Options for Addressing The State's Fiscal Problem

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Introduction

In November 2001, our office reported to the Legislature that the state was experiencing the largest one-year revenue decline since World War II. As a result, we estimated that the state would be facing a major budget problem in 2002-03. Recognizing the difficulty of closing the budget gap, we identified a number of key budget-balancing principles and strategies in a report entitled *Addressing the State's Fiscal Problem* (December 2001). The report also identified approximately $1.5 billion of expenditure reductions which could be made in the current year to help address the problem.

On January 10, 2002, the Governor presented his budget for 2002-03 and identified a budget problem of a magnitude similar to that we identified in November. However, primarily as a result of continued revenue weakness, we estimate that the state will need to identify additional budget solutions—beyond those proposed by the administration—of nearly $5 billion. (Please see *The 2002-03 Budget: Perspectives and Issues* for more detail.)

In order to assist the Legislature in addressing this larger shortfall, we are issuing this report. It contains more than 100 expenditure reduction/revenue raising options that the Legislature may wish to consider in crafting a budget solution. This volume is similar to publications prepared by our office when the state was facing multibillion dollar budget problems in 1982, 1990, 1992, and 1994.

The options presented in this document are just that—*options*. We have not attempted to meet a particular dollar target or craft a comprehensive "solution" to the state's budget problem. These options include a wide range of approaches that the Legislature could use to ensure that its priorities ultimately are reflected in the state's budget and that the state's fiscal resources are focused on its most important programs. None of the options is without negative consequences. However, we have attempted to identify expenditures that could be postponed, revenues that could be raised, program duplication that can be minimized, and expenditures that may be considered of lower priority in tough budget times. It is not that these activities are without merit or not desirable. In better fiscal times, we would not necessarily put such options on the table. However, we offer them in the context of a need to solve a growing budget shortfall.

In contrast to this volume, our *Analysis of the 2002-03 Budget Bill* reviews and evaluates the administration's proposals to close the budget gap as well as new initiatives. In addition, it contains legislative oversight issues and our office's recommendations for changes in the administration's spending plan. These *recommendations* are based on our detailed review of individual programs. We identify actions the Legislature can take to make programs more cost effective, use alternative funding sources to meet legislative priorities, and improve program efficiency.

In reviewing the options presented in this volume, it is important to note that because of interactive effects adopting one option may preclude scoring additional savings or revenues from another. Several options that we include in the education area of this report involve Proposition 98 funding—the constitutional funding guarantee for kindergarten through the community colleges. If the Proposition 98 minimum funding requirement stays at or near the Governor's estimate, several of our options would help the Legislature "find room" for its K-14 education priorities. Alternatively, if the minimum funding requirement increases dramatically, options we have identified to utilize Proposition 98 funding for certain child care and "Early Start" programs could help the Legislature achieve overall budget savings.

How This Book Is Organized

Options in this document are organized by major program area (such as education and health) and by department within each area. The report's index categorizes options by type—caseload reduction, funding shift, improved efficiency, service reduction, one-time adjustment or deferral, federal tax conformity, and elimination or reduction of a tax expenditure. Questions on the options should be directed to the directors of the various programmatic sections of our office, who are noted in the final pages of the publication.

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Health and Social Services

K-12 Education

Department: Education/Social Services

Description of Option

CalWORKs Child Care. Reduce General Fund spending in CalWORKs by increasing MOE-countable Proposition 98 spending on child care.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: Up to $770 million.

Legislation Required

✓	Yes		No

Comments

Replacing TANF spending on CalWORKs child care with Proposition 98 funds would result in TANF savings. These TANF savings could replace General Fund spending in other components of the CalWORKs program.

Under this option, California would remain in compliance with its $2.7 billion maintenance-of-effort spending requirement because Proposition 98 spending on CalWORKs child care is countable towards this requirement. We estimate up to $770 million in General Fund savings can be achieved under this approach. (These savings presume that the state does not overappropriate the Proposition 98 minimum guarantee.) Adopting this option would result in a reduction in funding for other K-14 educational programs proposed in the *2002-03 Governor's Budget*, unless the estimated minimum funding guarantee increases in the May Revision as a result of new personal income data to be released by the federal government in the spring. As discussed in the *Analysis of the 2002-03 Budget Bill*, the minimum funding guarantee could increase by as much as $900 million.

Department: Education

Description of Option

Categorical Reform. Consolidate overlapping and/or related K-12 programs and increase local school district flexibility.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: Up to tens of millions (Proposition 98).

Legislation Required

✓	**Yes**		**No**

Comments

There are close to 100 categorical K-12 education programs funded by the state. Many are overlapping; many are excessively narrow in scope; many impose excessive restrictions on local school agencies. There are also many different ways in which such programs could be consolidated into block grants in order to provide more flexibility and efficiency at the local level. The Legislature could use the increased efficiencies inherent in the block grant approach either to (1) make existing funding levels for specified categorical purposes "go farther" in terms of services provided to students or (2) create Proposition 98 savings that could be redirected to other K-14 education priorities. The extent of any savings would depend on the size and specific elements of the block grants that were created, but could reach tens of millions of dollars annually.

Department: Education

Description of Option

Charter School Facility Grant Program. Delay implementation of the program.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: $5 million (Proposition 98).

2002-03: $10 million (Proposition 98).

Legislation Required

	Yes	✓	**No**

Comments

The Charter School Facility Grant Program was recently authorized to provide funding to lease facilities for charter schools located in low-income areas. The program would fund facilities for 13,300 pupils given the authorized per pupil funding rate. Existing charter schools would likely absorb all of the funds available; thus, the program's goal to encourage new charter schools to locate in low-income areas may not be accomplished.

While facilities are a difficult hurdle for charter schools to overcome, there are three other programs that can help charter schools address facility needs:

- Recent passage of Proposition 39 will assist charter schools with their facility needs over time.
- The federal Public Charter School Grant program provides start-up grants for charter schools that can be used for facilities.
- Through the Charter School Revolving Loan Fund, the State Department of Education provides loans to charter schools that can be used for facilities.

Department: Education/Developmental Services

Description of Option

Early Start Program. Shift General Fund spending for the Early Start program to Proposition 98 funds.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $2 million to $45 million in net savings through shift of costs from non-Proposition 98 General Fund to Proposition 98 General Fund support.

Legislation Required

✓	**Yes**		**No**

Comments

The Early Start program, jointly administered by the State Department of Education and the Department of Developmental Services (DDS), provides early intervention services to children under age three who have disabilities, or who are at risk of having disabilities, in order to enhance their development and to minimize the potential for developmental delays. Costs of early intervention services incurred by DDS have exceeded the federal funding provided under Part C of the Individuals with Disabilities Education Act.

This option would shift part or all of the General Fund cost of the program to Proposition 98, thus permitting a net reduction in non-Proposition 98 General Fund expenditures. Shifting only those costs associated with the federal program would result in a net savings of $2 million; shifting all costs incurred would result in a net savings of $45 million. Our analysis indicates these expenditures could appropriately be considered an education program supported by Proposition 98 similar to child care and development programs.

These savings presume that the state does not overappropriate the Proposition 98 minimum guarantee. Adopting this option would result in a reduction in funding for other K-14 educational programs proposed in the *2002-03 Governor's Budget*, unless the estimated minimum funding guarantee increases in the May Revision as a result of new personal income data to be released by the federal government in the spring. As discussed in the *Analysis of the 2002-03 Budget Bill*, the minimum funding guarantee could increase by as much as $900 million.

Department: Education

Description of Option

Gang Risk Intervention Program (GRIP). Suspend funding for the budget year.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $3 million (Proposition 98).

Legislation Required

	Yes	✓	**No**

Comments

The Gang Risk Intervention Program is a competitive grant program that provides funds to 15 county offices of education with programs in over 60 school sites. Activities offered at sites include counseling, sports, cultural activities and job training.

If this option were adopted, districts or county offices of education could use their School Safety and Violence Prevention Grant funds if they view a program like this as a priority need within their jurisdictions. The suspension of the competitive grant program would also save $150,000 in administrative costs (non-Proposition 98).

Department: Education

Description of Option

Governor's Performance Awards Program. Suspend funding in the current and budget years.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: Up to $157 million (Proposition 98).

2002-03: Up to $157 million (Proposition 98).

Legislation Required

	Yes	✓	No

Comments

This program provides rewards to schools if they meet their Academic Performance Index (API) growth targets. The API is still a work in progress, and is currently based solely on an assessment not aligned to academic content standards. (See pages E-90 through E-99 of the *2001-02 Analysis* for details.)

Suspending the reward program would not have a significant impact on student services since the funding can only be used for one-time purposes. In addition, deferral would allow the State Board of Education to begin to include other outcome measures in the API calculation.

Department: Education

Description of Option

Increased Property Taxes to K-14 Education. Eliminate the ERAF calculation exemption for *multicounty* special districts.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: About $45 million.

Legislation Required

✓	**Yes**		**No**

Comments

History. The Legislature established the Educational Revenue Augmentation Fund (ERAF) as part of its actions to shift property tax revenues from local governments to schools. Since 1992-93, most special districts have had a share of their property taxes diverted to ERAF. In the ERAF legislation, the state exempted (or reduced the shift amount from) fire, hospital, and certain other special districts. The ERAF legislation also exempted districts whose boundaries crossed county lines, the so-called "multicounty" special districts. Unlike the other exemptions, this exemption received scant attention by the Legislature at the time of ERAF enactment. It generally was thought to reflect:

- Historic practice of differential treatment of multicounty property taxes.
- Technical difficulties associated with implementing a property tax shift that spanned county boundaries.

Upon further review, these factors appear invalid. Specifically, the historic practice of differential treatment reflected unrelated matters, and the technical concerns with implementing a multicounty ERAF shift are not substantial.

Rationale. If the ERAF shifts are to remain in place, there is no reason that similar districts should be treated differently because of their geographical boundaries.

Impact. Shifting multicounty property taxes to schools would decrease state K-14 education costs by about $45 million annually. About 92 special districts would be affected—mostly water, recreation and park, and flood control districts.

Department: Education

Description of Option

School Crime Report. Suspend funding for this statewide report in the budget year.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $1.5 million (Non-Proposition 98).

Legislation Required

✓	**Yes**		**No**

Comments

Schools are mandated to collect and report data on suspensions and other incidents resulting from various violations of the Education Code. This data is collected and a comparative analysis of violation levels among districts is conducted by the State Department of Education. While the statewide report would be discontinued under this option, data would still be reported locally on each school's School Accountability Report Card under other provisions of current law.

Department: Education

Description of Option

Student Academic Partnership Program. Eliminate funding for the program.

Type of Option: Service Reduction

General Fund Impact

2001-02: $2 million (Proposition 98).

2002-03: $2 million (Proposition 98).

Legislation Required

	Yes	✓	**No**

Comments

The Student Academic Partnership Program provides competitive grants to school districts and county offices of education for college students to tutor K-12 pupils in reading, writing, and math. Although the intended purpose of the program has merit, tutoring services already exist in many areas—either on a paid or unpaid basis. The federal AmeriCorps program provided approximately $40 million to the state in federal fiscal year 2001 for a variety of community service projects, including tutoring school-age children. Also, many of the state's higher education institutions offer programs for college students to tutor K-12 pupils. Moreover, our review of existing statewide evaluations on the Student Academic Partnership Program indicate that there is little evidence to conclude that the program improves the academic performance of pupils.

Department: Office of the Secretary for Education

Description of Option

Academic Volunteer and Mentor Service Program. Reduce funding by "freeing up" $4.6 million that could be saved rather than used to fund new sites in 2002-03.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Up to $4.6 million (Proposition 98).

Legislation Required

	Yes	✓	No

Comments

The budget includes $10 million for the Academic Volunteer and Mentor Service Program to fund local mentor projects. Grants are awarded to school districts and county offices of education each year for three years. As grants expire after the third year, funding from these grants become available to support new program sites. As a result, grants funded initially in 1999-00 will terminate at the end of the current year. This will "free up" $4.6 million that could be saved rather than used to fund new sites in 2002-03. In addition, there exist other mentor programs that serve California's youth. Such programs include those operated through the Department of Alcohol and Drug Programs, Department of Community Services and Development, University of California, and the federal AmeriCorps program. Finally, the California Research Bureau reported in April 1999 that results from an evaluation of the Academic Volunteer and Mentor Service Program provided no indication that the program is successful.

Department: Scholarshare Investment Board

Description of Option

Merit Scholarship Program. Suspend on one-time basis.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: Approximately $112 million (Non-proposition 98).

Legislation Required

✓	**Yes**		**No**

Comments

Governor's Merit Scholarships provide $1,000 scholarship savings accounts to ninth through eleventh grade students based on their Stanford - 9 standardized test scores. The suspension would mean that one cohort of ninth graders would have two opportunities instead of three to earn scholarships in their high school careers.

Department: State Contributions to the State Teachers' Retirement System

Description of Option

Service Credits. Defer the effective date of statutory provisions expanding the definition of creditable service.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: Approximately $10 million General Fund. (Also, reduced school and community college district costs of $175 million.)

Legislation Required

✓	**Yes**		**No**

Comments

Chapter 1021, Statutes of 2000 (AB 2700, Lempert), expanded the definition of creditable service for purposes of teacher retirement benefits to include service beyond a full school year (such as overtime and summer school). This provision, scheduled to take effect July 1, 2002, would increase estimated General Fund payments to the Teachers' Retirement Fund by $10 million annually. It also would increase school and community college district payments into the fund by an estimated $175 million statewide, in a fiscal year when many of these districts will be facing serious budgetary pressures.

Higher Education

Department: California Community Colleges

Description of Option

Economic Development. Reduce funding for this program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $10 million (Proposition 98).

Legislation Required

	Yes	✓	**No**

Comments

This program, totaling $50 million, seeks to improve business hiring opportunities, job development, and related conditions. Funding cannot be used for existing course instruction or education offerings at community colleges. Instead, activities funded under this program must "demonstrate continued relevance and support by business." Such activities would appear to be secondary to the colleges' core mission of providing educational and growth opportunities to students (rather than serving business). In addition, it is likely that businesses would perform these same activities (training of employees, outreach, and hiring) out of their own interests.

The Governor proposes to reduce funding in this area by $10 million in the budget year ($9 million ongoing). We believe an additional $10 million can be cut from the regional business grants and assistance portions of this program without adversely affecting the CCC's ability to fulfill its mission. Such a cut would leave intact $16.4 million in funding for Industry Driven Regional Collaboratives, $5 million for Job Development Incentive Training programs, and $2.1 million for Mexican International Trade Centers.

Department: California State University

Description of Option

Eliminate the Bilingual Teacher Recruitment Program. This program overlaps with several others. The Department of Education administers a similar program and recent legislative initiatives have substantially expanded the state's teacher-recruitment efforts.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $2 million.

Legislation Required

	Yes	✓	No

Comments

The Department of Education operates the Bilingual Teacher Training program, which offers services similar to those offered by the CSU-administered bilingual-teacher program. Both programs share an emphasis on attracting and training individuals with bilingual skills into the teaching profession.

The state has also greatly expanded its teacher recruitment efforts in the last several years. The state now spends approximately $140 million on three programs: the Teaching as a Priority block grant, the Teacher Recruitment Centers, and the California Center for Teaching Careers (CalTeach). All three programs seek to recruit qualified teachers and target high-needs schools, subject area shortages, and key credential types, such as the Bilingual, Crosscultural, Language and Academic Development (BCLAD) and special education credentials. In addition to these programs, the state has recently offered substantial financial incentives to attract individuals into the teaching profession. These incentives include increases in beginning teachers' salaries and various financial aid programs (such as loan forgiveness, Cal Grant awards, and the Governor's Teaching Fellowships).

Department: California State University

Description of Option

Outreach. Make 10 percent reduction to minimize duplicative services.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $2 million.

Legislation Required

	Yes	✓	**No**

Comments

The CSU expends approximately $20 million annually to administer six systemwide outreach programs. (In addition, CSU campuses administer a host of local outreach programs and numerous intersegmental outreach programs.) Of the six systemwide programs, two programs focus on building partnerships between K-12 schools and CSU campuses, while three programs employ CSU students as tutors for at-risk K-12 students. All six programs target similar types of schools and serve similar student populations. The purpose, services, and beneficiaries of these outreach programs therefore overlap considerably.

Not only does significant overlap exist across CSU outreach programs, but significant overlap also exists across CSU programs and programs administered by the University of California, the California Community Colleges, the Student Aid Commission, and the Department of Education. If the outreach programs administered by all these agencies were consolidated and reorganized according to purpose and target population, the Legislature could achieve further funding efficiencies, allowing a reduction to CSU's outreach budget with minimal effect on service levels.

Department: Hastings College of the Law

Description of Option

Increase Resident Student Fees by 15 percent. A student fee increase of 15 percent would increase Hastings fee revenue by approximately $1.2 million, thereby reducing the need for $1.2 million in General Fund support.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: Approximately $1.2 million.

Legislation Required

	Yes	✓	**No**

Comments

Currently, annual enrollment fees at Hastings are $10,175. A 15 percent increase in these fees would provide an additional $1.2 million in fee revenue (after diverting one-third of this revenue to financial aid programs).

Even with a 15 percent fee increase, total resident fees at Hastings ($12,935) would still be well below the average of its public comparison institutions ($15, 738). In addition, students receive very high economic returns on the fees they pay. Hastings has indicated that prior fee increases (in the early 1990s) did not negatively affect student enrollment.

Department: University of California

Description of Option

Increase Nonresident Fees. Increasing total fees paid by nonresident students to at least the average charged to nonresidents at comparable public universities would increase UC's fee revenue by approximately $6 million (in 2002-03), thereby reducing the need for General Fund support by the same amount.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: Approximately $6 million.

Legislation Required

	Yes	✓	No

Comments

In adjusting nonresident tuition, Chapter 792, Statutes of 1990 (SB 2116, Morgan), requires UC and CSU to take into consideration:

- The total nonresident charges imposed by each of their public comparison institutions (as identified by CPEC).
- The full average cost of instruction of their segment.

Currently, UC's total nonresident fees for undergraduates is $14,933, and $15,808 for nonresident graduates. This is considerably less than the average fees charged at comparable institutions ($16,031 and $16,291, respectively). In addition, UC's nonresident fees *do not* cover average actual costs. Raising these fees to the average charged at comparable universities would provide approximately $6 million in additional fee revenue, after diverting one-third of this revenue to financial aid programs.

The UC gives a substantial level of grant aid to nonresident students, despite the fact that nonresident students are generally not economically disadvantaged. Nonresident students and their families generally have not paid the state taxes that help subsidize the education of UC students. The state is therefore effectively subsidizing the education of nonresident students at the expense of California residents.

Department: University of California

Description of Option

Increase Professional-School Fees. A 15 percent increase in professional-school fees would increase UC's fee revenue by approximately $4.8 million. This would offset General Fund support by the same amount.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $4.8 million.

Legislation Required

	Yes	✓	**No**

Comments

In 1994, the Regents approved a policy to gradually raise student fees for selected professional schools over time until the fees reached the average of fees charged for the same program at comparable high-quality institutions. Chapter 853, Statutes of 1997 (AB 1318, Ducheny), froze professional-school fees for two years and annual fees have since remained at 1997-98 levels—between $4,696 and $8,896. A 15 percent increase would provide an additional $4.8 million in fee revenue (after diverting one-third of this revenue to financial aid programs).

A 15 percent increase in fees would adjust professional-school fees to between $5,400 and $10,230. These fees would still be considerably below those at comparable public institutions, which range from $7,705 to $16,906. Students receive very high economic returns on the fees they pay.

Department: University of California

Description of Option

One-Time Reduction in UC's General Fund Research Budget. The 2002-03 budget includes approximately $335 million of General Fund support for research at UC. (This is about 13 percent of UC's entire research budget.)

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: Up to $16.8 million (assumes maximum reduction of 5 percent).

Legislation Required

	Yes	✓	No

Comments

Given that various federal, private, and state funds are available to UC for its research activities, General Fund appropriations for research can be temporarily reduced without compromising state interests or UC's mission. Each one percent reduction in UC's General Fund research budget results in an estimated $3.4 million savings. In determining the size of the reduction, the Legislature should consider that some state research funds are used to fulfill "matching" obligations for federal or private funds. The Legislature should attempt to preserve these matching funds as much as possible.

We suggest that the university be allowed to determine where such cuts are allocated, because it is in the best position to identify lower-priority research projects.

Department: University of California

Description of Option

Reduction in UC's Outreach Budget. The Governor proposes reducing outreach funding by $4.2 million in 2002-03. We identify an additional reduction to UC's outreach budget of up to $4.2 million.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: Up to $4.2 million.

Legislation Required

	Yes	✓	**No**

Comments

The 2001-02 budget includes approximately $80.8 million (General Fund) for K-14 outreach programs (excluding Professional Development Programs). The effectiveness of the state's outreach programs remains unclear, despite UC's spending approximately $6 million on outreach evaluation. In addition, it appears there is a lack of coordination between UC, SDE, CCC, and CSU on various outreach programs, resulting in some duplication of services. We believe that the elimination of duplicative services and coordination of programs would facilitate a 10 percent reduction in funding. Therefore, the Legislature could cut another 5 percent ($4.2 million) beyond the Governor's proposed 5 percent cut.

The Legislature should consider how to streamline and consolidate various outreach programs and funding to improve academic opportunities for disadvantaged students. In making any reduction, we suggest that the Legislature first target informational outreach and recruitment activities as well as graduate and professional outreach, as opposed to outreach programs that provide students direct services, such as mentoring and tutoring.

Health and Social Services

Department: Developmental Services

Description of Option

Ability to Pay. Extend financial responsibility for care to adult Regional Center clients.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: At least $50 million.

Legislation Required

✓	**Yes**		**No**

Comments

California state law requires persons with developmental disabilities who reside in a Developmental Center (DC) to pay the Department of Developmental Services for their cost of care and treatment, subject to the clients' (not the parents') ability to pay. For example, in 2001-02, the department will collect about $16 million from DC clients in private payments and insurance.

This option would extend the same financial responsibility to adult Regional Center clients that is now required for DC clients and would result in an offset to General Fund expenditures. Assuming that the department could collect an amount proportional to that generated from DC clients, which is only 3 percent of total expenditures, the General Fund offset would be at least $50 million annually.

Department: Developmental Services

Description of Option

Affordable Housing. Suspend requirement to spend lease proceeds exclusively on affordable housing projects.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: $2.9 million.

2002-03: None.

Legislation Required

✓	**Yes**		**No**

Comments

The state received revenues in the current year from the lease of surplus state property at Agnews Developmental Center. Current law requires the Department of Developmental Services (DDS) to expend these funds only for projects that expand the availability of affordable housing for persons with developmental disabilities. Suspending the current law requirement would allow the funds to be spent on DDS services that would otherwise be supported from the General Fund.

Department: Developmental Services

Description of Option

Incentive Payments. Suspend Regional Center performance payments.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $4 million to $11 million.

Legislation Required

✓	**Yes**		**No**

Comments

The state contracts with Regional Centers (RCs) for the provision of services for persons with developmental disabilities. State law requires that those contracts include incentive payments to RCs that meet or exceed established performance standards.

The Department of Developmental Services has in practice provided these incentives to qualifying RCs by reappropriating up to one-half of a Regional Center's budget savings. In recent years, these reappropriations have ranged collectively from $4 million to $11 million annually. Suspending the incentive payments would result in a savings to the state General Fund, but could affect the provision of RC services.

Department: Developmental Services

Description of Option

Medi-Cal Waiver. Increase the number of Regional Center clients receiving services under the home and community-based services waiver.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: About $45 million to $110 million net savings.

Legislation Required

	Yes	✓	No

Comments

The state has federal authorization to place 50,754 Regional Center (RC) clients on the Medi-Cal home and community-based services waiver. Under this waiver program, the state obtains federal funding to help pay for services provided to clients who are eligible for Medi-Cal. However, as of August 2001, only 30,228 clients were actually receiving services under the waiver. Adding RC clients to the waiver up to the enrollment limit would allow the state to access additional federal funding to provide services. In order to achieve the estimated savings, the state would probably need to increase funding for RC operations to add qualifying individuals to the waiver program.

Department: Developmental Services

Description of Option

Parental Fees. Adjust fees paid by parents of children under the age of 18 who receive 24-hour care in a state or community facility to reflect inflation.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $1 million.

Legislation Required

✓	**Yes**		**No**

Comments

Currently, parents of children under the age of 18 who receive 24-hour care in a state or community facility pay a monthly fee, based on their gross income, the number of persons dependent on that income, and the age of the child receiving the care. The maximum fees that the Department of Developmental Services charges have remained largely unchanged since 1984.

Adjusting the maximum fee that can be charged to reflect the increase in the cost of living over the last 17 years would generate about $1 million annually that could be used to offset General Fund expenditures for these services. Additional revenue could be generated if the fee schedule were adjusted so that more families paid the maximum monthly fee.

Department: Developmental Services

Description of Option

Respite Services. Establish a share of costs or maximum allowable level of services.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $55 million to $155 million.

Legislation Required

✓	**Yes**		**No**

Comments

Respite services for the families of Regional Center clients are an entitlement generally provided at no cost, regardless of the income of the client or the parents or relatives with whom a client lives. Regional Centers expenditures for respite services have been growing significantly and are projected to reach nearly $176 million in 2002-03, of which Medi-Cal (under a home and community-based services waiver) may cover only about $21 million. Requiring users to pay for all or a part of services not covered by Medi-Cal would reduce General Fund expenditures by up to $155 million in the budget year.

Alternatively, the state could limit spending for these services by establishing a maximum allowable annual expenditure per client. Setting a maximum at two-thirds of current average spending levels, for example, would result in General Fund savings of about $55 million.

Department: Employment Development

Description of Option

Faith-Based Initiative. Eliminate this competitive grant program whereby community and faith-based organizations deliver employment services to disadvantaged individuals.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $4 million.

Legislation Required

	Yes	✓	No

Comments

This program was initiated through budget control language adopted in 2000-01 and continued through similar control language approved for 2001-02. The Governor proposes to sustain the program with $4 million in funding for 2002-03. On a per-client served basis, this program is very costly compared to other employment and training programs operated by EDD and other departments.

Department: Health Services

Description of Option

Emergency Room Subsidies. Revert state funds to assist emergency room (ER) physicians and make it easier to use local funds available for the same purpose.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: Up to $24.8 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Governor's 2002-03 budget plan would allocate $24.8 million in Proposition 99 funds to help offset the cost of uncompensated care in ERs. The money would be allocated on a onetime basis, as it has the last two years, to ER physicians and specialists participating in the County Healthcare for Indigents Program and a rural health services program.

The Legislature could deny this proposal on the assumption that many (although not all) counties could instead tap unspent Emergency Medical Services (EMS) Funds available for the same purpose. These funds come from penalties collected on fines and bail forfeitures for certain criminal offenses and motor vehicle violations. The most recent fund condition statement available (1999-00) indicates that counties had more than $55 million in fund reserves that could be used for uncompensated care in ERs. If the Legislature adopted this option, the Proposition 99 funds could be used to support other health programs and save General Fund resources.

Legislation would be needed to eliminate a fund restriction that permits EMS providers to recover no more than half of their cost of uncompensated care from a county's EMS Funds. Fourteen counties do not have EMS Funds, and 20 of those that do have funds lack reserves with which to replace a loss of Proposition 99 money. The Legislature could consider targeting fiscal relief using Proposition 99 funds only to counties lacking EMS Funds or EMS Fund reserves.

Department: Health Services

Description of Option

Genetically Handicapped Persons Program (GHPP). Improve procurement processes and conduct audits of program operations in order to reduce expenditures.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: Unknown, but potentially several million dollars in savings annually.

Legislation Required

✓	**Yes**		**No**

Comments

The GHPP provides comprehensive health coverage for certain persons who have specific genetic diseases including cystic fibrosis, hemophilia, and sickle cell disease. Although there are no maximum income eligibility requirements, families with income exceeding 200 percent of the federal poverty level (FPL) pay a fee that increases according to income level.

The majority of program costs are to purchase a blood-clotting product needed by hemophiliacs. The state may be able to purchase this product at a lower cost by establishing a competitive bidding process instead of the individual client-based purchasing procedure that is currently used. Such a change could potentially reduce the state cost of the blood product by several million dollars each year.

Commissioning an audit of the program by DHS or the Bureau of State Audits may reveal potential savings in two other areas—third-party payments and client cost-sharing. The GHPP may not be identifying all cases in which program costs could be reimbursed by third-party private insurance and may not be assessing and collecting the maximum amount of revenue it can from client contributions.

Department: Medi-Cal

Description of Option

Capitation Rates. Adjust rates for overpayments.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $4 million to $7 million.

Legislation Required

✓	**Yes**		**No**

Comments

This option would correct for overpayments that are being made to Medi-Cal managed health care plans. These overpayments result from recent policy changes making it easier for families and children to stay enrolled in the program for up to one year.

A 1999 study conducted by a department consultant found that such adjustments are warranted because of the probability that certain individuals kept on the Medi-Cal rolls are less likely than other Medi-Cal eligibles to incur medical costs. This is because the medical situation that prompted the individual to go on Medi-Cal has been resolved or the individual found employment that provides medical coverage. The study also suggested that the reduced turnover in Medi-Cal enrollment resulting from the policy changes would reduce administrative costs for the health plans, and further indicated greater maintenance of coverage for individuals would result in increased health plan revenues. Other states have made similar adjustments.

Department: Medi-Cal

Description of Option

Dental Services. Cover one cleaning and exam per year (instead of two).

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $23.3 million.

Legislation Required

✓	**Yes**		**No**

Comments

The 2000-01 Budget Act increased dental services for Medi-Cal beneficiaries to two dental cleanings and examinations per year from the prior level of one cleaning and examination per year. Dental services are an optional benefit under the Medi-Cal program. This option would restore the prior level of benefits.

Department: Medi-Cal

Description of Option

Dental Services for Pregnant Women. Temporarily suspend preventative and treatment services.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $10.3 million.

Legislation Required

	Yes	✓	**No**

Comments

Preventative periodontal services and treatment were added in 2001-02 to the scope of services for women in the pregnancy aid-only categories. This new service was added based on research suggesting that preventative dental care reduces costly premature births. Accordingly, DHS has estimated that the savings from reducing premature births will offset the cost of these new dental services. This is highly unlikely, however, since the research is based on long-term preventative dental care resulting in better birth outcomes, while the new dental care services will only be available to women during the few months of pregnancy. Thus, we estimate that this new benefit will result in significant state costs with little if any offsetting savings.

Department: Medi-Cal

Description of Option

Drug Coverage. Exclude over-the-counter cough and cold drugs from coverage.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $7.4 million.

Legislation Required

	Yes	✓	**No**

Comments

Coverage of drug expenses by the state Medicaid program is not required by the federal government. Thus, the Legislature has the option of limiting drug expenditures by reducing the types of over-the-counter drugs that are covered under the Medi-Cal Program. For example, elimination of cough and cold drugs (including aspirin and Acetaminophen) could save the state $7.4 million annually. This option would in effect conform Medi-Cal drug coverage more closely to many private health coverage plans.

Department: Medi-Cal

Description of Option

Long-Term Care Rate Adjustment. Postpone next rate adjustment from August 1, 2002 to January 1, 2003.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $16 million.

Legislation Required

✓	**Yes**		**No**

Comments

Current law requires the Department of Health Services to establish reimbursement rates for long-term care facilities August 1 of each year. This option would provide one-time savings to help address the state's fiscal problems. Postponing the implementation date from August to the following January would require a change in legislation and in rate-setting methodology, and may require a change in the state Medicaid plan.

Department: Medi-Cal

Description of Option

Managed Care. Include elderly and persons with disabilities in managed care in counties where plans already exist.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: Up to $70 million.

Legislation Required

✓	**Yes**		**No**

Comments

When the state moved Medi-Cal beneficiaries from fee-for-service into managed care plans in 1994-95, the majority of those affected by the change were families and children. This option would expand upon that state action and mandate managed care for the elderly and disabled. More than 15 percent of elderly and disabled Medi-Cal beneficiaries already are enrolled in managed care plans, either on a voluntary or mandatory basis.

The option would apply only in counties that have existing managed care plans and would involve about one million beneficiaries. Establishing managed care rates at a level below fee-for-service expenditures and phasing in this population over a two-year timeframe could result in a General Fund savings of up to $70 million in the first year, and up to $140 million in the second year. Implementation of this option would be subject to approval by the federal government.

Department: Medi-Cal

Description of Option

Medi-Cal Asset Test. Eliminate this test.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $4.3 million.

Legislation Required

✓	**Yes**		**No**

Comments

This option would simplify the eligibility determination process for the Medi-Cal Program and reduce administrative costs. Notably, a comparable asset test for eligibility is not required for Healthy Families Program applicants, even though they have incomes that are generally higher than Medi-Cal applicants.

Department: Medi-Cal

Description of Option

Medical Case Management. Expand the program.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $17 million net savings.

Legislation Required

	Yes	✓	**No**

Comments

A 1994 study by the Department of Health Services found that the medical case management program results in lower medical costs during and after treatment. This is because proper management of certain chronic medical conditions, such as asthma, can save on such costs as admissions to emergency rooms.

It is likely that additional savings could be obtained by expanding the existing program. For example, if the current program's case management staff were doubled, at the cost of $1 million, the resulting General Fund savings could be as much as $18 million. Further study is needed to determine if the program could be further expanded to serve more beneficiaries within existing resources.

Department: Medi-Cal

Description of Option

Optional Services. Suspend optional services that a number of states do not provide.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Up to $125 million.

Legislation Required

✓	**Yes**		**No**

Comments

The federal Medicaid program requires all states to provide certain medical services to beneficiaries. However, states also may choose to provide certain additional optional services. The Legislature may wish to consider suspending some of these optional services until the state can again afford to provide them.

The state could save as much as $250 million General Fund annually if it eliminated some services that a number of other states do not provide such as acupuncture, dental diagnoses, and chiropractic and psychological services. Because of the time needed to implement these changes, we estimate that only half of this amount, about $125 million, would be saved in the budget year. This option leaves most of the optional services offered in the Medi-Cal Program intact. Specifically, we do not propose suspending pharmaceutical ($2.5 billion) or personal care services ($926 million).

Department: Medi-Cal

Description of Option

Pharmacy Dispensing Fee. Reduce fees paid by the state.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: Up to $40 million.

Legislation Required

✓	**Yes**		**No**

Comments

Under this option, the DHS would contract with retail pharmacies in order to reduce the current dispensing fee of $4.05 for each prescription a pharmacist fills. In contrast to the way the state now pays for drug dispensing services, other large pharmaceutical purchasers contract with retail pharmacies to achieve dispensing fees that range from $2.00 to $2.50. If the state, through competitive bidding, were to achieve a fee of $2.55, the savings to the General Fund could be as much as $40 million annually. The savings would be reduced to the extent that special arrangements had to be made for those areas of the state that lack large retail pharmacies.

Department: Medi-Cal

Description of Option

Supplemental Long-Term Care Rate Increase. Defer this rate increase.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: $7 million.

2002-03: $21 million.

Legislation Required

	Yes	✓	**No**

Comments

The *2001-02 Budget Act* and accompanying trailer bill allow for a supplemental rate increase to long-term care facilities that have a collectively bargained contract, or a comparable legally binding, written commitment to increase salaries, wages, or benefits. The rate increase is subject to federal approval, expected by March 2002. Because it has not yet been implemented, the Legislature could defer this supplemental rate increase this year. State law permits this rate increase to be considered in future years when the state may be better able to afford it.

Department: Mental Health

Description of Option

Early and Periodic Screening, Diagnosis and Treatment Program. Restructure financing of specialty mental health services provided under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: Up to $28 million.

Legislation Required

	Yes	✓	**No**

Comments

The overall cost of providing mental health services to children under the federally mandated EPSDT program has been growing 29 percent per year. State costs will have increased $286 million over the last seven years under the proposed budget. Counties share part of the base of support for the program but pay relatively little for program cost increases and thus have little incentive to help control program costs.

In order to create a cost control incentive, the Legislature could restructure the program to shift a share of the increased costs to counties. For illustrative purposes, shifting 10 percent of the base state cost of the program (using the same 90-10 state-county split once used for many mental health programs) would save the state about $21 million annually. Further requiring counties to pay a 10 percent share of the proposed $70 million increase in the program during 2002-03 would save an additional $7 million. Because of a mandate in federal law, EPSDT children would continue to receive treatment, although growth in EPSDT costs and caseload could slow and some counties might have to reduce services for other patients.

Department: Social Services

Description of Option

CalWORKs Participation Requirements. Reduce participation requirements, thereby reducing employment services expenditures.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Up to $165 million.

Legislation Required

✓	**Yes**		**No**

Comments

Lowering participation requirements would result in savings in the employment services component of CalWORKs. The level of savings depends on how participation requirements are revised. For example, adopting a voluntary participation standard would result in maximum net savings, which we estimate to be $315 million (mostly TANF funds). Exempting parents with young children would result in somewhat lower savings. Because California easily meets the federal TANF work participation requirements, we believe that lower participation requirements could be adopted without significant risk of federal penalties. However, reducing employment services would result in fewer services available for families trying to become self-sufficient prior to reaching their time limit on cash assistance.

The savings identified above are a combination of TANF and state maintenance-of-effort (MOE) funds. Up to $165 million of these savings could be converted into General Fund savings by either of the following methods:

- ***Method 1: Recognize Other MOE Countable Expenditures***. The TANF and state MOE savings can replace General Fund spending in CalWORKs. However, to remain in compliance with the federal MOE requirement, California must identify an identical amount of non-CalWORKs state spending that could be counted toward the MOE requirement.

  The *2001-02 Budget Act* recognized $520 million in such non-CalWORKs spending. We have identified an additional $40 million in current state spending (mostly on supplemental cash payments to disabled adults and children) that could be counted toward the MOE requirement. Thus, up to $40 million in TANF and MOE savings could be converted into General Fund savings by this method.

- ***Method 2: Transfer Freed-Up TANF Funds into the Social Services Block Grant (SSBG).*** The identified TANF savings can be transferred to the SSBG to replace General Fund spending on existing programs that meet the SSBG goals. These include achieving economic self-sufficiency, preventing abuse or neglect, enabling families to stay together, and preventing inappropriate institutional care. Although California may transfer up to $373 million in TANF funds to the SSBG, we believe only approximately $125 million in General Fund spending—mostly on developmental services—could be replaced with TANF funds transferred to the SSBG.

Department: Social Services

Description of Option

CalWORKs Sanction Policy. Increase penalties for noncompliance with CalWORKs work participation requirements.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Approximately $10 million.

Legislation Required

✓	**Yes**		**No**

Comments

Under current law, adults who do not comply with the CalWORKs work participation requirements are removed from the assistance unit for the purpose of calculating the family's grant amount. For a family of three, this reduces the maximum grant payment of $679 by $131, to $548. Currently, only 29 percent of nonexempt recipients are meeting their work participation requirements. Increasing the penalty for noncompliance would result in grant savings while also providing a greater incentive for recipients to comply with participation requirements. For example, the Legislature could increase the sanction after three months of noncompliance from $131 to the equivalent of half the family's grant payment, or $340. Such a graduated sanction policy would result in savings of approximately $10 million. This approach should improve CalWORKs participation, which may increase recipients' future earnings.

The savings identified above are a combination of TANF and state maintenance-of-effort (MOE) funds. These savings could be converted into General Fund savings by either of the following methods:

- ***Method 1: Recognize Other MOE Countable Expenditures***. The TANF and state MOE savings can replace General Fund spending in CalWORKs. However, to remain in compliance with the federal MOE requirement, California must identify an identical amount of non-CalWORKs state spending that could be counted toward the MOE requirement.

  The *2001-02 Budget Act* recognized $520 million in such non-CalWORKs spending. We have identified an additional $40 million in current state spending (mostly on supplemental cash payments to disabled adults and children) that could be counted toward the MOE requirement. Thus, up to $40 million in TANF and MOE savings could be converted into General Fund savings by this method.

- ***Method 2: Transfer Freed-Up TANF Funds into the Social Services Block Grant (SSBG).*** The identified TANF savings can be transferred to the SSBG to replace General Fund spending on existing programs that meet the SSBG goals. These include achieving economic self-sufficiency, preventing abuse or neglect, enabling families to stay together, and preventing inappropriate institutional care. Although California may transfer up to $373 million in TANF funds to the SSBG, we believe only approximately $125 million in General Fund spending—mostly on developmental services—could be replaced with TANF funds transferred to the SSBG.

Department: Social Services

Description of Option

Child Welfare Services Visits. Reduce frequency of group home visits.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $7.6 million.

Legislation Required

✓	**Yes**		**No**

Comments

Chapter 311, Statutes of 1998 (SB 933, McPherson) increased social worker and probation officer visits to youth in group homes from 2 to 12 annually. The number of youth in group care for 2001-02 is estimated to be 10,400. Adopting this option would reduce visits to youths in group homes from monthly to quarterly. This would still be above the federal requirement of two visits of this kind per year.

Department: Social Services

Description of Option

Emancipated Foster Youth. Suspend new enrollments in Supportive Transitional Emancipation Program (STEP) during the budget year.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $8.3 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Supportive Transitional Emancipation Program (STEP) is a new program created through trailer bill legislation accompanying the *2001-02 Budget Act*. The STEP, which began in January 2002, provides monthly cash assistance to emancipated foster youth with a county-approved Independent Living Plan. Youth are eligible until age 21.

Freezing STEP enrollments at June 2002 levels would result in savings of approximately $8.3 million General Fund relative to the Governor's budget. We note that if urgency legislation were enacted to freeze enrollments at April 2002 levels, this could result in more than $400,000 General Fund savings in 2001-02 and a total of $10 million General Fund savings in 2002-03.

Department: Social Services

Description of Option

Foster Care Clothing Allowance: Suspend supplemental clothing allowance.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $3.4 million.

Legislation Required

	Yes	✓	**No**

Comments

The supplemental clothing allowance, created by the *2000-01 Budget Act*, is $100 each year for each child in a foster family home or foster family agency placement. This program serves up to 70,000 youth. This relatively new program is not required by federal law.

Department: Social Services

Description of Option

Foster Care Stipends. Suspend emancipated foster youth stipends.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $3.6 million.

Legislation Required

✓	**Yes**		**No**

Comments

These funds were first provided in legislation accompanying the *2000-01 Budget Act*. These funds provide assistance to emancipating foster youth to meet emergency housing, educational, employment, and transportation needs. Approximately 2,500 foster youth emancipate annually. This relatively new program is not required by federal law.

Department: Social Services

Description of Option

Foster Family Agency. Limit the growth of Foster Family Agency placements.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $1.8 million to $5.6 million.

Legislation Required

✓	**Yes**		**No**

Comments

Placements in foster family agencies (FFAs) typically cost more than twice as much as foster family home (FFH) placements. In reviewing foster care length of stay, we have concluded that (1) children stay longer in FFAs than other placement arrangements and (2) emotional and/or behavioral differences do not explain the longer stay. In addition, FFA placements have been the fastest growing component of foster care in recent years, while the supply of FFHs has decreased.

There are three approaches to limit the growth of FFA placements and to encourage the placement of children in less costly FFHs: (1) hold FFA funding to current-year levels ($1.1 million General Fund savings), (2) reduce FFA rates over time for children who remain in FFAs more than six months ($4.5 million General Fund savings), or (3) decrease FFA placements by 10 percent ($5.6 million General Fund savings). Each of these options should increase the use of FFHs, an appropriate placement alternative for many of the foster youth currently served by FFAs.

Department: Social Services

Description of Option

Special Circumstances Program. Eliminate the Special Circumstances program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $4.5 million

Legislation Required

✓	Yes		No

Comments

The Special Circumstances program provides one-time cash grants to recipients of SSI/SSP, IHSS, or CAPI who have financial needs due to an emergency (such as a broken refrigerator). The program was reestablished in 1998-99 (following a five-year suspension) with an annual appropriation of $8.3 million. In 2001-02, the Governor vetoed $3.3 million leaving $5 million. The Governor's budget proposes $4.5 million for 2002-03.

This program has relatively high administrative costs—40 cents of every $1 are spent for administrative costs. Given the relatively high fixed costs of administration, this program is not a cost-effective means of providing one-time cash assistance.

Department: Social Services

Description of Option

SSI/SSP Grants for Couples. Reduce SSI/SSP grants for couples so as to make the grants for individuals and couples more similar.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Approximately $133 million.

Legislation Required

✓	**Yes**		**No**

Comments

This option would affect approximately 220,000 couples receiving SSI/SSP. During 2002, the maximum monthly SSI/SSP grant for a couple is $1,332, about 38 percent above the federal poverty guideline for 2001. By comparison, the maximum monthly grant for an individual is $750, about 5 percent above the federal poverty guideline.

The federal maintenance-of-effort (MOE) requirement sets a floor for the state SSP portion of the grant for couples and individuals. If the Legislature elected to reduce monthly grants for couples by $119 (to the MOE floor), the grant for couples would be $1,213, about 25 percent above the poverty guideline. Adopting this option would reduce the disparity between the grants for couples and individuals, while maintaining the grant for couples significantly above the poverty guideline.

Department: Social Services

Description of Option

Statewide Automated Welfare System Consortium IV. Discontinue the Statewide Automated Welfare System (SAWS) Consortium IV (C-IV) Project and direct counties to join another consortium.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $16.3 million (Food Stamps, Foster Care, Medi-Cal).

Legislation Required

	Yes	✓	No

Comments

The SAWS C-IV provides automation capabilities for the welfare and employment services programs in San Bernardino, Riverside, Stanislaus, and Merced Counties. The ten-year total project cost is estimated to be $581 million ($267 million onetime and $314 million ongoing). Planning for the project started in 1996 and expenditures to date from all fund sources are $109 million.

The C-IV automation capabilities are also available through the CalWin system operated by the Welfare Case Data System consortium. Eventually, another automation system—Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting (LEADER)—will have the same automation capabilities as CalWin.

Since the CalWin system provides the same automation capabilities as the C-IV system and the CalWin schedule provides for additional counties to be implemented after June 2004, the C-IV system can be terminated without affecting either county automation capabilities or implementation schedules. Discontinuing the system will result in project development savings of approximately $470 million. With regard to 2002-03, there would be General Fund savings of $16.3 million and TANF savings of $52.4 million.

Criminal Justice

Department: COPS/Juvenile Justice Grants

Description of Option

Grant Reduction. Reduce, on a one-time basis, the amount allocated to counties and local law enforcement agencies for the COPS and Juvenile Justice grant programs.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: Up to $30 million.

Legislation Required

	Yes	✓	**No**

Comments

The *2001-02 Budget Act* appropriated $232.6 million, $116.3 million each, for the COPS and Juvenile Justice grant programs. These funds are allocated based on a formula. Statute requires that all participating local jurisdictions receive a minimum of $100,000. The current appropriation provides far more than the minimum statutory amount for many counties.

This option would reduce overall funding for these grant programs by up to $30 million on a one-time basis. The impact of this reduction on local governments should be minor since a significant share of the COPS grant is used for one-time expenditures. Although the juvenile justice grants generally fund ongoing programs, many of these programs are in the early implementation phase and therefore should be able to more easily absorb minor reductions.

Department: Corrections

Description of Option

Civil Addicts. Adopt legislation to remove state prison as a punishment option for civil addicts.

Type of Option: Caseload Reduction

General Fund Impact

2001-02: None.

2002-03: $25.5 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Civil Addict Program provides substance abuse rehabilitation treatment in prison for persons who are identified by the court as narcotic addicts, but whose most recent offense is not necessarily a drug offense. Civil addicts sent to the California Rehabilitation Center are given an indeterminate sentence during which time they receive treatment. Following treatment, they are released and supervised by the Narcotic Addicts Evaluation Authority.

Under this option, these offenders would no longer be committed to receive treatment in state prison. Overall, this option would result in reductions of 1,744 civil addicts in prison and 2,410 parolees on parole. These offenders could be ordered to receive treatment services in the community.

Department: Corrections

Description of Option

Direct Discharge from Prison. Adopt legislation to exempt certain nonviolent, nondrug sale offenders from parole supervision.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $98.5 million.

Legislation Required

✓	**Yes**		**No**

Comments

This option provides that specified nonviolent, nondrug sale offenders would be eligible for direct discharge, effective July 1, 2002. Overall, the option would result in caseload decreases of about 5,620 inmates and about 27,400 parolees.

The option excludes "lifers," "strikers," and inmates whose offense is serious or violent. The commitment offense groups for individuals who would no longer be under parole supervision are: Petty Theft with a Prior Offense, Receiving Stolen Property, Forgery/Fraud, Other Property Crimes, Possession of a Controlled Substance, Grand Theft, Vehicle Theft, Possession of a Weapon, Escape, Hashish Possession, Burglary (1^{st} and 2^{nd}), and Driving Under the Influence.

Department: Corrections

Description of Option

Early Discharge from Parole. Discharge parolees with nonviolent offenses, who have already served a certain amount of "clean time" on parole.

Type of Option: Caseload Reduction

General Fund Impact

2001-02: None.

2002-03: $23.4 million to $50.4 million.

Legislation Required

✓	**Yes**		**No**

Comments

This option provides that specified nonviolent, nondrug sale offenders be eligible for discharge from parole, based upon the amount of "clean time" on parole (for example, the number of months in which they have successfully met the conditions of parole). Commitment offense groups for eligible individuals: Petty Theft with a Prior Offense, Receiving Stolen Property, Forgery/Fraud, Other Property Crimes, Possession of a Controlled Substance, Grand Theft, Vehicle Theft, Possession of a Weapon, Escape, Hashish Offenses, Burglary (1^{st} and 2^{nd}), and Driving Under the Influence.

Clean Time (in months)	**Total Savings (in millions)**
6	$50.4
9	36.5
12	23.4

Department: Corrections

Description of Option

Early Release from Prison. Discharge nonviolent inmates 1 to 12 months prior to the end of their sentences.

Type of Option: Caseload Reduction

General Fund Impact

2001-02: None.

2002-03: $20.8 million to $249.2 million.

Legislation Required

✓	**Yes**		**No**

Comments

The amounts shown below reflect savings generated by releasing inmates from 1 to 12 months before the end of their sentences. The savings have been adjusted to include increased parole costs that would result from implementation of this option. These estimates exclude "lifers," "strikers," and inmates whose offense is serious or violent.

Reduction in Time Served	Cost Savings (in millions)
1 month	$20.8
2 month	41.5
3 month	62.3
4 month	83.1
12 month	249.2

Department: Corrections

Description of Option

Elderly Inmates—Release to Home Detention. Release nonserious, nonviolent offenders age 60 years and older to home detention with electronic monitoring.

Type of Option: Caseload Reduction

General Fund Impact

2001-02: None.

2002-03: $1.4 million.

Legislation Required

✓	**Yes**		**No**

Comments

This option provides that 286 nonserious, nonviolent offenders age 60 years and older would be released to home detention with electronic monitoring (a form of parole), effective July 1, 2002. The elderly offender population generally poses the least threat to public safety, and this estimate excludes inmates whose offenses were serious or violent and those who are required to register as sex offenders.

Department: Corrections

Description of Option

Elderly Inmates—Release to Parole. Release nonserious, nonviolent offenders age 60 years and older to parole.

Type of Option: Caseload Reduction

General Fund Impact

2001-02: None.

2002-03: $3.4 million.

Legislation Required

✓	**Yes**		**No**

Comments

This option provides that nonserious, nonviolent offenders age 60 years and older would be released to parole, effective July 1, 2002. Currently, 286 inmates would be eligible for release under this option. The elderly offender population generally poses the least threat to public safety, and this estimate excludes inmates whose offenses were serious or violent and those who are required to register as sex offenders.

Department: Corrections

Description of Option

Parole in Lieu of Prison for Inmates With Short Sentences. Place nonviolent felons with short prison sentences of six months or less on parole rather than incarcerating them in state prison.

Type of Option: Caseload Reduction

General Fund Impact

2001-02: None.

2002-03: $1.8 million to $10.7 million.

Legislation Required

	Yes	✓	**No**

Comments

Thousands of inmates serve less than six months in state prison and many are incarcerated for nonviolent offenses. Placing these inmates directly on parole would result in millions of dollars in savings. The table below shows the savings associated with placing inmates directly on parole who would otherwise serve less than six months in prison. The amounts include offsetting increases in parole costs that would result from implementation of this option.

Months to Serve	Prison Population Reduction	Savings (in millions)
0 to 3	152	$1.8
0 to 6	906	10.7

Department: Corrections

Description of Option

Penalty Changes. Adopt legislation to remove state prison as a punishment option for certain nonviolent offenses.

Type of Option: Caseload Reduction

General Fund Impact

2001-02: None.

2002-03: Up to $50.9 million.

Legislation Required

✓	**Yes**		**No**

Comments

Adopting legislation to remove state prison as a sentencing option for certain nonviolent offenses would result in savings as listed below. This option assumes that these offenders would instead be placed on parole.

Offense	**Net Savings (in millions)**
Petty Theft with a Prior Offense	$12.2
Driving Under the Influence	7.2
Other Property Crimes	1.2
Hashish Offenses	4.8
Forgery/Fraud	4.9
Receiving Stolen Property	5.5
Vehicle Theft	9.1
Grand Theft	6.0
Total	**$50.9**

Department: Corrections

Description of Option

Sex Offender Containment Program. Postpone implementation of sex offender treatment services for parolees.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: $8 million.

2002-03: $8 million.

Legislation Required

	Yes	✓	**No**

Comments

A total of $12 million ($4 million in 2000-01 and $8 million in 2001-02) has been appropriated to develop sex offender treatment programs for 2,900 parolees. To date, $2.4 million has been expended for 32 additional parole agent positions. The CDC issued a request for proposal for sex offender treatment providers, but no bids were accepted. Since this program has not been implemented, the impact on existing services from deleting the funding for this program would be minimal.

Department: Corrections

Description of Option

Substance Abuse Treatment. Delay implementation of 500 substance abuse treatment beds at California Rehabilitation Center (CRC).

Type of Option: Service Reduction

General Fund Impact

2001-02: $3.9 million.

2002-03: $3.9 million.

Legislation Required

	Yes	✓	**No**

Comments

The *2001-02 Budget Act* appropriated $5.5 million to establish an additional 500 substance abuse treatment beds at CRC. The Governor proposed in his November 2001 Revision to reduce the funding by $1.6 million, leaving $3.9 million in 2001-02. However, this remaining funding is not likely to be completely encumbered in the current year and since Proposition 36 may reduce the number of inmates needing substance abuse treatment, all 500 slots could be postponed.

This option will reduce the number of substance abuse beds projected to be available in 2002-03 and may increase the number of inmates waiting to be placed in a treatment program. However, we note that there would still be approximately 7,000 substance abuse beds in the prison system.

Department: Corrections

Description of Option

Undocumented Parolees. Deport undocumented parolees and transfer caseload to U.S. Immigration and Naturalization Service (INS) parole.

Type of Option: Funding Shift

General Fund Impact

2001-02: $14.1 million.

2002-03: $14.1 million.

Legislation Required

	Yes	✓	**No**

Comments

Approximately 5,818 active parolees are undocumented residents that can be deported and transferred to the INS caseload. Currently, the state incurs annual costs per parolee of $2,636. The state would incur annual costs of $212 per parolee supervised by INS, for a savings of $2,424 per parolee.

Department: Corrections

Description of Option

Work Credits. Increase work credits for certain inmates.

Type of Option: Other

General Fund Impact

2001-02: None.

2002-03: $33.8 million.

Legislation Required

✓	**Yes**		**No**

Comments

Currently, state prison inmates who participate in a work or education program are eligible to earn credits to reduce the amount of time that they spend in state prison.

This option provides for an increase in work credits for certain inmates, including those in camps (increasing credits to two days for every one day served), and inmates in reception centers (increasing credits to one day for each day served). The practical effect of increasing the work credits is to reduce the amount of time served by inmates in prison. The option excludes "lifers," "strikers," and offenders whose offense is serious or violent.

Department: Justice

Description of Option

Forensic Services Unit. Transfer costs of regional forensic laboratories to local law enforcement agencies which use services.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $16 million.

Legislation Required

	Yes	✓	No

Comments

Pursuant to current law, the Forensic Services Unit maintains a system of 11 forensic laboratories for counties that do not have their own facilities. The Governor's budget includes $51 million ($33 million General Fund, $18 million in reimbursements and special funds) for support of these laboratories. Currently, local law enforcement agencies in 43 counties use the state labs for analysis of crime evidence. These local agencies pay nothing to the state for such services. Meanwhile, 12 of the remaining counties maintain their own laboratories and incur the costs.

This option would require those counties that use state forensic laboratories (except the DNA lab at Berkeley) to pay for the service, thereby shifting the cost of operating the labs from the state to the counties. We estimate the state could generate approximately $16 million in fee revenue which could then be used to fully offset General Fund support for the non-DNA laboratories. Alternatively, the Legislature may wish to shift 25 percent or 50 percent of the costs to local agencies.

Department: Youth Authority

Description of Option

Parole Caseloads. Increase the number of parolees supervised by parole agents.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Up to $1 million.

Legislation Required

✓	**Yes**		**No**

Comments

Parole agents provide a point of contact for wards who have been released from institutions. Currently, the parolee/parole agent ratios fall into three categories depending upon the parolee's assigned level of supervision. The ratio categories are 15:1, 30:1, 50:1/70:1. The vast majority of parolees in this last category are on the 50:1 supervisory ratio.

This option would increase caseloads only for those parolees who are currently at the 50:1 and 70:1 supervisory ratio. If these caseloads per parole agent were increased by 15 percent the savings would be $500,000 annually. If the ratios increased by 25 percent, the General Fund savings would total $1 million annually.

Resources and Environmental

Department: Air Resources Board

Description of Option

Zero-Emission Vehicle Program. Defer purchase/lease incentives.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $6 million.

Legislation Required

	Yes	✓	**No**

Comments

Chapter 1072, Statutes of 2000 (AB 2061, Lowenthal) appropriated $18 million from the General Fund for a grant program to encourage the purchase or lease of zero-emission vehicles (ZEVs) by subsidizing the purchase/lease price of these vehicles. About $6 million of the appropriation will remain available in 2002-03. By deferring the expenditure of the remaining balance, there would be a delay in achieving the air quality benefits from having more ZEVs purchased/leased than would otherwise be the case without the incentives. However, at current lease/purchase levels of ZEVs, this delay would not have a significant adverse impact on air quality levels. This ZEV incentive program is not part of the board's core program (permitting and enforcement) to meet air quality standards.

Department: Forestry and Fire Protection

Description of Option

California All Incident Reporting System. Defer completion of this IT project.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: Approximately $0.8 million.

Legislation Required

	Yes	✓	**No**

Comments

The California All Incident Reporting System (CAIRS) database project was begun in 2000-01 to improve the system used to collect statistical data on fire, medical assistance, and hazardous materials incidents from California fire departments, including the California Department of Forestry and Fire Protection (CDFFP). The CAIRS project involves developing a new data management program as well as converting historical data into a more usable format.

The department reports it has completed the conversion of the historical data in 2001-02 and is able to generate basic reports on emergency incidents. Throughout the conversion process, the department has continued to collect data.

The department is preparing to purchase a new data management program in 2002-03. Deferring the development of the CAIRS program will delay the ability of the department to modernize its data collection system, but will still allow it to collect data from California fire departments. Deferring the development of CAIRS does not appear to have a direct impact on the delivery of fire and life safety services.

The CDFFP has budgeted $1.5 million for CAIRS. About 50 percent of this funding is for ongoing costs of data collection and 50 percent is related to the development of the new data management program. Deferring only the new development costs will allow CDFFP to continue to collect data until the CAIRS system can be fully implemented.

Department: Parks and Recreation

Description of Option

State Park Fees. Reinstate recently reduced fees.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: Up to $20 million.

Legislation Required

	Yes	✓	**No**

Comments

Effective July 1, 2000, state park fees were reduced and in some cases eliminated. The reductions were phased in over the course of the year. Park fees are used to support the operation and maintenance of state parks. It is estimated that the park fee reduction will result in about a $20 million revenue loss to the state.

Since the fee reduction, the Department of Parks and Recreation has reported an increase in the number of visitors to state parks. Reinstating the fees may result in a decrease in the number of visitors. However, rather than simply reinstating the exact fees that were in existence prior to July, 2000, we suggest the Legislature direct the department to consider revising the entire fee schedule to address any particular fees that may be deemed inappropriate.

Department: State Water Resources Control Board

Description of Option

Stormwater Pollution Control Program. Defer funding for contracts.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $6.5 million.

Legislation Required

	Yes	✓	**No**

Comments

The *2002-03 Governor's Budget* proposes $19 million for the board's stormwater regulatory program. This amount includes $6.5 million from the General Fund for contracts to provide technical and financial assistance to local agencies to facilitate compliance with permits and to promote "best management practices" for the control of stormwater pollution. While providing this assistance has merit, these contracts are a lower priority than the program's core regulatory functions of permitting and enforcement. In addition, the board administers grant/loan programs that provide bond-funded support to local agencies for projects that help them meet stormwater permit requirements.

Department: Various Resources Departments (CALFED Bay-Delta Program)

Description of Option

CALFED Bay-Delta Program. Reduce funding for various program elements.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $15 million.

Legislation Required

	Yes	✓	**No**

Comments

For 2002-03, the budget proposes $519 million of state funds (mainly bond funds) for the CALFED Bay-Delta program. This represents a relatively modest decrease of about 6 percent from current-year expenditures. Of the $519 million, about $59 million is to come from the General Fund (essentially the same as the current-year level).

The General Fund support for the program could be reduced by an additional $15 million without causing significant harm to, or delay in the progress of, any particular program element. Specifically, additional General Fund reductions could be made in the levees, watershed management, water storage, water use efficiency, and ecosystem restoration programs. For most of these program elements, bond funds and other funding sources are available for funding support.

Department: Wildlife Conservation Board

Description of Option

Merced Grasslands Project. Defer expenditures on Merced Grasslands Project by reverting unencumbered balance from 2000-01 capital outlay appropriation.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: Up to $14 million.

2002-03: Up to $9 million (if entire $14 million not reverted in 2001-02).

Legislation Required

✓	**Yes**		**No**

Comments

The *2001-02 Budget Act* appropriated $30 million to acquire sensitive habitat related to the UC Merced Grasslands Project. As of November 28, 2001, the balance of the original appropriation is about $19 million. The Wildlife Conservation Board staff estimate that the board will approve additional expenditures totaling $10 million ($5 million at the February board meeting and $5 million at the May meeting) through the end of 2001-02. Therefore, to the extent action to revert funds is delayed, there will be fewer funds to revert. This option reduces funds available to the state to purchase conservation easements for habitat protection to mitigate the construction of the UC Merced facilities. However, these expenditures could be deferred to a later year.

Department: Wildlife Conservation Board

Description of Option

Natural Heritage Preservation Tax Credit Program. Defer for the remainder of 2001-02 and 2002-03 the award of tax credits.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: Up to $18 million.

2002-03: Up to $30 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Natural Heritage Preservation Tax Credit Act of 2000 (SB 1647, O'Connell) allows the donation of property to state or local agencies or nonprofit organizations, and gives the donor a partial state tax credit based on the assessed value of the property. The act authorizes $100 million of tax credits through 2005. As of January 2002, a balance of $66 million of credits remains to be authorized by the Wildlife Conservation Board (WCB). The WCB plans to authorize $36 million of credits over the remainder of 2001-02 ($18 million at the February board meeting and $18 million at the May meeting).

Under current law, the program will remain in effect until December 30, 2005, so deferring the award of tax credits for the remainder of 2001-02 ($18 million at the May board meeting) and for 2002-03 will not unduly impact the program. To the extent the board continues to receive a large number of applications for land donations and tax credits, deferring the program for two years will delay donations of land for conservation and land habitat protection purposes.

TRANSPORTATION

Department: Transportation

Description of Option

Aeronautics Account. Transfer $5 million balance from Aeronautics Account to General Fund.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $5 million.

Legislation Required

	Yes	✓	**No**

Comments

The Aeronautics Account receives revenues from the excise tax on gasoline and jet fuel used for aircrafts. It also receives income from investments and the sale of documents.

The Aeronautics Account provides funds for state general aviation operations, and grants to cities, counties and airport districts for the acquisition and development of airports. The account also pays for the state's costs of aviation planning and research.

The Governor's budget projects a $6.1 million fund balance at the end of 2002-03. We estimate the fund balance would be $5.3 million at the end of 2003-04, assuming a similar level of revenues and expenditures as in 2002-03.

Transferring $5 million from the Aeronautics Account to the General Fund for the budget year would leave projected fund balances of $1.1 million at the end of the budget year and $256,000 at the end of 2003-04.

Department: Transportation

Description of Option

Rental Property Income in State Highway Account (SHA). Transfer revenues from rental property from the SHA to the General Fund.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $71 million.

Legislation Required

	Yes	✓	**No**

Comments

This option would transfer a total of $71 million from rental income, including $35 million estimated for 2001-02 and $36 million projected for 2002-03. While the State Constitution restricts the use of the majority of the money in the SHA (mainly revenues from the state gas tax and truck weight fees) to only transportation purposes, revenues from Caltrans rental property are not similarly restricted and can be used for other than transportation purposes. Current law, however, requires rental property income to be deposited in the SHA. (These revenues are transferred to the Public Transportation Account in the subsequent fiscal year.) In order to transfer these revenues to the General Fund on a one-time basis, "notwithstanding" language would be needed in the budget act.

Because the SHA is projected to have a cash balance in the hundreds of millions of dollars at the end of the current and budget years, this transfer will not affect funding of transportation projects in the near term. However, it will reduce the amount of money available for transportation projects in the future.

Department: Transportation

Description of Option

State Highway Account Interest. Transfer interest income accrued in the State Highway Account (SHA) to the General Fund.

Type of Option: Funding Shift

General Fund Impact

2001-02: $37 million.

2002-03: $17.8 million.

Legislation Required

	Yes	✓	**No**

Comments

While the State Constitution restricts the use of the majority of the money in the SHA (mainly revenues from the state gas tax and truck weight fees) to only transportation purposes, interest income accrued in the account is not restricted. Also, the SHA is projected to have a cash balance in the hundreds of millions of dollars at the end of the current year and will likely have a large balance at the end of 2002-03. Consequently, the transfer will not reduce funding for transportation projects in the near term. However, it will reduce the amount of money available for transportation projects in the future.

Department: Transportation

Description of Option

Traffic Congestion Relief Fund Loan. Transfer a portion of the cash balance in the Traffic Congestion Relief Fund (TCRF) (beyond the amount proposed in the Governor's budget) to the General Fund.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: About $300 million.

Legislation Required

	Yes	✓	No

Comments

The TCRF received $2 billion from the General Fund and the sales tax on motor vehicle fuel in 2000-01. Of this amount, $400 million was allocated to cities and counties for local streets and roads, leaving $1.6 billion available for 141 projects in the Traffic Congestion Relief Program (TCRP). However, less than $200 million has been expended on projects to date, leaving a significant cash balance in the TCRF of over $1 billion as of mid-December 2001. Because the majority of the TCRF money is for project construction that will not occur in the near term, TCRF does not need such a large cash balance at this time.

Current law allows any TCRF money derived from the General Fund that is not currently needed for TCRP projects to be transferred back to the General Fund through the budget act. However, the Director of Finance may require that these funds be returned to the TCRF upon determining that the TCRF does not have adequate money to support expected cash expenditures. In any case, such a loan must be repaid by June 30, 2006.

The Governor's budget projects $820 million in TCRF expenditures for transportation projects in 2002-03. To fund these projects, the budget proposes to transfer State Highway Account funds of $474 million to TCRF. The net result of this transfer is to enable a loan of $672 million from TCRF to the General Fund in the budget year.

Based on past project delivery and capital expenditure experience, the projected level of TCRF expenditures appear highly ambitious and optimistic. As such, we believe that there is room for a larger TCRF loan to the General Fund in 2002-03.

To the extent that TCRF expenditures are higher, the state can increase the amount to be transferred from the State Highway Account.

General Government

Department: Board of Equalization

Description of Option

Sales and Use Tax. Increase reimbursements to offset administrative costs for local taxes.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $1.3 million.

Legislation Required

✓	**Yes**		**No**

Comments

Pursuant to Chapter 890, Statutes of 1998 (AB 836, Sweeney), BOE was required to reduce the reimbursements it receives from special taxing districts for administering the sales and use tax for these entities. The legislation established a maximum reimbursement amount for smaller districts as a means of making special taxes more financially feasible. However, this policy essentially means that the state is subsidizing special taxing districts for administrative costs. An argument can be made that the administrative costs of taxes that are approved by public bodies should be borne by them.

Department: Employee Compensation

Description of Option

Personal Leave Program (PLP). Establish a program to reduce either excluded employees' (supervisors and managers not covered by collective bargaining) or all state employees' monthly pay by 5 percent in exchange for one additional day off per month.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $24 million per month ($285 million per year) if applied to all state employees.

Legislation Required

✓	**Yes**		**No**

Comments

A PLP, if applied to only excluded employees (supervisors and managers), would result in $5.1 million savings a month (for one day of unpaid leave), and $24 million a month if applied to all state employees.

In the early 1990s, the state implemented PLP to reduce costs to address a significant budget deficit. The plan was first adopted for excluded employees only and then was negotiated into new memoranda of understanding with the bargaining units six months later. The program was in place for two years for excluded employees and 18 months for represented employees.

The state did not require employees to use this time off within a specified time period so many employees still have PLP balances. Thus, the state continues to accrue liability for these balances. Adopting a provision to require use of the unpaid leave within a specified period would avoid a similar continuing accrual of liability.

This option would be subject to collective bargaining for represented employees, but could be implemented immediately for excluded employees.

Department: Employee Compensation

Description of Option

State Contribution to State Employees Health Benefit. Eliminate (or reduce) state "pick-up" of two-thirds of 2002 and 2003 health insurance premium increases.

Type of Option: Benefit Reduction

General Fund Impact

2001-02: $4.2 million.

2002-03: $49 million (if eliminate "pick-up").

Legislation Required

✓	**Yes**		**No**

Comments

The memoranda of understanding (MOUs) approved for nine bargaining units, and the compensation package approved for excluded employees, require the state to pay for ("pick up") two-thirds of the average 6 percent increase in health insurance premiums effective January 1, 2002 and two-thirds of the as-yet-undetermined premium increase that will be effective January 1, 2003. Twelve bargaining units remain without MOUs approved by the Legislature, although seven of those have recently reached agreement with the administration.

This option assumes the Legislature approves similar MOUs for the remaining 12 bargaining units.

In addition to the "pick-up" of the increase in health premiums, the state also contributes about 85 percent of the 2001 base premium in state employee health insurance. The state could save additional funds by reducing the portion of premiums it contributes.

This option would be subject to collective bargaining.

Department: Employee Compensation

Description of Option

State Holiday. Temporarily suspend or eliminate a state holiday.

Type of Option: Other

General Fund Impact

2001-02: None.

2002-03: $9.1 million.

Legislation Required

✓	**Yes**		**No**

Comments

Each state holiday requires overtime pay for state employees who have public safety duties (for example, the Department of Forestry and Fire Protection and the California Highway Patrol) or work in 24-hour facilities (for example, the Departments of Corrections and Mental Health).

General Fund costs associated with holiday overtime work is estimated at $9.1 million. (This was the General Fund cost, for example, of the Cesar Chavez holiday.) Currently, state employees have 13 state holidays. Eliminating one state holiday in February, for example, would return the state to 12 paid holidays and result in one Monday holiday in February instead of two. Nationwide, states provide an average of 11.2 days of state holidays for employees, and 28 states observe Presidents' Day as a single holiday in February.

This option would be subject to collective bargaining.

Department: Food and Agriculture

Description of Option

"Buy California" Marketing Program. Fund program entirely through available federal funds, thereby eliminating General Fund support of the program.

Type of Option: Funding Shift

General Fund Impact

2001-02: $5 million (none of the funds have been spent yet).

2002-03: $5 million.

Legislation Required

	Yes	✓	**No**

Comments

The "Buy California" is a new program started in 2001-02, with $5 million from the General Fund. These funds are intended to leverage an undetermined amount of private sector contributions. However, as of mid-December 2001, none of the state funds has been spent. In addition to the state funds, the CDFA has received $45 million in federal funds for various market access programs. These funds will be available for encumbrance through September 2002. A state contribution is not required in order to receive these federal funds.

Department: Food and Agriculture

Description of Option

Red Imported Fire Ant Program. Eliminate state support for the program.

Type of Option: Funding Shift

General Fund Impact

2001-02: About $3.2 million (if implemented by March 2002).

2002-03: $8.7 million.

Legislation Required

	Yes	✓	**No**

Comments

The red imported fire ant is a nuisance pest but does not threaten any California agricultural industry.

Under the program, the California Department of Food and Agriculture mainly contracts with county agricultural commissioners to detect and eradicate the ants. Currently, the program is limited to a small number of counties in the state. Because the ants do not pose a risk to the state's agriculture, it is questionable that the state should fund the eradication of this pest. The counties should decide whether the program is worth continuing and if they conclude that it is a priority, they should fund the program.

Department: Franchise Tax Board

Description of Option

California Child Support Automation System (CCSAS). Defer establishment of county transition team for one year.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $0.9 million.

Legislation Required

	Yes	✓	**No**

Comments

The Legislature approved $869,000 in the *2001-02 Budget Act* to establish a team responsible for transitioning counties from the current interim child support automation systems to CCSAS. The CCSAS pilot is currently scheduled to begin in 2005. Since the first county is scheduled to begin in three years, the team could be deferred for one year and then reestablished in 2003-04.

Department: Health and Dental Benefits for Annuitants

Description of Option

State Contribution for Annuitants' Health Benefits. Temporarily (or permanently) reduce the 100/90 formula used to calculate the portion of health insurance premiums the state picks up for retirees and their dependents.

Type of Option: Benefit Reduction

General Fund Impact

2001-02: None.

2002-03: $5 million (upfront) if reduce retirees' benefits by 10 percent; $7.5 million if reduce dependents' benefits by 10 percent.

Legislation Required

✓	**Yes**		**No**

Comments

Current law requires the state to pay 100 percent of the health insurance (a weighted average) premium for retirees and 90 percent of the premium for retirees' dependents. Each 10 percent reduction in the state pick-up for retirees would save about $5 million from the General Fund upfront. (The General Fund subsequently would be reimbursed when special funds are charged for their share, which is about one-third, through the pro rata allocation that occurs approximately 18 months later). Each 10 percent reduction in the state pick-up for retirees' dependents should save about $7.5 million upfront.

A recent (September 2001) survey of state government employee healthcare benefits (conducted by Kentucky) shows that the majority of states (60 percent) require individuals to pay a portion of the cost of the individual healthcare coverage premium. Additionally, 56 percent of states pay 75 percent or less of the dependent portion of healthcare premiums.

Department: Industrial Relations

Description of Option

Division of Apprenticeship Standards. Eliminate General Fund support for the Division of Apprenticeship Standards (DAS).

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $1.9 million.

Legislation Required

✓	**Yes**		**No**

Comments

The DAS approves and certifies apprenticeship programs for various occupations and trades and investigates complaints related to these programs. The division is funded with a combination of General Fund and other funds. Eliminating General Fund support would leave about $6.3 million in funding from the Employment Training Fund ($3.2 million), the Electrician Fund ($1.8 million), and the Apprenticeship Training Contribution Fund ($1.3 million) to continue the apprenticeship certification function. To the extent this level of funding is inadequate for the certification of apprenticeship programs, the applicants for certification could be charged a user fee for the certification costs.

Eliminating the DAS's General Fund support would eliminate funding for its complaint handling and investigation activities. However, these activities could be consolidated under the department's Division of Labor Standards Enforcement that currently handles all other workplace complaints related to labor standards. Doing so could result in improved increase in efficiencies.

Department: Industrial Relations

Description of Option

Eliminate DLSE and DAS Augmentation. Eliminate current-year augmentation to the Division of Labor Standards Enforcement (DLSE) and the Division of Apprenticeship Standards (DAS) to increase enforcement of labor laws.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: About $2 million.

Legislation Required

	Yes	✓	No

Comments

Since 1997-98, funding for various DIR programs has increased significantly. In particular, funding for DLSE increased more than 50 percent, from $26 million in 1997-98 to $40 million in 2000-01.

The Legislature augmented DIR's enforcement programs in 2001-02 by $2 million (25 positions) over the proposed level, including $1,625,000 for DLSE and $375,000 for DAS. Eliminating the augmentation would leave the programs funded at $43 million and $8.7 million, respectively.

Our review of the DLSE inspection program shows increasing compliance by businesses with labor laws during the last few years. Eliminating the current-year augmentation may not have a significant negative impact on overall enforcement.

Department: Local Government Finance

Description of Option

Booking Fees. Eliminate reimbursements to cities and special districts for jail booking fees they paid to counties in 1997-98.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.
2002-03: $38.2 million.

Legislation Required

✓	**Yes**		**No**

Comments

Chapter 466, Statutes of 1990 (SB 2557, Maddy) gave counties the ability to charge cities and special districts a booking fee each time an individual was booked into the county jail. While giving counties a new revenue source, the payment of booking fees also provides a fiscal incentive for police departments to not unnecessarily book individuals. Beginning with the 1999-00 budget, local governments have been annually reimbursed for the booking fees they paid in 1997-98. Eliminating the booking fee reimbursements, therefore, would affect those cities and special districts which paid booking fees in 1997-98.

Department: Office of Planning and Research

Description of Option

Office of Innovation in Government. Eliminate the Office of Innovation in Government and reduce expenditure authority in Department of Social Services (DSS) and Franchise Tax Board (FTB) to fund those activities.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $0.4 million.

Legislation Required

	Yes	✓	**No**

Comments

The Office of Innovation in Government (OIG) reviews state business practices, facilitates task forces to improve state services, leads eGovernment initiatives, and measures customer service. The Office of Planning and Research (OPR) has funded these activities over the past three years through a series of interagency agreements with the Department of General Services (DGS), FTB, DSS, Employment Development Department (EDD), and Department of Motor Vehicles (DMV). The annual agreements total $1 million ($400,000 General Fund, $200,000 Service Revolving Fund, $200,000 Motor Vehicle Account, and $200,000 federal fund).

The OPR is unable to demonstrate the effectiveness of OIG. For example, OPR is unable to provide reports, studies, or evaluations that OIG has conducted for DGS, FTB, DSS, EDD, and DMV. The administration is also unable to demonstrate that state services have improved or are more cost effective due to OPR's activities. Redirection of funding to support OPR activities has also not affected state services provided by FTB and DSS.

Department: Office of the Lieutenant Governor

Description of Option

Commission on Economic Development. Eliminate funding for support of the Commission for Economic Development.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $0.3 million.

Legislation Required

	Yes	✓	**No**

Comments

The Commission for Economic Development was established in order to provide support and guidance to the Legislature, the administration, and the private sector on the state's economic development. Funding for the commission was eliminated in January 1995, however, the Legislature provided $461,000 and 8.1 PYs in the *2001-02 Budget Act*. The Governor's budget proposes to reduce funding for the commission by $130,000 and 1 PY.

The commission's activities are duplicative of activities currently performed in the Technology, Trade, and Commerce Agency. In addition, the Office of the Lieutenant Governor is unable to provide workload data and information concerning the activities of the commission.

Department: Public Employees' Retirement System (PERS)

Description of Option

State Contribution to PERS Health Administrative Costs. Fund part of administrative costs from accumulated balance in the Public Employees Contingency Reserve Fund, thereby reducing state contribution rate.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: $2.7 million (if rate is lowered from 0.5 percent of all health insurance premiums to 0.15 percent).

Legislation Required

	Yes	✓	**No**

Comments

Control Section 4.20 of the budget act sets the rate the state pays for PERS administrative costs associated with the health insurance program. Local governments contribute at the same rate as the state. The current-year rate is 0.5 percent of gross health insurance premiums.

The state contribution pays for about 60 percent of PERS administrative costs, half of which is from the General Fund. Local governments pay for the remaining 40 percent. Contributions are deposited in the Public Employees Contingency Reserve Fund from which PERS administrative costs are funded. The fund is projected to have a current-year ending balance of about $12.2 million, after costs of $12 million are paid. Based on PERS data, we estimate that reducing the budget-year contribution rate from 0.5 percent to 0.15 percent would draw down the fund balance by about $8.5 million, leaving a balance of $2.8 million at the end of 2002-03. (Sixty percent of the rate savings would accrue to the state, split between the General Fund and special funds. Forty percent of the savings would accrue to local governments.)

Department: Tax Relief

Description of Option

Senior Citizens' Property Tax Assistance. Lower the scheduled tax relief benefits to senior citizens on a temporary basis.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Up to $75 million.

Legislation Required

✓	**Yes**		**No**

Comments

As part of the 2001-02 budget agreement, benefits for the Senior Citizens' Property Tax Assistance programs were permanently increased by 45 percent over their 1999-00 baseline level, at a cost of roughly $75 million annually. These benefits could be reduced temporarily—to any level between the prior baseline amount and the new scheduled amount.

Department: Technology, Trade, and Commerce Agency

Description of Option

Biomass to Energy Program. Eliminate grant program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $6 million.

Legislation Required

✓	**Yes**		**No**

Comments

This program was created in 2000-01 to subsidize for three years (through 2002-03) the operating costs of small power plants that use agricultural waste as fuel to generate electricity. While the agency promotes the program as a job creation and retention activity, there is no information as to the effectiveness of the program.

Additionally, the Energy Commission, which has expertise in the energy generating area, already administers a renewable energy program. The commission's program includes $135 million (available through March 2002) for existing power plants fueled by biomass, waste tires, and solar thermal power. In addition, there is $241 million available for new facilities powered by various sources including biomass. In view of the above, it is not clear why there needs to be a separate program under the Technology, Trade and Commerce Agency exclusively for biomass plants.

Department: Technology, Trade, and Commerce Agency

Description of Option

California Film Commission. Eliminate General Fund support of commission and instead make it fee-supported.

Type of Option: Funding Shift

General Fund Impact

2001-02: None.

2002-03: $3.3 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Film Commission provides one-stop permit application for filming on state property (such as highways, buildings, and parks), supports a computer database of pictures for location scouting, and provides technical assistance to local governments to market to the film production industry. Annual support costs for these activities total about $3.3 million. The commission also administers the film permit subsidy program to lower the cost of filming in California, with a support level of $100,000. (Please see write-up on Film Permit Subsidy option.)

The commission issues each year about 3,000 permits to film on state property. The commission's one-stop permit assistance functions could be funded with a user fee charged to permit applicants. Charging a user fee is appropriate because the film companies are receiving a service that is assisting their business.

Department: Technology, Trade, and Commerce Agency

Description of Option

California Technology Investment Partnership (CalTIP). Eliminate or suspend state funding of program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $6 million.

Legislation Required

✓	**Yes**		**No**

Comments

The CalTIP program provides grants to projects in order to speed up the marketability of technologically innovative products developed by small businesses. Grants, typically around $150,000 to $200,000, are used to match federal funds, although matching funds can come from other sources, such as private funds. Eliminating state funding could result in fewer federal funds for these projects.

Since the beginning of the program in 1993-94, $29 million in state funds have matched a total of about $500 million in federal and private funds. The effectiveness of the program and the state's contribution, however, has not been demonstrated. Additionally, it is not clear that the absence of the state funds would significantly reduce the availability of federal and private funds.

Department: Technology, Trade, and Commerce Agency

Description of Option

Defense Adjustment Matching Grant Program. Eliminate state funding of the program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $0.5 million.

Legislation Required

	Yes	✓	**No**

Comments

This grant program has provided about $18 million in state funds since 1993-94 to local communities to develop and implement military base conversion plans in response to base closures. The state funds are used together with local funds to match federal funds (which require a 25 percent nonfederal match). The federal funding level is expected to remain stable for the next few years.

The agency has not demonstrated the impact of the state's funds. In addition, initial base closures occurred a number of years ago and planning and implementation of these plans should be well underway by now.

Department: Technology, Trade, and Commerce Agency

Description of Option

Film Permit Subsidy. Eliminate the subsidy program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $10.1 million (including grant funds and administrative costs).

Legislation Required

✓	**Yes**		**No**

Comments

This program was created in 2000-01 to subsidize, for three years through 2002-03, local film permit costs in an effort to keep film production in California. No information is available as to whether this program has retained film productions or simply subsidized activity that would have occurred anyway.

There is no basis for the program's funding level. The program expended about $5 million in 2000-01 and, for the current year, less than $1 million has been paid through mid-December 2001.

Elimination of the subsidy program would also reduce costs of about $100,000 incurred by the Film Commission to administer the program.

Department: Technology, Trade, and Commerce Agency

Description of Option

Foreign Trade Offices. Eliminate or reduce the number of the state's foreign trade offices.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: Up to $6.1 million.

Legislation Required

✓	Yes		No

Comments

The state operates seven foreign trade offices that are staffed by state employees and five contract offices staffed by consultants. The Governor has already cut about $244,000 in funding for the unopened Calgary office and various existing offices, pursuant to Control Section 3.90 of the current-year budget act. In addition, the Governor, as part of his November revision, has proposed eliminating $457,000 for the India and Philippines contract offices, which also have not opened. An additional $1.2 million remains for the contract offices and $4.9 million for the foreign trade offices.

The agency has not demonstrated that the offices have increased trade activity. While the agency submitted a report in 1998-99 on the cost and benefits of the foreign trade offices, the report methodology was flawed such that the benefits and effectiveness of the foreign trade offices are still not determined.

Department: Technology, Trade, and Commerce Agency

Description of Option

Manufacturing Technology Program. Eliminate state support of the program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $5.4 million.

Legislation Required

✓	**Yes**		**No**

Comments

The state contributes to a federal program that provides subsidized consulting services to small businesses. The current-year program totals about $30 million in state, federal, in-kind, and fee-based funding. Cutting state funding could reduce federal funding as well, assuming the current funding structure, because of the statutory one-third federal/two-thirds other funding requirement. Total program funding would fall to about $20 million in 2002-03 absent the state's contribution. However, other nonstate funds (local and private funds) can be used to match federal funds.

Department: Technology, Trade, and Commerce Agency

Description of Option

Next Generation Internet Centers. Eliminate agency support for the centers.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $1 million.

Legislation Required

	Yes	✓	No

Comments

This program was created in 2000-01 to support, for three years through 2002-03, administrative costs for the centers at UC San Diego and UC Berkeley and to provide grants for the development of small business-oriented software applications. The program calls for a mixture of state, federal and private funding. Current-year state funding is $2 million. In addition, the centers, which just opened in December 2001, also receive about $2 million in federal funds and $4 million from private nonprofit sources.

The *2002-03 Governor's Budget* proposes a $1 million reduction in state funding, leaving $1 million for the program. This reduction would cut the federal and private funds in half as a result. Eliminating the remaining $1 million (per this option) would, under the current program funding agreement, eliminate all federal and private funding, thereby eliminating the program. However, to the extent the program is worthwhile and effective, the centers should be able to seek increased private sector funding or university funding.

Department: Technology, Trade, and Commerce Agency

Description of Option

Office of California-Mexico Affairs. Eliminate the office and the Commission of the Californias.

Type of Option: Improved Efficiencies

General Fund Impact

2001-02: None.

2002-03: $0.6 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Office of California-Mexico Affairs is involved in border-related economic development issues. Its primary function is to coordinate two conferences—the annual Border Governors' Conference and the Commission of the Californias which has met twice in the 1990s. This work can be absorbed and prioritized within the agency and the Governor's Office.

Department: Technology, Trade, and Commerce Agency

Description of Option

Office of Military Base Reuse and Retention. Eliminate the office.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $1.8 million.

Legislation Required

✓	**Yes**		**No**

Comments

The work of this office includes studies related to retaining the aerospace industry and preparation for further military base closures. The next round of base closures was initially scheduled for 2003, but has since been postponed to 2005.

The office has neither a strategic plan nor work plan to guide its activities in order to achieve its mission. Moreover, the agency has not demonstrated the effectiveness of the office's efforts and activities to date, many of which could be prioritized as part of the Division of Economic Development's workload.

Department: Technology, Trade, and Commerce Agency

Description of Option

Regional Offices. Eliminate the agency's four regional offices.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $ 2.6 million.

Legislation Required

✓	Yes		No

Comments

The agency has regional offices in San Diego, Los Angeles, the Bay Area, and Sacramento/Northern California in addition to its headquarters in Sacramento. Current-year support for these regional offices totals $2.6 million. The regional offices offer technical assistance to businesses which includes, assisting domestic and international companies in site location, directing business inquiries to the appropriate agency divisions for assistance, and setting up state-supported training programs for businesses.

The agency has not demonstrated the added benefits and effectiveness of the regional offices in terms of business development. Most of the assistance provided by the regional offices could be provided through the agency's web site or by phone.

Department: Technology, Trade, and Commerce Agency

Description of Option

Rural E-Commerce Grant Program. Eliminate grant program.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $1 million.

Legislation Required

	Yes	✓	No

Comments

This program was created in 2000-01 to match federal, local, and private funds for projects to increase the use of telecommunications and computer technologies among small businesses in rural areas. First-year funding was awarded in June 2001, and second-year funding was awarded in December 2001. Thus, program results are not yet available.

First-year funding of $2 million was awarded to nine nonprofit corporations and public entities, which also provided or received $3.1 million from their own or other sources. State funding ranged from $50,000 to $490,000. Without state funding, potential projects may be scaled back or not considered.

The *2002-03 Governor's Budget* proposes a $1 million reduction in program funding, thereby leaving $1 million for the program.

Department: Technology, Trade, and Commerce Agency

Description of Option

Space Industry Development Grant. Defer funding for one year.

Type of Option: One-Time Adjustment or Deferral

General Fund Impact

2001-02: None.

2002-03: \$1 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Governor's budget proposes \$1 million to fund a space industry initiative. This proposal revamps and merges two previously funded grant programs. Agency management and reporting requirements in the proposal are better than in the past.

The proposal includes \$675,000 for grants for development of space-related infrastructure, support services, and technologies; \$248,000 for a nonprofit organization to administer the grants and perform other space-related functions specified in law and as determined by the agency; and \$77,000 for agency support costs.

There is no funding in the current year for this purpose. This proposal could be delayed for another year in light of the General Fund condition.

Department: Technology, Trade, and Commerce Agency

Description of Option

Tourism Division. Eliminate General Fund support of the division; rely on industry assessment to fund state and regional promotion.

Type of Option: Service Reduction

General Fund Impact

2001-02: None.

2002-03: $8.2 million.

Legislation Required

✓	**Yes**		**No**

Comments

The Tourism Division receives General Fund support to market, mainly through print and media advertising, the state and its regions to both domestic and international tourists. The division also receives off-budget support from an annual assessment of tourism businesses (including hotels, theme parks, restaurants, and travel services). In 2000-01, the assessment generated $6.3 million.

If the tourism industry finds it of high priority to increase tourism promotion, it can increase the self assessment to backfill the amount previously funded by the General Fund.

REVENUES

Department: Personal Income Tax

Description of Option

Capital Gains Treatment Upon Death. Eliminate "step-up" provision.

Type of Option: Elimination of Exemption

General Fund Impact

2001-02: None.

2002-03: $2 million.

Legislation Required

✓	**Yes**		**No**

Comments

Under current law, the "basis" of property is adjusted upward to equal its market value upon the death of the owner. Since income taxes on capital gains are levied on amounts in excess of the basis, capital gains that materialize prior to the transfer of property to heirs are not taxed. Some have raised concerns that, without this program, capital gains potentially would be subjected to both income and estate taxation. The recent change in federal law, however, which will phase out the federal estate tax (as well as California's estate "pick-up" tax), largely eliminates the potential for this type of "double taxation." This option would eliminate the step-up provision and, as a result, capital gains would be fully subject to taxation when property is sold or transferred by the heirs. The revenue gains from this option would grow rapidly over time, reaching tens of millions of dollars annually after several years.

Department: Personal Income Tax

Description of Option

Dependent Care Credit. Limit credit to those earning up to California's median income.

Type of Option: Limit Credit

General Fund Impact

2001-02: None.

2002-03: $100 million.

Legislation Required

✓	**Yes**		**No**

Comments

The California dependent-care credit is tied directly to the federal child-care credit, which is based on a percentage of eligible child-care expenses. The purpose of the program is to assist families with dependents with the costs associated with their care. The credit is based on a percentage of the federal credit and is refundable for certain taxpayers with no tax liability. The percentage credit declines from 63 percent of the federal credit for those earning $40,000 or less to 42 percent for those earning up to $100,000. The estimated revenue impact of the program is approximately $166 million in 2002-03. Limiting the credit to taxpayers earning $50,000 (California's median income) or less would save $100 million in 2002-03.

Department: Personal Income Tax

Description of Option

Mortgage Interest Deduction. Limit the amount of home mortgage debt eligible for the deduction.

Type of Option: Limit Deduction

General Fund Impact

2001-02: None.

2002-03: Low tens of millions of dollars to approximately $100 million.

Legislation Required

✓	**Yes**		**No**

Comments

Current law allows taxpayers to deduct interest on up to $1 million of mortgage debt they have incurred for the purchase of first and second homes, plus interest on up to $100,000 of other borrowing secured with a home (for example, home-equity loans). This program could be modified without seriously impairing the primary objective of the program—encouraging home ownership. Two possible options are:

- Limit the Debt Eligible for the Mortgage Interest Deduction. This option involves reducing the amount of principal eligible for the mortgage interest deduction. The Congressional Budget Office (CBO) has estimated the federal revenue effect for reducing the principal eligible for the mortgage interest deduction from $1 million to $300,000 to be in the $3 billion to $4 billion range. Based on this, we estimate that a similar limitation in California would increase tax revenues in the range of $100 million in 2002-03.
- Limit the Mortgage Interest Deduction for Second Homes. This option involves eliminating the provision allowing the mortgage interest deduction for second homes. The CBO estimates that limiting the mortgage interest deduction to debt incurred for the purchase of primary residences, plus an additional $100,000 in debt secured by a residence, would result in additional federal revenue in the $500 million to $800 million range. Based on this, we estimate that a similar limitation in California would result in additional revenues in the low tens of millions of dollars in 2002-03.

Department: Personal Income Tax

Description of Option:

Teacher Tax Credit. Eliminate credit.

Type of Option: Eliminate Credit

General Fund Impact

2001-02: None.

2002-03: $227 million.

Legislation Required

✓	**Yes**		**No**

Comments

This program gives credentialed teachers a tax credit ranging from $250 to $1,500 depending on their years of teaching service. The credit is limited to 50 percent of teaching-related income. This provision establishes a category of "special" occupations that are given special treatment under the tax code. This could result in pressures to grant special tax treatment to other occupations. If the Legislature wishes to put a program in place to attract and retain teachers, a direct compensation program is likely to be more effective.

Department: Personal Income Tax and Bank and Corporation Tax

Description of Option

Federal Conformity. Various PIT and BCT measures.

Type of Option: Federal Conformity

General Fund Impact

2001-02: None.

2002-03: $36 million.

Legislation Required

✓	**Yes**		**No**

Comments

California generally attempts to conform to federal law with respect to the personal income tax and the bank and corporation tax. The combined fiscal effect for additional conformity in various areas for both taxes (beyond proposals included in the Governor's 2002-03 budget) totals $36 million in 2002-03. These areas of additional conformity are: deny deduction for club dues ($12 million), adjust the tax treatment of certain trade receivables ($12 million), change tax treatment of certain liquidating distributions of regulated investment companies and real estate investment trusts ($5 million), and deny deductions for lobbying expenses ($7 million).

Department: Personal Income Tax and Bank and Corporation Tax

Description of Option

Net Operating Loss (NOL) Carryover Deduction. Suspend for two years.

Type of Option: Limit Deduction

General Fund Impact

2001-02: $120 million.

2002-03: $790 million.

Legislation Required

✓	**Yes**		**No**

Comments

Businesses filing under the personal income tax and the bank and corporation tax are currently allowed to deduct business losses from prior years from their current-year's tax liability. The carryover percentage is 60 percent for 2002 and the carryover period is ten years. Under this option, taxpayers would not be able to deduct any carry-over losses for two years. A similar temporary suspension was enacted in the early 1990s, with businesses allowed to extend the expiration date of their existing NOLs for an additional two years. The temporary nature of the suspension provides businesses some certainty regarding the future tax policy of the state with respect to NOLs, and thereby reduces any adverse impacts. Our fiscal effect estimate assumes a March 2002 implementation.

Department: Sales and Use Tax

Description of Option:

Custom Computer Programs. Eliminate exemption.

Type of Option: Eliminate Exemption

General Fund Impact

2001-02: None.

2002-03: Approximately $175 million.

Legislation Required

✓	**Yes**		**No**

Comments

The rationale for this tax expenditure is that custom computer programs consist largely of services delivered to the purchaser, and these services are simply embodied in the software. Since services themselves generally are not subject to the sales and use tax, the theory is that custom computer programs should also be exempt. However, this argument can equally be applied to a variety of other items, most readily to other "off-the-shelf" computer programs, but also to books, musical recordings, and paintings. In fact, any item produced using substantial amounts of labor might also fit this criterion. Eliminating this tax expenditure would result in somewhat more consistency in the way that the sales and use tax is applied.

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