be one such source of funds.

CONTROL SECTION 3.60

This control section specifies the contribution rates for the various retirement classes of state employees in the Public Employees' Retirement System (PERS). The section also authorizes the Department of Finance to adjust any appropriation in the budget bill as required to conform with changes in these rates. In addition, the section requires the State Controller to offset these contributions with any surplus funds in the employer accounts of the retirement trust fund.

State Overpaid PERS in 1999-00

The state overpaid the Public Employees' Retirement System (PERS) $18 million ($10 million General Fund) in the current year. We recommend the Legislature adopt budget bill language requiring PERS to credit this amount plus interest to the state's retirement payments due in the budget year, thereby making these funds available for the Legislature's priorities in the budget.

Chapter 555, Statutes of 1999 (SB 400, Ortiz) provided retirement benefit enhancements to state employees. Coupled with these enhancements, Chapter 555 required PERS to change two actuarial valuation methods to recognize excess assets more quickly. These changes partially offset the state's costs related to the new benefits and reduced the state's retirement costs in the current year and in 2000-01. (After 2000-01, the state's costs will be higher than would have been the case prior to adopting the new benefits.) To account for this reduced cost in the current year, the Legislature adopted Chapter 800, Statutes of 1999 (AB 232, Alquist) to change the contribution rates included in the *1999-00 Budget Act*. These rate changes and projected rates are shown in Figure 1. As shown in the figure, the state owes about $300 million less for current-year retirement contributions than it would have otherwise owed under the rates approved in the *1999-00 Budget Act*.

The state pays its retirement contributions one quarter in arrears. For the current year, the state made the first-quarter (that is, July through

September 1999) payment of $129 million to PERS at the beginning of October. This payment was made before Chapter 800 became law and was based on the higher rates included in the *1999-00 Budget Act*. The PERS subsequently notified the state that based on the reduced rates, the state's *total contribution for 1999-00* is $111 million. Consequently, according to PERS, with the October payment the state has overpaid PERS $18 million for the entire year.

This overpayment plus interest should be credited to the state's retirement contribution payments for the budget year. (The first payment is due in October 2000.) Using an average interest rate of 5.25 percent for the Pooled Money Investment Account, we estimate PERS should credit $21 million ($11 million General Fund) toward the October 2000 payment. We recommend that the Legislature adopt language in Control Section 3.60 requiring PERS to credit the state's 2000-01 retirement contribution payments as described above. This credit increases the amount available for appropriation by the Legislature by $21 million ($11 million General Fund). This amount would be in addition to reductions in the state's contribution that should occur through lower contribution rates in 2000-01 as discussed below.

State Contribution Rates to PERS

We withhold recommendation on 2000-01 state contribution rates for retirement benefits pending (1) final determination of the actual rates to be applied in the budget year and (2) receipt and review of information regarding the actuarial assumptions underlying the rates.

Budget-Year Rates Not Yet Determined. The PERS projects that state costs will decline again in the budget year. The lower rates result from PERS changes in actuarial calculations that were coupled to the recent enhancements in state retirement benefits. (As shown in Figure 1 on page 192, however, state costs are expected to increase by more than $350 million in 2001-02—the first year that PERS recognizes the increased liability for the new benefits.)

When this *Analysis* was prepared, a final determination of the 2000-01 rates had not been made. The condition of the Public Employees' Retirement Fund as of June 30, 1999 is one factor that will determine the 2000-01 state retirement contribution rates. Given the positive performance of the stock market through that date and the actuarial changes noted above, we expect the downward trend in the state's contribution rates to continue. (As an example, if the state's average contribution rate fell 1 percent, the General Fund savings would be about $40 million.)

Consequently, we withhold recommendation pending final determination of 2000-01 rates and receipt and review of information from PERS regarding the actuarial assumptions underlying the determined rates. This information is typically available in March or April.

Figure 1

PERS Contribution Rates and State Costs

Retirement Class	1998-99 Budget Act	1999-00 Budget Act	1999-00 Revised[a]	2000-01 Projected[b]	2001-02 Projected[b]
Rates					
Miscellaneous, Tier 1	8.54%	5.03%	1.49%	.49%	4.04%
Miscellaneous, Tier 2	6.44	2.98	—	—	5.60
Industrial	4.58	.03	.03	.03	.03
Safety	9.44	9.51	7.49	5.41	12.69
Peace Officer/ Firefighter	9.59	4.58	—	—	3.60
Highway Patrol	13.54	13.35	13.35	13.35	19.94
Composite[b]	8.42%	4.98%	1.71%	1.07%	4.65%
State Costs					
General Fund[c]	$421	$255	$87	$57	$256
Special funds[c]	345	209	72	46	210
Totals	**$766**	**$464**	**$159**	**$103**	**$466**

a Chapter 800, Statutes of 1999 (AB 232, Alquist) amended the rates approved in the *1999-00 Budget Act*.

b Information provided by the Public Employees' Retirement System.

c Legislative Analyst's Office estimate of cost distribution between General Fund and special funds based on information provided by the Department of Finance.

CONTROL SECTION 27.00

Section Language Needs Clarification

We withhold recommendation on this control section pending discussions with the Department of Finance on how to clarify the appropriate use of this delegated expenditure authority.

Through Control Section 27.00, the Legislature delegates to the administration the ability to spend money not specifically authorized in the budget act. It authorizes departments to spend at rates which will result in deficiencies by the end of the fiscal year. The Legislature still has to appropriate monies later on to fund the deficiencies, but at that time it usually has no practical option but to provide the funding.

Purpose of the Section. The basic reason for the Legislature to delegate this authority to the administration is to deal with certain unforseen circumstances, especially when the Legislature is not in session (primarily the fall). For example, a department could learn shortly after the start of the fiscal year that due to an unanticipated event (say, a court order or a natural disaster), it needs to spend at a higher rate than the budget act assumed. In this case, Section 27.00 allows the department to incur a deficiency after notifying the Legislature.

Concerns With Recent Submittals. This past December, the Department of Finance (DOF) submitted several Section 27.00 proposals to the Legislature which—in our view—were inappropriate uses of this control section:

- Some proposals seek to implement legislation that did not contain an appropriation for first-year costs.
- Others seek funding to start new programs that have not been reviewed by the Legislature or for which there is no authority.
- Some requests address issues that the administration knew about—or should have known about—last spring (that is, in time to include in the *1999-00 Budget Act*). Therefore, they are not "un-

anticipated expenses" as required under the provisions of this control section.

Given the importance of this control section, we believe it is critical to clarify the language of Section 27.00 so that the Legislature is delegating only the authority it determines is appropriate. We will be talking further with DOF to provide alternate language for the Legislature's consideration. Accordingly, we withhold recommendation on the sections at this time.

FINDINGS AND RECOMMENDATIONS

General Government

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Regulatory Activities

Department of Insurance

F-14 ■ **Holocaust Claims Program**. Withhold recommendation on the request for a $3.8 million General Fund loan to review, investigate, and resolve insurance claims related to the Holocaust, pending receipt of the forthcoming biannual report on the current status of the program.

F-14 ■ **Antirebate Investigation and Enforcement Unit. Delete $115,000 From Item 0845-001-0217.** Recommend that the Legislature delete the request for $115,000 to continue the Antirebate Investigation and Enforcement Unit because the department has not demonstrated the effectiveness of this pilot.

F-15 ■ **Automobile Fraud Program Augmentations. Delete $480,000 From Item 0845-001-0217.** Withhold recommendation on $16,052,000 of the proposed augmentation of $16,532,000 and 114 positions to implement legislation authorizing an increase in the auto insurance policy fee of up to 80 cent to augment automobile fraud program activities, pending receipt of further information on the proposal. Further, we recommend that the Legislature reduce the request by $480,000 to fund new positions at the

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first step of the salary range in accordance with Department of Finance budget instructions and standard budget practice.

California State Lottery Commission

F-17 ■ **The Bridge Project.** The California State Lottery (lottery) should provide the Legislature with information demonstrating that the Bridge Project and associated recent changes in administrative expenses and revenue distribution have furthered the purpose of the Lottery Act by providing increased revenue to education.

F-17 ■ **Revenue Allocation Justification.** The lottery should report to the Legislature on its authority to allocate more than 50 percent of lottery sales revenues to prizes rather than distribute the excess to education as required under the Lottery Act.

F-20 ■ **Continued Legislative Oversight.** Recommend that the Legislature amend the *2000-01 Budget Bill* to extend the reporting requirement from the *1999-00 Budget Act* and include an additional reporting requirement that the Legislature be notified of changes in lottery revenue estimates.

California Gambling Control Commission

F-22 ■ **Gambling Commission Not Appointed.** We withhold recommendation on the proposed $1.2 million in support of the California Gambling Control Commission because the commission's workload has yet to be determined.

Department of Consumer Affairs

F-24 ■ **Consumer Information Center and Ombudsmen. Reduce Various Items by $1,766,000.** Recommend deletion of the

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$1.8 million ($1.2 million General Fund) and eight positions proposed to (1) augment the department's consumer information center ($1 million General Fund) and (2) create eight "consumer ombudsman" positions in various board and program field offices ($766,000 from various funds including $185,000 General Fund).

F-26 ■ **Private Postsecondary and Vocational Education.** Withhold recommendation on the bureau's budget pending receipt and review of information that explains why the bureau has been unable to eliminate its workload backlog and what steps will be taken to assure that the bureau fulfils its responsibilities.

F-28 ■ **Smog Check Program.** Recommend the Legislature not act on the bureau's budget until the bureau and the Air Resources Board provide the Legislature a report on the status of each aspect of the Smog Check Program and the February 2000 program evaluation to be submitted to the federal Environmental Protection Agency.

Fair Employment and Housing

F-32 ■ **Establish Mediation Unit.** Recommend approval of the department's request for $1,047,000 from the General Fund and two new positions on a two-year, limited-term basis to establish a pilot mediation program for alternative dispute resolution. We also recommend the Legislature adopt supplemental report language detailing the goals and evaluation criteria for the program.

F-33 ■ **Additional Administrative Staff Requested. Delete $273,000 From Item 1700-001-0001.** Recommend deletion of $273,000 from the General Fund and six positions requested to provide administrative services because the department has not demonstrated a need for additional positions.

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F-33 ■ **Public Information and Technical Assistance. Delete $113,000 From Item 1700-001-0001.** Recommend deletion of $113,000 from the General Fund and two permanent positions requested to provide public information and technical assistance because the department has not demonstrated a need for additional positions.

F-34 ■ **No Basis for Augmentation for Rent Increases. Delete $199,000 From Item 1700-001-0001.** Recommend deletion of augmentation to cover the costs of rent increases because we find no analytical basis for granting an adjustment to the department that has been denied to virtually all other state agencies.

Department of Managed Care

F-36 ■ **Legislature Needs More Information on Formation of New Department.** Withhold recommendation on the entire budget proposal for the Department of Managed Care—$13.9 million and 221 positions in the current year and $27.9 million sand 321 positions in 2000-01—until the Legislature receives more complete information on the establishment of the new department.

Energy Resources, Conservation and Development Commission

F-39 ■ **Additional Resources for Siting Program.** Withhold recommendation on the $400,000 request for consulting funds for anticipated workload in the Energy Facilities Siting program until the commission provides an updated schedule of expected application filing dates and corresponding workload projections prior to budget hearings. Further recommend that the Legislature consider

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requiring applicants to pay a siting application fee to cover the commission's costs to review proposed projects.

F-40 ■ **Fuel Cells and Clean Fuels Projects.** Withhold recommendation on the proposal for $12.5 million from Petroleum Violation Escrow Account (PVEA) funds and one two-year limited-term position pending receipt of (1) information on the future costs of the proposed projects and (2) the low-emission vehicle analysis and program plan for the proposed vehicle subsidy program. Also funding for this proposal, along with an additional $30 million from the PVEA, is dependent on the Legislature's decision to fund PVEA projects through the budget bill or separate legislation.

Agricultural Labor Relations Board

F-43 ■ **Budget Augmentation Not Justified. Delete $160,000 Under Item 8300-001-0001.** Recommend deletion of 2.5 positions and $160,000 from the General Fund because the board has not substantiated the need for additional staff or an increased travel and training budget.

Department of Industrial Relations

F-45 ■ **Budgeted Retirement Costs. Delete $664,000 From Various Funds.** Recommend deletion of $664,000 from various funds including $565,000 from the General Fund because the department incorrectly budgeted retirement contributions for the positions requested.

F-46 ■ **Wage and Labor Law Enforcement in the Garment Industry.** Withhold recommendation on $1.2 million from the General Fund to convert 15 limited-term to permanent positions in the Targeted Industries Partnership Program because it is not clear if these positions will be needed in conjunction with the 43 positions and $3.1 million

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requested for garment industry wage enforcement called for under Chapter 554, Statutes of 1999 (AB 633, Steinberg).

F-47 ■ **No Basis for Augmentation for Rent and Related Increases. Delete $1,853,000 From Various Funds.** Recommend deletion of augmentation to cover the cost for rent and related increases for various offices because we find no analytical basis to provide an adjustment for the department that has been denied to virtually all other state agencies.

F-48 ■ **Funding Redirection for Information Technology. Delete $660,000 From Unidentified Programs.** Recommend deletion of a redirection of $660,000 from unidentified programs and 12 new positions for the Information Services program because the department has neither identified the programmatic effect of redirecting $660,000 nor justified the need for 12 new positions.

F-48 ■ **Labor Standards Investigation and Reporting. Delete $1,039,000 From Item 8350-001-0001.** Recommend deletion of $1,039,000 from the General Fund and eight positions, including two limited-term positions, requested for the Division of Labor Statistics and Research to conduct investigations, perform prevailing wage studies, and issue field reports because the department should accomplish these long-standing responsibilities with existing resources.

F-49 ■ **Establish Special Fund for Amusement Ride Regulation.** Recommend establishing a separate fund to deposit the fees collected to cover the cost of administering the new amusement ride regulatory program established under Chapter 585, Statutes of 1999 (AB 850, Torlakson) and fund this $2,149,000 proposal from the special fund rather than the General Fund.

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California Department of Food and Agriculture

F-50 ■ **Export Promotion and Agricultural Policy Augmentations. Reduce Item 8570-001-0001 by $373,000 and Four Positions.** Recommend the Legislature delete $373,000 to augment the department's export promotion program ($123,000 and two positions) and to participate in a multistate coalition to influence national agricultural policy ($250,000 and two, two-year limited term positions) because the department currently has resources for these activities.

F-52 ■ **Audit Staff. Reduce Item 8570-001-0191 by $210,000 and Two Limited-Term Positions.** Recommend the Legislature approve two of the requested four audit staff to more accurately the reflect the audit workload related to county and citrus fairs.

F-52 ■ **Comprehensive Agricultural Pest Plan Needed.** Recommend that the department provide by October 1, 2000 a comprehensive statewide plan for all plant pest prevention, detection, and eradication program. This plan should include the coordination of state and county programs.

F-55 ■ **Medfly Augmentation and Continuation Proposal Is Premature. Reduce Item 8570-001-0001 by $630,000.** Recommend the Legislature delete $630,000 (General Fund) and 11 permanent positions requested to augment the Medfly Preventive Release program and deny the department's request to make the program permanent. The program was approved as a five-year project and will not expire until the end of 2000-01. Consequently, the request for an augmentation and permanent funding is premature. Also recommend the Legislature ask the department to report on the effectiveness of the current program in the upcoming year.

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F-56 ■ **Agricultural Parcel Inspection Program. Reduce Item 8570-001-0001 by $1,860,000.** Recommend the Legislature delete $1.9 million (General Fund) for continuation of the Agricultural Parcel Inspection Program. The program is not a cost-effective use of the state's pest detection funding.

F-57 ■ **Pest Detection and Public Education.** Withhold recommendation on the $1.8 million General Fund requested to increase the department's pest detection and public education programs. The department should provide additional data to indicate how these augmentation benefit the state's detection and education programs.

F-57 ■ **Agricultural Waste Mitigation. Reduce Item 8570-001-0001 by $328,000.** Recommend deletion of $328,000 from the General Fund and two positions requested primarily to address potential ground and surface water contamination resulting from animal agriculture production operations because this is the responsibility of the State Water Resources Control Board.

F-58 ■ **Milk and Dairy Foods Program.** Withhold recommendation on $1.5 million ($377,000 General Fund and $1,117,000 Agriculture Fund) and nine positions requested for various components of the Milk and Dairy Foods program. It is unclear exactly how the requested funding and positions would be used by the department.

Public Utilities Commission

F-60 ■ **Maintenance and Repairs Identified in Five-Year Plan. Delete $230,000 from Item 8660-001-0462, $30,000 from Item 8660-001-0461, and $7,000 from Item 8660-001-0412. Corresponding deletion of $267,000 from Item 1760-001-0666.** Recommend that the Legislature delete $267,000 for maintenance and repairs at the Public Utilities Commission's San Francisco headquarters because the request includes capital outlay projects and an unnecessary infrastructure

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study. Further, withhold recommendation on the $460,000 balance of the request pending receipt of information justifying the need for and cost of the remaining projects.

Tax Programs

Board of Equalization

F-62 ■ **Information Technology Costs. Reduce various items by $1,388,000.** Recommend the Legislature delete $1.4 million from various funds requested for an increase in the board's master rental agreement information technology components because the board initially planned to absorb this cost and has not provided any justification as to why it cannot absorb the increase. Withhold recommendation on $3.7 million from various funds requested for increased costs for the board's computer system operations and data storage needs at the Teale Data Center pending receipt of information on data processing and storage use.

F-64 ■ **Field Automation Pilot Expansion. Reduce various items by $393,000.** Recommend the Legislature delete the request to extend the Field Office Automation Pilot Project to two additional field districts because the augmentation is not necessary to gather additional information.

Franchise Tax Board

F-66 ■ **Child Support Collections**. Withhold recommendation on the board's request of $5.5 million ($1.9 million General Fund and $3.6 million reimbursements) to expand it's child support collections program. The board's program is one piece of a larger overhaul of the child support collections and management system for the state. The board needs to submit a complete proposal, coordinated with the new Department of Child Support Services (DCSS), detailing

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how the board will fulfill its new responsibilities under this program.

F-69 ■ **Child Support Automation.** Withhold recommendation on $14.1 million ($4.8 million General Fund and $9.3 million reimbursements) proposed for the child support automation project because the new DCSS has not yet identified its direction for the system and the Franchise Tax Board has indicated a new, more complete proposal will be provided during the budget hearings. We further recommend that the Director of Child Support Services report at budget hearings as to the state's direction for the procurement of the new child support automation system.

F-70 ■ **Filing Workload Reduction. (Reduce Item 1730-001-0001 by $366,000.)** Recommend the Legislature delete $366,000 (General Fund) to fully reflect the second-year savings from a reduction in filing staff.

F-71 ■ **Savings From Reduction in Tax Booklet Mailings. Reduce Item 1730-001-0001 by $567,000.** Recommend the Legislature delete $567,000 (General Fund) from the board's budget to reflect the reduction in mailing tax booklets related to the increasing number of taxpayers that file either electronically or use a tax preparer.

F-71 ■ **Business Tax Reporting Program. Reduce Item 1730-001-0001 by $69,000 and One Position.** Recommend the Legislature delete $69,000 to administer the Business Tax Reporting program because when the mandate for this program was repealed in the current year, the board retained the associated administrative funds and position.

Information Technology

Department of Information Technology

F-73 ■ **Information Technology Innovation Fund. Delete Item 9905-001-0001.** Recommend proposal be denied because

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proposal contains numerous flaws, for a General Fund savings of $10 million.

F-76 ■ **New Organizational Structure Forthcoming.** Department will provide the Legislature with a proposal for a new organizational structure and a new model for meeting its legislative requirements. Recommend that the Legislature not act on the proposals until Department of Information Technology can adequately demonstrate how it will achieve its legislatively-mandated responsibilities.

Health and Human Services Agency Data Center

F-81 ■ **Reporting on Projects.** Recommend the adoption of supplemental report language requiring the Health and Human Services Agency Data Center (HHSDC) to report project expenditures consistent with state policies.

F-83 ■ **Budget Control Language.** Recommend changes in HHSDC budget control language to: (1) clarify legislative intent concerning workload growth budget adjustments, and (2) provide clear direction concerning authorized expenditure authority to ensure consistency with the Stephen P. Teale Data Center's budget control language.

F-84 ■ **Clarification Needed on Electrical System Upgrade Proposal.** Withhold recommendation on $788,000 proposed for upgrades to centers power supply system, pending receipt of additional information. Recommend that Legislature consider the proposal a capital outlay project.

F-85 ■ **Project Placement to be Determined.** Recommend that no action on the projects budget proposals until Legislature receives project placement report in April 2000.

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F-86 ■ **New Department Needs to Clarify Direction for Support on Interim Child Support Systems.** Withhold recommendation on proposed expenditure authority for the support of interim child support systems since the new department has recently been established. Recommend that the Director of the new department report at budget hearings as to the state's direction for support, maintenance, and operation of the interim child support systems.

F-88 ■ **Conversion of Consulting Funds to Positions for Child Welfare Services (CWS)/Child Management System (CMS) Premature.** Recommend that the Legislature reject HHSDC's proposal to convert consulting services dollars into funding for 23 permanent positions because project placement has not been determined and the new maintenance and operation contract has not been awarded.

F-89 ■ **Application Maintenance Proposal for CWS/CMS Premature. Reduce Item 4130-001-0632 by $5.1 million.** Recommend reduction because new contract has not been awarded.

F-92 ■ **Statewide Automated Welfare System Consortium Approach Needs to Reexamined.** Recommend that the Legislature direct the Health and Human Services Agency, in conjunction with the Department of Information Technology and Department of Finance, to reexamine the need for a consortium-based approach for welfare automation and report during budget hearings, on the costs and benefits of pursuing four separate consortia and potential changes in automation funding responsibilities between the state and the counties.

State Administration Functions

State Controller

F-99 • **Unclaimed Property Program.** Recommend approval of proposed funding to meet projected workload. Recom-

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mend that Legislature consider alternative strategies to addressing backlog of notifications to potential owners of unclaimed property.

Secretary of State

F-103 ■ **Mixed Results From Calvoter Project.** Recommend that Secretary of State report on ways to improve the state's financial return from the project.

F-106 ■ **Business Automation Project**. Withhold recommendation on $8.6 million to upgrade computerized systems for managing corporate and other public records because it lacks approval by the appropriate state agencies.

F-107 ■ **Offset General Fund Costs With New Fees. Reduce Item 0890-001-0001 by $2.6 Million, Increase Item 0890-001-0228 by the Same Amount.** Recommend change to account for new fee revenue generated under new laws for registration of domestic partnerships and expendited handling of corporate documents.

State Treasurer

F-109 ■ **No Basis for Augmentation for Rent Increases. Reduce Item 0950-001-0001 by $186,000.** Recommend deletion of augmentation to cover the costs of rent increases because we find no analytical basis for granting an adjustment to the Treasurer's Office that has been denied to virtually all other state agencies.

F-110 ■ **Local Investment Reporting Mandate. Delete $3,342,000 Under Item 0950-295-0001.** Recommend Legislature enact trailer legislation to make investment report mandate

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optional because report does not appear necessary to promote local oversight.

Department of General Services

F-113 ■ **Access Compliance Plan Check Staff. Delete 2.8 Personnel-Years and $253,000 From Item 1760-001-0006.** Recommend deletion of funds for additional access compliance plan checking staff because insufficient justification has been submitted to conclude workload will increase.

F-114 ■ **Project Delivery Behind Schedule.** Recommend supplemental report language directing the department to submit a report to the Legislature annually on November 1 identifying project delivery improvement goals, records for meeting schedules during the past year, reasons specific phases of project work were not completed on time, and steps it is taking to improve performance.

F-115 ■ **Public Utilities Commission Building Special Repairs. Delete $267,000 From Item 760-001-0666(a) and Withhold Recommendation on the Balance of the Request.** Recommend deletion of $267,000 for maintenance and repairs and withhold recommendation on the $460,000 balance of the request pending receipt of information justifying the need for and cost of the remaining projects.

F-116 ■ **Microwave Network Master Plan Overdue.** Plan was due by December 1, 1999, but has not been provided to Legislature.

F-117 ■ **New Public Safety Radio System.** Withhold recommendation on $1.8 million for design of new system pending receipt of microwave master plan and information on how department will address a number of uncertainties regarding implementation.

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F-121 ■ **Public School Construction Web Site. Reduce Item 1760-001-0001 by $2.4 Million.** Recommend denial of proposal because information for proposed site is already available.

F-123 ■ **California Integrated Information Network.** Recommend department report at budget hearings on status of network problems, contract, and progress towards reducing risk of disruptions in future.

F-126 ■ **Electronic Business Center Proposal Not Justified. Reduce Item 1760-001-0001 by $2.1 Million.** Recommend denial because information proposed for new Web site is already available.

Housing and Community Development

F-128 ■ **California Teachers Homebuyers Assistance Program.** Recommend deleting $50 million appropriation and instead using the funds, in combination with other teacher recruitment funds, for local school district block grants.

F-130 ■ **Child Care Facilities Financing Program's Direct Loan Program.** Recommend reducing the $26 million appropriation to $5 million to better reflect the amount of funds that the program can realistically distribute in the budget year.

F-132 ■ **Combine Homeless Funding for Increased Effectiveness.** Recommend combining cold weather homeless funds with base homeless funds for a single program allocation.

Trade and Commerce Agency

F-134 ■ **New Economy Initiative. Delete $665,000 From Item 2920-001-0001 and $7,000,000 From Item 2920-101-0001**. Recommend that the Legislature delete $7.7 million of the $14.7 million (General Fund) request for the "New Economy Initiative" because some proposals are concep-

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tual and the agency has not demonstrated the need for others. Further, withhold recommendation on $1.2 million for the Manufacturing Technology Program pending receipt and review of the final report on the agency's operation of this program as required by the *1999-00 Budget Act* and updated funding information.

F-138 ■ **Small Business Loan Guarantee Program. Delete $3 Million From Item 2920-011-0001.** Recommend the Legislature delete the request for $3 million (General Fund) for the Small Business Loan Guarantee Program because (1) an annual General Fund appropriation to pay for bad loans creates a poor incentive for selecting good loans and (2) the authorizing legislation directs the program to be self-sufficient.

F-139 ■ **Replacement of Underground Storage Tanks.** Recommend that the Legislature approve for one year only (instead of the two years requested) the $5 million proposal to provide grants to businesses to replace underground gasoline storage tanks because (1) the two-year grant effort cannot exceed an estimated $7.5 million and (2) this preserves the legislative oversight specified in statute to appropriate grant funds needed for the program.

F-139 ■ **Biomass-to-Energy Incentive Grant Program. Delete $10 Million From Item 2920-101-0001.** Recommend that the Legislature delete the $10 million (General Fund) proposal for a biomass-to-energy grant program because the proposed program duplicates the Energy Commission's Renewables Program, and has no defined criteria for awarding the funds.

California Arts Council

F-141 ■ **Arts in Education Program.** Augmentation of existing program consistent with Arts Council's mission, but is a matter of priorities of the Legislature. Withhold recommen-

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dation on the Adopt-A-School Program until further information is provided.

F-143 ■ **Urban Public Park.** Delete funding for park because project has not been justified.

Department of Personnel Administration

F-145 ■ **Rural Health Subsidy Program.** Withhold recommendation on (1) $18.3 million (General Fund) proposed in the Governor's budget for the 2000-01 cost of the Rural Health Subsidy Program and (2) $463,000 (General Fund) requested to implement the program, pending receipt of information from the Department of Personnel Administration (DPA) on current-year and projected budget-year eligibility, enrollment, and program costs. This information should be submitted to the Legislature prior to hearings on DPA's budget.

Department of Finance

F-149 ■ **Department Should Advise on Magnitude of Underfunding Problem.** Recommend that the department report at the time of the May Revision on the magnitude of underfunding resulting from policy requiring departments to absorb price and costs increases and unallocated reductions.

Military Department

F-152 ■ **Turning Point Academy Boot Camp. Reduce Item 8940-001-0001 by $9.2 Million.** Recommend the Legislature deny the request to support Turning Point Academy because juvenile boot camp programs have not been effective for

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reducing juvenile delinquency and the proposal is not well defined.

F-154 ■ **Oakland Military Institute Not Justified. Reduce Item 8940-001-0001 by $1.3 Million.** Recommend the Legislature deny the request to fund the proposed charter school with an allocation through the Military Department, because funding is already available through the State Department of Education.

F-156 ■ **Augmentation for California Cadet Corps Not Justified. Reduce Item 8940-001-0001 by $1.5 Million.** Recommend denial of proposed augmentation because proposed augmentation has not been justified.

F-157 ■ **Temporary State Support of Military Funeral Honors.** Recommend the Legislature provide one-time General Fund support for federally-mandated military funeral honors while alternative federal fund sources are explored.

Department of Veterans Affairs and Veterans' Homes of California

F-159 ■ **Veteran Health Care and New Veterans' Homes Pose Challenges.** Changing health care needs of the state's veteran population and the expansion of the state's role as a major operator of nursing homes for veterans have created major challenges for the Department of Veterans Affairs (DVA). Because of deficiencies in the operations of the two existing homes, the budget proposes a significant increase in staffing for the homes in the budget year.

F-162 ■ **Reimbursements Should Offset General Fund Costs.** Recommend that the DVA submit a revised proposal at the time of the May Revision that fully accounts for additional federal funds and insurance reimbursements resulting from the homes' new information system and that the

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state's General Fund costs of operating the homes be adjusted accordingly.

F-163 ■ **Proposal to Eliminate Salary Savings Not Justified. Reduce Items 8960-011-0001 by $1.1 million and 8965-001-0001 by $319,000.** Recommend that proposal to assume no salary savings for the home be rejected because it does not recognize the reality of staff turnover.

F-164 ■ **Budget Assumes Unrealistic Hiring Schedule. Reduce Item 8960-011-0001 by $473,000, Item 8965-001-0001 by $408,000, and Item 8966-001-0001 by $84,000.** Recommend that funding proposed for new positions be reduced to reflect a more realistic schedule for hiring the new positions.

F-164 ■ **Uncertainty About Chapel and Cemetery Renovations.** Withhold recommendation on $2.4 million proposed for renovations to the chapel and cemetery at the Yountville home, pending receipt and review of information about the scope, costs, and timetable for the project.

F-165 ■ **The Cal-Vet Home Loan Program Overhead Costs Continue to Climb.** Recommend that the department report during budget hearings on (1) the reasons for the continuing increase in the overhead costs of the Cal-Vet Loan program and (2) steps it is taking to reduce those costs.

State Employment and Retirement

Public Employees' Retirement System

F-168 ■ **Information Technology Oversight.** Recommend that the Public Employees' Retirement System explain to the Legislature during budget hearings (1) how it exercises oversight and control of its information technology projects and (2) why it does not submit its projects to the Department of Information Technology and the Depart-

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ment of Finance to take advantage of their expertise and the external accountability provided by their review processes.

State Teachers' Retirement System

F-170 ■ **Information Technology Oversight.** Given the number of technology-related projects the State Teachers' Retirement System (STRS) proposes, recommend that STRS explain to the Legislature during budget hearings why it does not submit its projects to the Department of Information Technology and the Department of Finance to take advantage of their expertise and the external accountability provided by their review processes.

Health and Dental Benefits for Annuitants

F-173 ■ **Budget-Year Costs Are Uncertain.** Withhold recommendation on the $386.9 million General Fund request for health and dental benefits for annuitants pending final determination of health insurance premium rates.

Augmentation for Employee Compensation

F-175 ■ **Unspecified Compensation Adjustments.** Withhold recommendation on $60 million ($30 million General Fund) requested for as yet unspecified employee compensation adjustments until the specific compensation proposals and the costs associated with each proposal are available for legislative review.

Tax Relief and Local Government

Local Government Financing

F-182 ■ **COPS Augmentation and Extension.** Recommend the Legislature reject proposed augmentation and consider modifications to the existing program.

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F-186 ■ **Property Tax Administration Loan Program.** Recommend that the Legislature *not* extend the sunset of the program and instead consider alternatives that would provide a long-term structural improvement to the property tax system.

Control Sections

Control Section 3.60

F-190 ■ **State Overpaid Public Employees' Retirement System (PERS) in 1999-00.** The state overpaid PERS $18 million ($10 million General Fund) in the current year. We recommend the Legislature adopt budget bill language requiring PERS to credit this amount plus interest to the state's retirement payments due in the budget year, thereby making these funds available for the Legislature's priorities in the budget.

F-191 ■ **State Contribution Rates to PERS.** Withhold recommendation on 2000-01 employer contribution rates for retirement benefits pending (1) final determination of the actual rates to be applied in the budget year and (2) receipt and review of information regarding the actuarial assumptions underlying the rates.

Control Section 27.00

F-193 ■ **Language Needs Clarification.** Withhold recommendation pending discussions with the Department of Finance on how to clarify the appropriate use of this delegated expenditure authority.