SUMMARY OF RECOMMENDED LEGISLATIVE CHANGES CONTAINED IN THE ANALYSIS OF THE 1985-86 BUDGET BILL

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INTRODUCTION

This report summarizes the recommendations for new legislation contained in the Analysis of the 1985-86 Budget Bill.

All of the recommendations included in this report are discussed in greater detail within the Analysis. This report merely (1) summarizes our analysis of the issues at stake, (2) outlines the contents of the changes in existing law that we recommend, and (3) presents our estimate of the fiscal effect from the proposed legislation. These recommendations generally fall into one of three categories:

- Legislative changes that would result in direct savings to the state and/or local governments;
- Legislative changes in the state's administrative structure which would increase efficiency and result in cost savings; and
- Legislative changes which may not result in any cost savings, but would improve the delivery of mandated services to the citizens of California.

Contributions to Judges' Retirement Fund--
New Retirement Plans for Future Judges

Reference:

Analysis page 23.

Analysis:

The current retirement program of the Judges' Retirement System (JRS) provides no tax advantages and no flexibility to meet the varying benefit--needs of judges. In addition, the state's cost of funding JRS benefits is too high, when compared to other state retirement programs. Under current law, the state is ultimately responsible for the entire funding shortfall of the system, currently estimated to be in excess of $500 million.

Recommendation:

We recommend the enactment of legislation establishing new retirement programs for future judicial appointees which would provide (1) flexibility to judges in designing their retirement program, (2) federal and state personal income tax advantages and (3) control of the state's financial exposure under the JRS.

Fiscal Impact:

Indeterminable annual impact on the General Fund, depending on the types and contents of new programs which might be enacted.

Fair Employment and Housing Commission--In-House Hearing Officers

Reference:

Analysis, page 150

Analysis:

Under current law, when the Department of Fair Employment and Housing files a "formal accusation" alleging unlawful employment or housing discrimination against a party, a formal hearing is convened before an administrative law judge (ALJ), provided by the Office of Administrative Hearings--OAH--in the Department of General Services. Upon completion of the hearing, the OAH hearing officer drafts a proposed decision for consideration by the Fair Employment and Housing Commission (FEHC). The proposed decision and the hearing record are examined by FEHC attorneys who prepare case summaries and recommendations for the commissioners.

Our review found a substantial duplication of effort between the OAH hearing officers and the FEHC staff attorneys. Specifically, we found that up to nine out of every ten proposed decisions referred to FEHC are rejected by the commission and are being re-written by FEHC attorneys. According to FEHC staff, this occurs because (1) the OAH hearing officers are generalists who may not be as familiar as the FEHC staff with the more recent statutory and case developments in the field of unlawful discrimination; (2) the commission oftentimes wishes to redraft decisions to reflect a precedential development of anti-discrimination case law (the OAH officers may not be aware of this interest at the time of the hearing); and (3) the Administrative Procedure Act, which governs the formal accusation hearings, restricts the FEHC's options with respect to the

proposed decisions (if FEHC wants to alter the OAH draft in any way--other than a change in the amount of damages awarded--it must reject the entire draft).

Our analysis indicates that this duplication of effort could be avoided by providing the FEHC with "in-house" hearing officers to preside over formal accusation hearings in lieu of OAH personnel.

Recommendation:

We recommend the enactment of legislation authorizing the FEHC to establish in-house hearing officers who can preside at formal accusations on behalf of the commission.

Fiscal Impact

Annual net General Fund savings of approximately $164,000. There would be increased costs to the FEHC to reclassify certain positions and reduced costs from eliminating the OAH services.

Public Employees' Retirement System (PERS)--Termination of the Public Employees' Contingency Reserve Fund

Reference:

Analysis, page 225.

Analysis:

Under the Public Employees' Medical and Hospital Care Act of 1961, the PERS provides medical insurance for its members through carriers who contract with the system. In support of this program, the PERS also administers the Public Employees' Contingency Reserve Fund (PECRF), which finances (through two surcharges based on gross insurance premiums imposed on the employers): (1) PERS' cost of administering the health insurance program and (2) a special reserve. This special reserve has been used recently to subsidize health insurance premiums charged by one carrier (Blue Cross/Blue Shield).

Our analysis indicates that the purposes of the PECRF could be achieved in a simpler, more direct fashion. For example, PERS' administrative costs could be appropriated directly in the Budget Bill, agencies reimbursing the system for these costs, and any health care subsidies could be paid out of the Augmentation for Employee Compensation Item (9800).

Recommendation:

We recommend that the Legislature amend the appropriate sections of the Government Code to (1) terminate the PECRF and (2) provide for reimbursement of PERS' administrative costs (and health insurance premium

subsidy costs--if needed) from direct appropriations made to agencies for this purpose through the annual Budget Bill.

Fiscal Impact:

No direct fiscal impact. The use of direct appropriations, however, could preclude instances of overbudgeting by agencies of PECRF-related expenses (please see 1985-86 Analysis, page 224-225).

Public Employees' Retirement System (PERS)--Transfer of Administration of the Health Benefits Program

Reference:

Analysis, page 226.

Under the Public Employees' Medical and Hospital Care Act of 1961, the PERS Board of Administration--with the assistance of the PERS Health Benefit Division staff--is responsible for administering health benefits available to PERS members.

The structure of state government has changed significantly since 1961, when the PERS was given this administrative responsibility. In 1981, the Department of Personnel Administration (DPA) was established to manage the non-merit aspects of the state personnel system. Currently, the DPA administers all of the state benefit programs, except health benefits and retirement-related benefits provided by the PERS.

Our analysis indicates that the administration of health benefits should also be assigned to the DPA, because such a change would (1) be consistent with DPA's statutory responsibility in the area of benefit administration and (2) consolidate in one agency the administration of all health-related benefits. In addition, the continued administration of health benefits by the PERS board--an independent entity--makes it difficult for the state to implement successfully the State Employer-Employee Relations Act.

Recommendation:

We recommend that the appropriate sections of the Government Code be amended to transfer administration of health benefits from the PERS to the DPA.

Fiscal Impact

No direct impact.

Department of Insurance--Extend Insurance Fund

Reference:

Analysis page 287.

Analysis:

Chapter 722, Statutes of 1982 (AB 1797), created the Insurance Fund to support the department's activities during a three-year period--from July 1, 1983, to July 1, 1986. Revenues deposited in the fund are primarily from insurance company license and examination fees. The department previously was supported by appropriations from the General Fund. Presumably, the department's support will switch back to the General Fund if legislation is not passed which permanently extends the Insurance Fund beyond the existing sunset date of July 1, 1986.

Our analysis indicates that, as demonstrated in 1983-84 and 1984-85, the regulatory activities of the Department of Insurance can be supported directly from fees levied on the insurance industry. Accordingly, we recommend that legislation be enacted permanently extending the Insurance Fund.

Recommendation:

We recommend the Legislature enact legislation permanently extending the Insurance Fund beyond the existing July 1, 1986, sunset date.

Fiscal Impact:

No net state fiscal impact. The Department of Insurance would continue to be funded from the Insurance Fund instead of the General Fund.

Moreover, the revenues would be deposited in the Insurance Fund rather than the General Fund.

Department of Transportation--Establish Guidelines for Leasing Department Property

Reference:

Analysis page 336.

Analysis:

Current law allows the Department of Transportation to lease to public and private entities the use of areas above or below highways and any land not currently needed for highway purposes. The department does not have explicit authority to lease nonhighway properties.

For 1985-86, the department proposes to lease out land or air rights associated with its San Francisco Peninsula Commuter Rail Service. The budget requests $400,000 for consultants to assess the potential value of such leases, to develop the necessary lease documents, and to assist the department in lease negotiation. Of the total request, $200,000 would be for services related to current properties along the Peninsula Commuter Service right-of-way, and another $200,000 for services related to properties the department plans to acquire (adjacent to the Transbay Terminal building) for a new San Francisco underground terminal for the commuter service.

It is not clear whether current law regarding property leases applies to commercial development of the type contemplated by the department. Moreover, our review indicates that, in considering leases of its properties for commercial development, the department may fail to consider alternative uses of these properties that would satisfy other state needs.

Recommendation:

We recommend that legislation be enacted to provide clear guidelines for the department and the California Transportation Commission to follow in making decisions regarding leasing state-owned nonhighway properties for commercial development and uses.

Fiscal Impact:

Unknown, but potentially major, fiscal impact to the State Transportation Fund, depending on the policy guidelines.

Energy Resources Conservation and Development Commission--
Application Fees for Third-Party Power Plant Developers

Reference:

Analysis page 407.

Analysis:

Most power plants now being built in California are owned by private parties other than utilities (called "third parties"). The commission does not charge applicants a fee to process power plant siting applications. The commission's administrative costs, instead, are funded from the Energy Resources Programs Account (ERPA) which derives its revenue from a surcharge on electricity sold by utilities. As a result, utility rate payers are subsidizing third-party power plant developers. A policy to charge third party developers for the commission's cost of reviewing their siting applications would eliminate this subsidy.

Current law requires the commission to process each power plant siting application within one year. Because applications are not filed at a constant rate, the commission experiences periods of both high and low workload. Uneven workload increases the commission's costs due to expensive overtime and contract support needed during peak workload periods. Charging fees to third party applicants could reduce the peak workload problem, because a third party applicant could be given the choice of (1) waiting to submit the application and paying a fee to cover the average costs of the siting process or (2) submitting the application during the peak workload period and paying the higher fee needed to cover the additional cost of using overtime and/or outside contract services.

Recommendation:

We recommend that legislation be enacted to require the commission to adopt fees to cover the commission's full costs of processing applications submitted by third-party power plant developers.

Fiscal Impact:

Potential major increase (roughly $3-4 million) in annual revenues to the ERPA from application fees, beginning in 1986-87, when the new fee mechanism could be implemented. Potential unknown reduction in commission costs to review power plant applications to the extent workload is spread out more evenly throughout the year.

State Lands Commission--Coastal Permit Authority Over Offshore Leases

Reference:

Analysis page 464.

Analysis page 623.

Analysis:

The commission has suspended indefinitely all offshore leasing for oil and gas development partly because of a jurisdictional dispute with the Coastal Commission over whether a proposed lease between Point Conception and Point Arguello requires a coastal permit.

There is no dispute that the Coastal Commission has the authority to deny or impose conditions upon exploration or development permits for leases issued by the State Lands Commission. Consequently, Coastal Commission policies and actions will be very important to prospective lessees, regardless of whether the leasing decisions by the State Lands Commission are subject to the Coastal Commission's jurisdiction. We believe it is appropriate, therefore, to provide the Coastal Commission with explicit permitting authority over offshore activity at the earliest point at which the offshore activity is proposed--namely, during the leasing process. In our Analysis of the 1984 Budget Bill (page 623), we recommended enactment of legislation to explicitly require a coastal permit for leasing of state tide and submerged lands. The two commissions remain embroiled in their jurisdictional dispute.

Recommendation:

We continue to recommend that legislation be enacted to clarify the Coastal Act by explicitly granting to the Coastal Commission permitting

authority over offshore leases proposed by the State Lands Commission.

Fiscal Impact:

The current jurisdictional dispute has halted leasing activity. If leases were executed without the approval of the Coastal Commission, uncertainty about future commission action with respect to the leases would increase the financial risk to the lessees. As a consequence, their bids on the leases might be significantly lower than they would be if the leases were sanctioned by the commission. On this basis, we conclude that requiring a coastal permit at the outset of leasing activities probably would increase state revenue from future offshore leases. The amount of the increase is unknown and would depend on many factors. In addition, the cost of litigation to resolve the jurisdictional dispute would be avoided.

State Coastal Conservancy--Grant Funded Acquisition

Reference:

Analysis page 516.

Analysis:

Since its inception, the State Coastal Conservancy has granted at least $3.4 million from various funding sources to local agencies and nonprofit organizations to acquire properties in the coastal zone. Since these acquisitions are characterized as local assistance rather than capital outlay expenditures, however, the acquisitions are not subject to the review process and safeguards required by the state Property Acquisition Law.

Grants to Nonprofit Groups. Existing law requires the conservancy's grant agreements with nonprofit groups to include provisions for reversion of acquired property to the state if (1) essential terms or conditions of the agreement are violated or (2) the nonprofit group goes out of existence. Under these agreements, the state acquires partial interests in the properties which impose contingent liabilities and costs upon the state. We believe these grant-funded acquisitions should be subject to the same statutory safeguards as other state acquisitions.

Grants to Local Agencies. In at least one significant instance, the conservancy has entered into a grant agreement with a local agency that provides for the state to retain interests in property to be acquired with local assistance funds. The conservancy entered into a grant agreement with the City of San Diego in February 1983 which provides $1,030,000 from

the Parklands (Bond) Fund of 1980 for the city to use in acquiring approximately 775 acres of land in the vicinity of the Tijuana River estuary. The "grant" provides the conservancy with (1) reversionary interest in the property, (2) responsibility to manage agricultural leasing of the property, and (3) lease revenues from the property.

All property acquired by the city with the grant funds would be incorporated into the Tijuana River National Estuarine Sanctuary, together with other lands currently owned by the federal government or the state. Primary responsibility for operation and management of the sanctuary lands (including the lands purchased by the city) will rest with the state Department of Parks and Recreation (DPR). Our analysis indicates that DPR's operation and management responsibilities will involve annual General Fund costs of up to $100,000 beginning in 1987-88, when a federal grant providing operating funds to DPR will expire.

In view of the state's interest in, and responsibilities for, these properties, it is not clear why the conservancy chose to grant state funds to the city, instead of acquiring the lands directly for the state. One effect of the decision, however, is that the acquisitions are not subject to the Property Acquisition Law.

We believe that, as a matter of prudent fiscal policy, a clear distinction should be maintained between expenditures for local assistance purposes and expenditures for capital outlay purposes. If it is in the best interests of the state to acquire interests in real property, it should do so directly, and not through a grant to a local agency.

Recommendation:

We recommend enactment of legislation (1) making grant-funded acquisitions by nonprofit groups subject to the provisions of the state

Property Acquisition Law, and (2) prohibiting the use of grants to nonstate public agencies for the purpose of acquiring state interests in real property.

Fiscal Impact:

Unknown changes in expenditures from various state funds resulting from the review by State Public Works Board of proposed acquisitions.

Department of Parks and Recreation--State Park System

Reference:

Analysis page 544.

Analysis:

The Legislature, in the Supplemental Report of the 1978 Budget Act, directed the Department of Parks and Recreation to prepare a state park system plan and update it biennially. The first plan, completed in March 1980, lacked specific information about program objectives and the timing and costs of programs identified in the plan. The department completed its first update of the plan in June 1982. In our judgment, the 1982 update improved the 1980 plan but, once again, it was not specific or detailed enough to serve as a decision-making tool.

According to the schedule included in the 1978 supplemental report, the most recent plan update was due to the Legislature on September 1, 1983. The department anticipates that it will complete the biennial update by the end of the current fiscal year, or about one year and nine months late.

The state park system has become increasingly large and diverse over time and continues to expand. The department and the Legislature need a system plan that incorporates new information and recognizes changing circumstances, so that state park needs can be addressed on a comprehensive and rational basis. The Legislature has provided statutory guidance on the planning elements that are to be included in resource inventories, management plans, and general plans for individual park units. To date,

however, the only specific legislative guidance provided to the department on its systemwide planning efforts is a brief directive in the Supplemental Report of the 1978 Budget Act. We believe that legislation is needed to guide the preparation of the department's state park system plan.

Recommendation:

We recommend enactment of legislation requiring the department to prepare a state park system plan and to update the plan biennially.

Fiscal Impact:

No direct fiscal impact. The legislation would provide formal guidance for a plan that is already prepared by the department on a biennial basis.

Department of Parks and Recreation--
Funds From Sale of Former Federal Lands

Reference:

Analysis page 574.

Analysis:

Existing law provides that the proceeds of state park surplus property sales shall be deposited in the fund that was the original source for acquisition of the property. If the fund of origin is no longer in existence, existing law provides for the deposit of proceeds in the General Fund.

Many surplus park properties, including substantial surplus properties at Anza Borrego Desert State Park, originally were conveyed to the state from the federal government at no cost, pursuant to the provisions of the federal Recreational and Public Purposes Act. Thus, it is not clear under existing law whether proceeds from the sale of these properties would be deposited in the Federal Trust Fund or the General Fund.

The properties originally were donated to the state at no cost by the federal government, and federal approval of surplus property dispositions is required due to deed restrictions. Therefore, it appears appropriate to deposit the proceeds in the Federal Trust Fund.

Recommendation:

We recommend the enactment of legislation to provide for the deposit of proceeds from sales of surplus properties in the Federal Trust Fund in

those instances where property originally was conveyed to the state from the federal government.

Fiscal Impact:

Unknown increases in revenues to the Federal Trust Fund and corresponding decreases in revenues to the General Fund, depending on specific surplus properties sold by the state.

Department of Parks and Recreation--Bagley Conservation Fund

Reference:

Analysis page 1677.

Analysis:

Control Section 18.30 of the 1985-86 Budget Bill proposes to transfer the unencumbered balance of the Bagley Conservation Fund to the State Parks and Recreation Fund on the effective date of the 1985 Budget Act.

Chapter 1065, Statutes of 1979 transferred all funds that had been previously appropriated to the Department of Parks and Recreation from the Bagley Conservation Fund to the State Parks and Recreation Fund. Chapter 1065, however, did not transfer the full unencumbered balance of the Bagley Conservation Fund. Further consolidation of the Bagley Fund into the State Parks and Recreation Fund is appropriate. In order to fully consolidate funds, however, all balances in the Bagley Fund should be transferred and the Bagley Fund should be abolished.

Recommendation:

We recommend approval of Control Section 18.30. We further recommend the enactment of legislation to (1) transfer any remaining encumbered balances as well as the corresponding expenditure authority from the Bagley Conservation Fund to the State Parks and Recreation Fund and (2) abolish the Bagley Conservation Fund.

Fiscal Impact:

No net fiscal effect.

Santa Monica Mountains Conservancy--Extension of Sunset and Self-Financing

Reference:

Analysis page 578.

Analysis:

Under existing law, the Santa Monica Mountains Conservancy will sunset on July 1, 1986. For a number of reasons, we believe the sunset date should be extended. Perhaps of greatest significance is the fact that the voters approved a total of $10 million in bond funds for the conservancy's program when they approved Proposition 18 in June 1984. It is unlikely that the conservancy will be able to fully spend the $10 million bond allocation by July 1, 1986. In addition, the conservancy's five-year capital outlay plan contains enough high priority projects to justify continuation of the conservancy's program for at least several years. Finally, no other agencies or private organizations appear to be in a position, at least in the near term, to assume the conservancy's role in carrying out the Santa Monica Mountains Comprehensive Plan.

For all of these reasons, we recommend the enactment of legislation extending the conservancy's sunset date. We believe, however, that the extension should be linked with a fundamental change in the funding of the conservancy's program, which we discuss below.

Partial Self-Financing of Conservancy Program. We believe the conservancy's program can be continued on a more self-financing basis by requiring that half of its annual appropriations be from the Santa Monica Mountains Conservancy Fund. The Legislature already has endorsed the

self-financing concept in approving the conservancy's proposed revolving fund program in the 1982 Budget Act. In addition, both the conservancy's enabling legislation and its comprehensive plan provide for the conservancy to sell development credits or property for residential or commercial development purposes, when these sales will result in appropriate development patterns which are compatible with the plan's objectives. A partial self-financing policy, established in statute, would strengthen the incentives for the conservancy to carry out these types of projects in an effective and timely manner.

Further, we note that the conservancy was not established to be a permanent land management agency, such as the Department of Parks and Recreation. The enactment of legislation establishing an explicit self-financing policy also would require the conservancy to consider the ultimate disposition and management of properties before acquiring them.

Finally, a partial self-financing policy should also result in additional funds becoming available for other state needs.

Recommendation:

We recommend the enactment of legislation (1) extending the conservancy's sunset date and (2) requiring that at least one-half of the amount appropriated each year to the conservancy be from the Santa Monica Mountains Conservancy Fund.

Fiscal Impact:

Unknown, potentially significant, additional annual revenues to the Santa Monica Mountains Conservancy Fund (SMMCF), depending on the implementation of revolving fund projects by the conservancy in response to legislative policy

Santa Monica Mountains Conservancy--Premature Transfer of Funds

Reference:

Analysis page 583.

Analysis:

Since its establishment in 1979, the Santa Monica Mountains Conservancy has encumbered approximately $8.7 million for grants to local agencies, including approximately $6.1 million for the following two projects: (1) $2 million to the Conejo Recreation and Park District for acquisition at Lake Sherwood in Ventura County, and (2) $4,097,000 to the City of Los Angeles for acquisition at Runyon Canyon.

Because the conservancy transferred the above grant funds to the local agencies as much as a year before the funds were needed by the local agencies, we estimate the State's General Fund lost approximately $595,000 in interest earnings.

Other agencies, such as the Department of Parks and Recreation, have established procedures to prevent premature transfers of grant funds. The conservancy needs to do the same.

Recommendation:

We recommend the enactment of legislation requiring the Santa Monica Mountains Conservancy to (1) adopt procedures to prevent premature transfers of state funds to local agencies and nonprofit organizations, and (2) certify that it has complied with these procedures prior to encumbering funds for specific grant projects.

Fiscal Impact:

Unknown savings to the General Fund and other funds to the extent that the legislation prevents premature transfers of state funds and corresponding losses of interest earnings.

Department of Health Services--
Public Health Fee Rate Adjustment

Reference:

Analysis page 693.

Analysis:

Current law establishes fees to support various public health regulatory activities and services provided by the department and provides for an annual adjustment factor in the Budget Act. In the Supplemental Report of the 1984 Budget Act, the Legislature required the department to develop a mechanism to review revenues and expenditures for specific fee-supported programs and submit data and recommendations by December 1, 1984. The department has not submitted the final report. Preliminary data indicate that revenues for a number of fee programs are either less than program costs or more than program costs.

Recommendation:

We recommend enactment of legislation to revise the current provisions regarding adjustments to public health fees so that revenues are equal to program costs.

Fiscal Impact:

We are unable to determine the net fiscal impact of this legislation because the department has not completed its analysis of fee revenues and program costs. The amount of the change in General Fund revenues will depend on (1) the department's final analysis of shortfalls and surpluses

and (2) the number of fees that can be adjusted through regulation rather than statute. We also recommend that the department adopt regulations during 1985-86 to adjust fee rates when authorized by current law.

Department of Health Services--
Toxic Substances Control Division
Hazardous Waste Hauler Fees

Reference:

Analysis page 734.

Analysis:

Current law requires all haulers of hazardous waste to (1) register with the department and (2) have their vehicles and containers inspected annually by the California Highway Patrol. The law also establishes fees to support these activities. Our analysis indicates that the revenues generated by the existing statutory fee rates generate only 35 percent of the revenue needed to support the department's hauler activities.

Recommendation:

We recommend enactment of legislation to (1) raise the hauler fee rates to cover program costs, (2) authorize the department to revise future fee rates by regulation, (3) eliminate the exemption for small haulers, and (4) establish fees on containers.

Fiscal Impact:

The department estimates that in 1984-85 its revenues will be $89,000 and its expenditures will be $248,000, resulting in a revenue shortfall of $159,000. Our preliminary estimate shows that fee rates would need to be increased by up to three times their current level in order to cover the deficit. This legislation would generate $159,000 in additional revenue to the Hazardous Waste Control Account.

Department of Health Services--
Toxic Substances Control Division
Planning and Reporting Requirements

Reference:

Analysis page 747.

Analysis:

The Toxic Substances Control Division administers programs that regulate hazardous waste management, cleanup sites that have been contaminated by toxic substances, and perform related functions. During the last three years, the Legislature has adopted language in the Supplemental Report of the Budget Act to require the department to develop an annual work plan and report periodically on its progress in meeting the objectives set forth in the plan.

Recommendation:

We recommend the enactment of legislation to make permanent the requirements established in the **Supplemental Report of the 1984 Budget Act** for annual work plans and periodic reports.

Fiscal Impact:

The legislation would have no fiscal effect. The information would allow continued legislative review and oversight of the program.

Department of Health Services--
County Quality Control

Reference:

Analysis page 770.

Analysis:

Assembly Bill 799 (Ch 328/82) requires the department to pass on to individual counties their share of any sanctions imposed on California by the federal Department of Health and Human Services due to errors in eligibility determinations that are in excess of a specified error rate standard. It also requires that separate state-imposed sanctions be based on the amount by which individual county dollar error rates exceed a state-established error rate standard.

The 1984 Budget Act included language establishing an alternative penalty assessment method utilizing a case error rate. This language is also contained in the 1985 Budget Bill. Our review of the new methodology indicates that this method provides the means to apply state sanctions on a simpler, more dependable basis than the dollar error rate required by AB 799 and can be implemented without the large numbers of additional staff required by the previous method.

Recommendation:

In order to insure that the state has the ability to sanction counties for excessive eligibility determination errors, we recommend adoption of legislation to establish the Medi-Cal penalty assessment system contained in the 1984 Budget Bill.

Fiscal Impact:

Savings would occur to the extent that federal and state fiscal sanctions imposed on the counties result in improvements in the accuracy of county eligibility determinations and share-of-cost calculations. Imposition of sanctions on the counties would also result in decreased state costs and offsetting increases in county costs due to the payment of the sanctions.

Department of the Youth Authority--County Payments for Wards

Reference:

Analysis page 1041.

Analysis:

Existing law requires each county to pay the state $25 per month for each ward that the juvenile court commits from that county to the Youth Authority. Counties make payments for each month that a youth is under the care of and supported by the Youth Authority, whether placed in a state institution, foster home, or other public or private facility.

The payments, which predate the establishment of the Youth Authority in 1943, were increased periodically through legislation until 1947 when the rate was established at the present level of $25 per month per ward, or $300 per year. In 1947, county payments covered approximately 15.7 percent of the cost of institutional care. In 1985-86, the payment of $300 annually per ward will cover only 1.2 percent of the department's annual per capita cost.

Recommendation:

We recommend the enactment of legislation increasing the county charges to reflect the fact that the Youth Authority's costs for providing services to wards have risen over time due to inflation.

Fiscal Impact:

Each increase of $25 per ward per month would result in annual General Fund savings of approximately $1.3 million.

Department of Education--State School Building Lease-Purchase Program Ten Percent District Match

Reference:

Analysis page 1150.

Analysis:

Under the State School Building Lease-Purchase program, each school district which receives an apportionment from tidelands oil revenues for the construction or reconstruction of school buildings must contribute an amount equal to 10 percent of the project's costs. Generally, districts meet this match requirement by contributing to the State School Deferred Maintenance Fund an amount equal to 1 percent of the project's cost each year for 10 years.

The State School Building Lease-Purchase Bond Acts of 1982 and 1984 did not include language specifically applying the 10 percent match requirement to projects funded with bond revenues. In a recent opinion, the Attorney General has indicated that the State Allocation Board (SAB)--which administers the Lease-Purchase program--does not have the authority under current law to require districts to make the 10 percent match when projects are funded from bond revenues. In most cases, however, current law does not allow the SAB to waive the 10 percent match requirement when a project is funded from tidelands oil revenues.

We believe it is appropriate to apply the 10 percent match requirement contained in current law to all projects which receive funds, from any source, through the Lease-Purchase program. Our conclusion is based on the following considerations:

- The funding source is irrelevant in determining whether a matching contribution should be required.
- More schools' needs can be met if matching contributions are required.
- Cost sharing encourages local fiscal responsibility.
- Current law provides flexibility for districts to meet the match requirement with no fiscal hardship.

Recommendation:

We recommend that the Legislature adopt budget control language and enact legislation requiring school districts to contribute 10 percent toward the cost of any project for which an apportionment is made from the State School Building Lease-Purchase Fund.

Fiscal Impact:

Approximately $2 million increase in revenues to the State School Deferred Maintenance Fund in 1984-85, increasing annually thereafter.

Department of Education--Deferred Maintenance

Hardship Apportionments

Reference:

Analysis page 1153.

Analysis:

In cases of extreme hardship, school districts may qualify for a one-year increase in apportionments of state funds for deferred maintenance. Hardship funds may be provided if total state and local funds are not sufficient to complete a critical project which, if not completed in one year, would result in serious damage to the remainder of a school facility or a serious hazard to the health and safety of students.

In 1984, the Legislature enacted AB 2948 (Ch 1234/84), which (1) authorizes the State Allocation Board (SAB) to reserve up to 5 percent of the Deferred Maintenance Fund each year for hardship apportionments to only those school districts with more than 2,500 units of average daily attendance (ADA) and (2) requires the SAB to reserve 5 percent of the fund for hardship apportionments to only those districts with 2,500 or fewer ADA.

In the case of hardship apportionments to districts with 2,500 or fewer ADA, AB 2948 authorizes the SAB to (1) require the district to make a matching contribution (to be determined by the board), (2) reduce deferred maintenance apportionments to the district in future years to offset the increased apportionments, or (3) waive repayment by the district. Prior to the passage of AB 2948, districts receiving hardship apportionments would

have their deferred maintenance apportionments reduced in subsequent years for as long as was necessary in order to offset the amount of hardship apportionment received.

The SAB has established the policy of waiving repayment of all hardship apportionments to districts with 2,500 or fewer ADA. As a result, the SAB has changed the nature of small district hardship apportionments from interest-free loans to grants. In the case of hardship apportionments to larger districts, current law requires repayment through the reduction of future deferred maintenance apportionments.

Our analysis indicates that (1) there is no need to reserve up to 5 percent of the Deferred Maintenance Fund for districts with more than 2,500 ADA and (2) it is not appropriate for the SAB to waive all requirements that small school districts which receive hardship apportionments repay these funds through reductions in deferred maintenance apportionments in future years.

Recommendation:

We recommend the enactment of legislation to (1) authorize the State Allocation Board to reserve for "hardship apportionments" to school districts of any size up to 10 percent of the funds transferred to the State School Deferred Maintenance Fund in any year and (2) specify that deferred maintenance apportionments to any district which receives a hardship apportionment shall be reduced for up to five years to offset the increased apportionment.

Fiscal Impact:

No net effect on total expenditures for school facilities aid.

Department of Education--
Pilot Projects to Strengthen Personnel and Management, Reauthorization

Reference:

Analysis page 1108.

Analysis:

Senate Bill 813 required the Superintendent of Public Instruction to select up to five pilot projects designed to:

- Improve the efficiency of school district operations;
- Devise incentives for personnel to serve in high-demand areas;
- Improve on-the-job training of new personnel; and
- Improve personnel evaluations.

The legislation declares that the state should fund the marginal costs of the projects, and a total of $250,000 is provided in the current year to support them. Authorization for these projects expires on July 1, 1985. (Because authorization for these projects expires on July 1, 1985, the 1985 Governor's Budget proposes no funding for them in 1985-86.)

As of late February 1985, none of the pilot projects to strengthen personnel and management had been implemented. Moreover, our analysis indicates that the five projects probably will not be implemented in the current year.

The Department of Education intends to use a Request for Proposal (RFP) process to determine which projects will receive funding. It will take time, however, for: (1) the SDE to develop an RFP, (2) applicants to respond to the RFP, (3) the SDE to review and select proposals for funding,

and (4) implementation and operation of the projects. Since the SDE had not yet issued its RFP in later February, there probably will not be time for the projects to be selected and implemented prior to the end of the current fiscal year.

In order to assure that the Legislature's intent in authorizing these projects is achieved, we recommend that: (1) the Legislature enact legislation extending, the authorization for these projects for another year (until July 1, 1986) and (2) the undisbursed balance remaining from the current-year appropriation for the pilot projects be reappropriated.

Recommendation:

We recommend that the legislation be enacted to extend the authorization of the pilot projects to strengthen personnel and management until July 1, 1986.

Fiscal Impact:

A total of $250,000 is appropriated for the pilot projects in the current year. There will be no fiscal impact if the undisbursed balance from this appropriation is reappropriated in the budget year.

Contributions to State Teachers' Retirement Fund--New Retirement Programs for Future Public School Teachers

Reference:

Analysis page 1194.

Analysis:

In last year's Analysis (please see page 1631), we recommended that the Legislature eliminate the normal cost shortfall under the State Teachers' Retirement System (STRS) before it acted to reduce the system's unfunded liability. We also identified several options for eliminating the shortfall, including alternatives that maintained the existing benefit structure and others that modified it.

Our analysis indicates that the Legislature should give its primary attention to those options that would modify the existing STRS benefit structure. This is because the existing benefit structure has the following shortcomings:

- It does not allow teachers any choice in providing for their retirement needs,
- It does not allow teachers to take advantage of existing opportunities to reduce their federal taxes, and
- The state is liable for all funding shortfalls.

We believe the Legislature should take immediate action to (1) provide teachers with benefits they currently do not enjoy (greater choice and flexibility in designing their retirement program, and the opportunity to realize federal tax savings) and (2) control the state's financial exposure under the STRS.

Recommendation:

We recommend that legislation be enacted to provide new retirement options to future public school teachers.

Fiscal Impact:

Potentially major annual General Fund savings, to the extent new retirement options are funded by existing contribution rates.

Contributions to State Teachers' Retirement Fund--Limiting the State's Court-Imposed Liability

Reference:

Analysis page 1195.

Analysis:

The state's statutory payments to the State Teachers' Retirement Fund (STRF), which current law requires be continued indefinitely, are intended to reduce the unfunded liability of the State Teachers' Retirement System (STRS).

In California Teachers' Association v. Cory, the court found that these contributions constitute an implicit contract with school teachers, and therefore, cannot be changed by the Legislature--now or in the future.

Our review of the court's decision indicates that the state was obligated to paying off the STRS unfunded liability which had accrued up to a given point in time. Consequently, the decision does not in any way make the Legislature fiscally liable for funding shortfalls which may accrue in the future.

In order to ensure, however, that the state's liability under this decision is limited, we believe the Legislature should amend Sections 23401 and 23402 of the Education Code to terminate state payments to the STRF once the current amount of the STRS unfunded liability has been paid off. At that time, the state would have met its contractual obligation. It could then choose to continue making voluntary payments to the system, but it could not be forced by the courts to make payments that it did not wish

to make. Based on the latest STRS actuarial valuation, the system's unfunded liability ($10.1 billion) could be paid off by existing statutory AB 8 contributions in about 60 years.

Recommendation:

We recommend that legislation be enacted which terminates the state's obligation to make judicially required payments to the STRF by "sunsetting" the current contributions schedule in the year 2045.

Fiscal Effect:

No fiscal effect until the year 2045, at which time there would be a major annual General Fund savings.

Assistance to Counties for Defense of Indigents--State Controller Reimbursement Guidelines

Reference:

Analysis page 1467.

Analysis:

The 1983 Budget Act required the Controller's office to develop regulations limiting state reimbursements to counties for the costs of attorneys, investigators, expert witnesses, and other personal services needed for the defense of indigents in capital cases. The Controller's office completed the regulations pursuant to the Budget Act requirement, and these regulations were approved by the Office of Administrative Law in February 1985.

Our analysis indicated that although the regulations adopted by the Controller did not establish specific fees for these services, the regulations provide guidance for judges and the Controller in determining what fee levels are reimbursable. The Controller advises, however, that because the authority to adopt the regulations was contained in the 1983 Budget Act, the regulations apply only to claims attributable to fiscal year 1983-84. The Controller continues to use these guidelines for reimbursement but indicates that, technically, it lacks authority to do so.

Recommendation:

We recommend that legislation be enacted permanently establishing the authority of the Controller to use existing regulations on reimbursement rate guidelines.

Fiscal Impact:

There would be no direct fiscal impact because the legislation would codify existing practice.

Department of Industrial Relations--

Delay of Sunset Date for Asbestos Workers' Account

Reference

Analysis, page 1507.

Analysis:

Chapter 1041, Statutes of 1980, established the Asbestos Workers' Account (AWA) within the Uninsured Employers' Fund. Ch 1041/80 also (1) appropriated $2.6 million in General Fund money to fund the account and (2) directed the DIR to administer the account and to pay interim benefits to workers' suffering from asbestosis while they await final adjudication or settlement of workers' compensation claims. The account sunsets on December 31, 1985, at which time no further interim benefit payments will be paid. Our review of the AWA interim benefits program reveals that there is continuing, albeit small, demand for the program. This continuing demand results because (1) workers often do not exhibit debilitating effects of asbestosis until many years after exposure to asbestos and (2) workers' compensation claims for asbestosis are frequently involved in lengthy litigation.

Recommendation:

We recommend that the AWA sunset date be extended by three years so that workers' suffering from asbestosis may continue to receive interim benefits.

Fiscal Impact:

Moderate annual General Fund costs in 1985-86 through 1988-89.

Public Utilities Commission--Standards for Rail Transit Safety Needed

Reference:

Analysis page 1573.

Analysis:

The Public Utilities Commission (PUC) is responsible for assuring the safety of rail transit projects. The effectiveness of its rail safety activities, however, is undermined by the absence of a clear statement provided to transit operators regarding the safety standards being applied by the commission. Although such guidelines are essential for providing a rational basis for the commission's enforcement activities, to date the commission has placed a relatively low priority on developing them.

Routine compliance by transit operators with such standards would provide an opportunity to achieve a high level of safety at relatively low cost to both the PUC and the transit operator. Furthermore, if local transit planners are aware of the PUC's requirements at the outset, new rail projects could be designed to comply with these requirements. Thus, the much higher cost of subsequent redesign and construction modifications conducted in response to concerns raised by the commission's review, could be minimized or avoided.

Recommendation:

We recommend that legislation be enacted to require the PUC to develop safety planning criteria, standards, and procedures for the design, construction, and operation of rail rapid transit systems.

Fiscal Impact:

Undetermined cost increases to the PUC to establish guidelines and standards.

Unknown, but potentially major, cost savings to local rail transit systems to the extend that substantial redesign and construction modifications are avoided.

Augmentation for Employee Compensation, Civil Service, Exempt and Statutory Employees--Repeal Statutory Benefits

Reference:

Analysis, page 1656.

Analysis:

The State Employer-Employee Relations Act (SEERA) provides for collective bargaining over wages, hours, and the terms and conditions of employment. SEERA also allows conditions of employment to be superseded by the terms of the memoranda of understanding resulting from the collective bargaining process. Currently, there are instances where state employee benefit levels are specified in law. Our analysis indicates that the specification of benefit levels in law runs counter to the spirit and intent of collective bargaining and constrains collective bargaining negotiations over benefit coverage.

Recommendation:

We recommend that legislation be enacted to remove certain statutory provisions which specify benefit levels provided for state employees.

Fiscal Impact:

Indeterminable fiscal effect on various state funds, depending on collective bargaining negotiations and legislative approval of employee compensation provisions.

Augmentation for Employee Compensation--Health Benefit Cost Containment Features

Reference:

Analysis, page 1657.

Analysis:

Under the Public Employees' Medical and Hospital Care Act of 1961 (PEMHCA), the Public Employees' Retirement System provides medical insurance coverage for active and retired members through two types of plans, fee-for-service plans and health maintenance organizations. Our analysis indicates that two changes in the provision of fee-for-service health care--self-funding and preferred provider organizations (PPOs)--could result in cost savings.

A self-funded program allows the state to become the insurer of the health benefits program, assuming the financial risk but eliminating insurance costs associated with the program. Under a PPO, an employer directs its employees to select certain health care providers, who, in return, offer medical services at reduced rates.

Recommendation:

We recommend that the Legislature amend PEMHCA to authorize (1) a self-funded program and (2) the use of preferred provider organizations.

Fiscal Impact:

Estimated annual cost savings of (1) $9.7 million to self-fund the fee-for-service portion of the program and (2) $3 million to authorize the use of PPOs.

Augmentation for Employee Compensation--Repeal Statutory Health Benefit Formula

Reference:

Analysis, page 1658.

Analysis:

Government Code Section 22825.1 expresses legislative intent that the state to pay an average of 100 percent of health insurance costs for active employees and annuitants and 90 percent of health insurance costs for their dependents. Existing law also allows this provision to be superseded by the memoranda of understanding resulting from the collective bargaining process. Our analysis indicates that this statutory formula (1) constrains collective bargaining negotiations over health benefit coverage and (2) hinders the Legislature's ability to implement certain health care cost-containment features.

Recommendation:

We recommend that Government Code Section 22825.1 be amended by deleting references to a formula for determining state contributions toward health insurance premiums.

Fiscal Impact:

Indeterminable fiscal effect on various state funds, depending on collective bargaining negotiations and legislative approval of employee compensation provisions.

PERSPECTIVES AND ISSUES

California State Lottery

Reference:

Perspectives and Issues page 87.

Analysis:

Proposition 37, which was approved by the voters in November 1984, authorized the establishment of a statewide lottery in California and enacted the California State Lottery Act of 1984. The Legislature has the authority to amend the act if, by doing so, it furthers the purposes of the measure.

The act specifies that the proceeds of lottery ticket sales shall be deposited into a special fund called the State Lottery Fund. The monies in this fund are to be continuously appropriated according to the following distribution:

- 50 percent shall be returned to the public in the form of lottery prizes;
- No more than 16 percent shall be used for administrative expenses of operating the lottery; and
- The remainder (34 percent, plus any unclaimed lottery prizes and any portion of the amount by which actual administrative expenses fall short of 16 percent) shall be deposited into the State Lottery Education Fund and be continuously appropriated to various levels of public education.

State lottery revenues are not included in the budget totals because the Department of Finance has classified lottery-related monies as "nongovernmental trust and agency funds," similar to pension funds and certain bond funds. For this same reason, most lottery-related expenditures do not appear in the budget, and are not subject to legislative review through the normal budget process.

We believe that keeping lottery-related funds "outside" of the budget and the normal appropriation process is not warranted by the nature of these funds, nor is it appropriate, for two reasons:

- First, this means that the budget will fail to reflect the extent to which the state is supporting public education in California.
- Second, this makes it more difficult for the Legislature to monitor the use of lottery revenues and ensure that they are being subjected to the same thorough review as the expenditure of other state funds.

Recommendation:

We recommend that legislation be enacted which:

1. Designates the California State Lottery Education Fund as a special fund,
2. Establishes a second special lottery fund into which the share of lottery proceeds available for administrative costs is placed, and
3. Makes the expenditure of monies from both of these special funds contingent on a direct Budget Act appropriation.

Fiscal Impact:

While this recommendation would improve the Legislature's ability to monitor the use of state lottery revenues, there would be no direct fiscal

impact in terms of costs or revenues.

Department of Transportation--Transportation Funding is Inadequate

Reference:

Perspectives and Issues page 137.

Analysis:

Based on existing revenue and expenditure growth trends, the State Highway Account (SHA) and the Motor Vehicle Account (MVA) are projected to incur significant funding shortfalls --of up to $763 million in the SHA, and $327 million in the MVA--over the next five years, through 1989-90. The shortfall will probably first appear in 1987-88. To avoid the shortfall, significant reductions in expenditures and service levels would be required over the five years. If the current level of services and expenditures is to continue, additional revenues would be needed prior to 1987-88.

In addition, our review shows that the existing funding structures for the state's transportation programs are such that revenues are not directly linked and adjusted to the cost and use of transportation services and facilities. To ensure an adequate transportation funding source, revenue increase should be commensurate with the increase in costs of transportation facilities and services.

Recommendation:

We recommend the enactment of legislation to:

1. Link future increases in motor vehicle fuel tax rates and truck weight fees to increases in the cost of building and maintaining the highway system,

2. Link future increases in vehicle registration fees to the cost of providing traffic regulatory services, and

3. Raise motor vehicle fuel tax, truck weight fees and vehicle registration fees to increase transportation funds prior to 1987-88.

Fiscal Impact:

Potentially major annual increase in revenues to the State Highway Account and the Motor Vehicle Account in the State Transportation Fund. The amount would depend on the structure of indexation and on the increase in the tax rates.

Department of Transportation--Changing the Transportation Planning and Development Account Funding Mechanism

Reference:

Perspectives and Issues page 138.

Analysis:

The Transportation Planning and Development (TP and D) Account, which funds local and state mass transportation programs, generates its revenues from gasoline retail sales tax (but not diesel fuel sales). The existing funding formula, however, also depends on nongasoline retail sales, and generates considerable instability in the revenues to the account due to its sensitivity to small changes in gasoline prices, consumption, or nongasoline retail sales. The instability has created substantial uncertainties for transit operators, local transportation planning agencies, and the California Transportation Commission, thereby impairing their ability to plan and implement transportation activities effectively.

In addition, because of the sensitivity of the funding formula to gasoline sales receipts relative to nongasoline sales, the TP and D Account revenues are projected to decrease in the next five years so that, if previous local transit capital commitments are to be funded and current state mass transportation and planning activities maintained, there would be a shortfall of approximately $109 million, with the deficit in the account beginning in 1985-86.

Recommendation:

We recommend that legislation be enacted to restructure the funding mechanism of the Transportation Planning and Development Account, and to expand the gasoline sales tax to diesel fuel, in order to increase funding stability and to provide a sufficient level of funding to cover previous commitments as well as maintain existing program level.

Fiscal Impact:

Potentially major revenue increase to the TP and D Account, depending on how the funding mechanism is restructured. If diesel fuel retail sales tax is also deposited into the TP and D Account, account revenues would increase by approximately $336 million for the period from 1985-86 through 1989-90, and General Fund revenues would be reduced by the same amount.

Department of Transportation--Adoption of Weight-Distance Fee Schedule

Reference:

Perspectives and Issues page 139.

Analysis:

California currently charges a commercial vehicle weight fee based on the unladen weight. However, a more accurate measure of vehicle damage to road pavement is the laden (or loaded) weight combined with a measure of the distance traveled. Consequently, the current weight fee system does not allocate the cost of state highways equitably according to the use of the facilities.

Recommendation:

We recommend enactment of legislation to adopt a vehicle weight fee schedule based on the laden weight of vehicles and the distance traveled.

Fiscal Impact:

Potentially major annual revenue to the State Transportation Fund, depending on the fee structure adopted.

Tax Expenditures

Reference:

Perspectives and Issues page 140.

Analysis:

The term "tax expenditures" refers to various tax exclusions, exemptions, preferential tax rates, credits, and deferrals, which reduce the amount of revenues collected from the state's basic tax structure.

These tax expenditures should receive the same degree of legislative oversight as direct expenditures, especially given that such a substantial amount of resources is devoted to tax expenditure programs--resources that otherwise would be available to the Legislature either for use in accomplishing its policy objectives through direct expenditure programs, or for broad-based tax relief.

In last year's Perspectives and Issues (please see page 135), we indicated that the Legislature needs a formal process for reviewing and overseeing tax expenditure programs, and suggested several options for establishing such a process. During 1984, the Legislature enacted AB 1894, which would have implemented one of these options--a requirement that the Governor annually submit a "Tax Expenditure Budget." The Governor, however, vetoed this bill. Thus, the Legislature still does not have the type of formal process for reviewing and overseeing tax expenditure programs that is needed if these programs are to be monitored properly.

Recommendation:

We recommend that legislation be enacted which establishes a formal process for review and oversight of tax expenditure programs, such as one

of the approaches that we discussed in our 1984-85 Perspectives and Issues.

Fiscal Impact:

While this recommendation would improve the ability of the Legislature to monitor tax expenditures, there would be no direct fiscal effect in terms of costs or revenues.

Alternative Energy Tax Credits

Reference:

Perspectives and Issues page 141.

Analysis:

Current state law allows individual and corporate taxpayers to claim tax credits for part of the costs of both solar energy systems and energy conservation measures, subject to various limitations. In 1984, approximately 200,000 taxpayers claimed a total of $41.5 million in energy conservation credits, and 83,000 taxpayers claimed a total of $78.2 million in solar energy credits. Both credits are scheduled to sunset at the end of 1986.

The Governor's Budget proposes to reduce the total funding for these tax credits by 50 percent. To accomplish this reduction, it requests that the current open-ended tax credits be replaced by a Budget Act appropriation of $68.5 million, which represents one-half of estimated revenue loss ($137 million) in 1984-85. The proposal is based on the administration's belief that the current level of tax subsidies is no longer needed. Our analysis indicates, however, that the funding reduction cannot be achieved through the budget bill, because the proposal itself does not limit the amount of the credits which may be taken by taxpayers when they file their tax returns.

Nonetheless, it does appear that a reduction in the level of state subsidies for solar energy and energy conservation is justified, for several reasons. First, it is not clear that the state credits are still

needed to help stimulate and develop the energy conservation and solar industries. Second, tax return information from the state Franchise Tax Board shows that the benefits from the credits have accrued mainly to higher-income taxpayers, who do not need state subsidies to make solar and energy conservation investments affordable. Finally, it appears that the credits are being used increasingly by taxpayers for investments that serve mainly as tax shelters, such as solar windmills. For these reasons, we believe a reduction in the credit amounts is warranted.

Recommendation:

We recommend that the Legislature enact legislation that reduces the value of the solar energy and energy conservation tax credits by 50 percent. This would achieve the funding goal of the budget, and also would tend to phase out, rather than abruptly cancel, a tax savings that is scheduled to terminate on December 31, 1986.

Fiscal Impact:

Estimated revenue gain to the General Fund of $68.5 million in 1985-86 and approximately $75 million in 1986-87.

Financial Regulatory Departments--Blue-Ribbon Task Force to Examine and Make Recommendations on the State's Regulation of Financial Services

Reference:

Perspectives and Issues page 180.

Analysis:

As a result of dramatic changes which have taken place in the financial services marketplace, the state's financial institutions now are subject to a complex jurisdictional web of seven federal regulatory agencies and five state agencies. At a time when the marketplace is moving to a distribution of financial services on a functional basis, the state's financial regulators--the Departments of Banking; Savings and Loan; Corporations; Insurance; and Real Estate--remain organized along institutional rather than functional lines.

In the 1985-86 Perspectives and Issues (pages 180-187) we analyze several problems deregulation poses for the state and whether the Legislature has sufficient information to determine whether the state's regulatory system should be modified as a result of these changes in the marketplace. In order to provide the Legislature with a comprehensive evaluation of the state's regulation of financial services and recommendations for necessary changes to the regulatory structure, we recommend creation of a blue-ribbon task force.

Recommendation:

We recommend that legislation be enacted creating a blue-ribbon task force, consisting of industry, academic, administrative and legislative

representatives, to reexamine the state's regulation of financial services. We further recommend that the task force submit periodic progress reports to the Legislature and the Governor, and that the final report, with its recommendations, be submitted in 1986.

Fiscal Impact:

Unknown, potentially significant (in the aggregate) cost, to various financial regulatory special funds.