

**FINAL SUMMARY OF MAJOR
FINANCIAL LEGISLATION ENACTED
DURING 1986**

NOVEMBER 1986

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INTRODUCTION

This report summarizes the fiscal effects of legislation enacted during the 1986 Regular Session of the California Legislature. It is intended to supplement and update our July 1986 report entitled: Summary of Legislative Action on the Budget Bill 1986-87. That report shows the amounts appropriated in the Budget Act (AB 3217) for each state department and major program in 1986-87.

This report is divided into two parts. Part I discusses the condition of the General Fund, taking into account:

1. The effects of legislation enacted during the 1986 session (including those bills enacted subsequent to our July report).
2. Other changes to the estimates of revenues and expenditures for 1986-87.

Part II of the report describes the provisions and fiscal effects of some 51 major bills enacted since January 1, 1986. Each of these bills is significant from both a fiscal and policy standpoint. Many of the other bills approved by the Legislature and the Governor during the 1986 session also will have important consequences for the people of California. Thus, the discussion of individual bills in Part II of this report is intended merely to be illustrative of the major actions taken by the Legislature in 1986.

PART I
CONDITION OF THE GENERAL FUND

Overview

Table 1 shows that the uncommitted balance in the state's General Fund declined by approximately \$1.1 billion during 1985-86. At the beginning of the fiscal year the balance was \$1.4 billion, but we estimate that only \$293 million of this amount remained available as of June 30, 1986. This change reflects the fact that expenditures exceeded current revenues, and the cash balance of the General Fund was required to make up the difference.

Table 1 also shows what the General Fund condition may be on June 30, 1987. These estimates only reflect actions taken to date by the administration and the Legislature, and do not reflect expenditure or revenue changes which may occur during the remainder of this fiscal year. On this basis, we estimate that the General Fund balance on June 30, 1987 will be \$727 million, of which \$718 million (2.3 percent of estimated expenditures) will be uncommitted and available for appropriation by the Legislature. This \$718 million uncommitted balance is \$328 million less than what the Governor originally proposed. If all of the other potential expenditures discussed on pages 9-13 materialize, this \$718 million uncommitted balance could decline to as little as \$138 million.

The major changes in the General Fund revenue and expenditure estimates that have occurred since July are summarized below.

Table 1
 Condition of the General Fund
 1985-86 and 1986-87
 (dollars in millions)

	<u>1985-86</u>	<u>1986-87</u>
STARTING BALANCE:		
Department of Finance estimate ^a	\$1,400 ^b	\$570
Effect of LAO adjustments to 1985-86 balance	<u> --</u>	<u> -277</u>
TOTALS, Starting Balance	\$1,400	\$293
REVENUES AND TRANSFERS:		
Department of Finance estimate ^a	\$28,127	\$31,140
Revenue Shortfall	-154	--
Legislation	<u> --</u>	<u> -3</u>
TOTALS, Revenues and Transfers	\$27,973	\$31,137
EXPENDITURES:		
Department of Finance estimate ^a	\$28,957	\$30,650
Changes to reflect current law	-8	-116
Unavoidable cost/savings	125	-1
Legislation	<u> 5</u>	<u> 170</u>
TOTALS, Expenditures (LAO estimate)	\$29,079	\$30,703
ENDING BALANCE: ^c		
Reserve for continuing appropriations	26	8
Disaster Response-Operations Account	1	1
Special Fund for Economic Uncertainties	\$266	\$718

a. Source: Final Change Book.

b. Source: State Controller.

c. Details may not add to totals due to rounding.

Changes To Revenues

As Table 1 indicates, 1985-86 General Fund revenues were \$154 million less than the department estimated in May, and \$53 million less than we estimated in our July report. This revenue shortfall reflects lower-than-anticipated receipts from state taxes collected in May and June of 1986, and the estimated change in the amount of interest income to be accrued for the fiscal year. It does not, however, reflect any potential changes in the level of other revenue accruals for the fiscal year, as they cannot be estimated at this time. The State Controller informs us that these accrual changes will be announced in December.

The estimate of 1986-87 General Fund revenues has changed little during the past four months. Although total revenue collections over the four-month period are only slightly lower than projected, the performance of individual tax collections indicates that some continued weakness can be expected. However, the difference between estimates and actuals is not large enough to warrant revision at this time. An adjustment has been made to reflect legislation approved by the Legislature and the Governor, which is expected to reduce revenues by a net amount of \$3.2 million.

Currently, we expect General Fund revenues to exceed \$31 billion in 1986-87, which is approximately 11 percent higher than the estimate for 1985-86.

Changes To Expenditures

General Fund Expenditures in 1985-86

Our estimate of total General Fund expenditures for 1985-86 reflects the Department of Finance's estimate, as published in the Final

Change Book, plus three adjustments. The first adjustment, labeled "changes to reflect current law," eliminates the \$8 million cost included in the department's expenditure total for reimbursement of watermelon growers. Legislation providing funds for this purpose was not enacted until 1986-87, and is included in our estimate of the cost of legislation for that year (AB 2775 appropriates \$6.2 million for this purpose).

The second adjustment, labeled "unavoidable cost/savings," includes the \$56 million cost of the administration's proposal to provide "loans" to hold school districts harmless from lower-than-anticipated supplemental property tax revenue collections in 1985-86. (The Final Change Book did not account for the cost of these loans.) The amount corresponds to the shortfall in these revenues announced by the Superintendent of Public Instruction at the time of the final apportionment in June. Under this proposal, school districts will be required to repay these "loans" in 1986-87, to the extent that their supplemental property tax receipts exceed the amount anticipated in the 1986 Budget Act. (If these supplemental revenues do not exceed the budget estimate by \$56 million in 1986-87, no repayment of the "loans" will be required.)

Also included in the "unavoidable cost/savings" adjustment is the \$69 million cost of 1985-86 fiscal year deficiencies approved by the Department of Finance under Section 27 and other provisions of the 1985 Budget Act. Included in this \$69 million adjustment is an allocation of \$5 million from the Disaster Response-Emergency Operations Account authorized by the department in June. The largest of these deficiencies represents a \$52.3 million shortfall for the Aid to Families with Dependent Children (AFDC) program approved on May 28, 1986.

The third adjustment, labeled "legislation," reflects the cost of legislation which was not included in the Final Change Book.

General Fund Expenditures in 1986-87

Our current estimate of 1986-87 General Fund expenditures is \$211 million higher than the estimate included in our July report on the 1986 Budget Act, and \$53 million higher than the department's most recent estimate. As with the adjustments made to the 1985-86 expenditure estimate, the factors responsible for this \$53 million change can be divided into three categories: changes to reflect current law, changes due to unavoidable costs or recognized savings, and changes due to legislation.

Changes to Reflect Current Law Reduce Expenditures by \$116 Million. This change, which results in an expenditure reduction of \$116 million, reverses the effects of proposals which were made by the Governor and included in the department's latest estimates. This adjustment accounts for the fact that these proposed expenditures and savings are not currently authorized. This adjustment includes:

- Nonattainment of Public Employees Retirement System (PERS) Contribution Savings (\$191 Million). At the time the budget was enacted, the Legislature and the Governor anticipated that \$303 million in savings would be realized from reduced state contributions to PERS. These savings, in part, required the passage of legislation in order to be realized. In the 1986 Budget Act, the Legislature reduced the appropriations for K-12 school districts and community college districts by the amount of their anticipated savings (\$42 million). Section 3.6 of the

Budget Act provided for the capture of the remainder of the savings. Legislation was ultimately enacted to authorize the reduced state contributions, but at a significantly lower level (\$70 million) than anticipated earlier. Thus, only \$112 million in savings anticipated at the time of budget passage were actually achieved. As a result, the General Fund expenditure total must be increased by approximately \$191 million to reflect the amount of savings which were not realized.

- Governor's Set-Asides (\$307 million). The administration's latest estimate of 1986-87 expenditures includes \$307 million to fund three expenditure proposals made by the Governor. (The administration refers to these proposals as "set-asides.") First, the Governor set aside \$283 million for restoration of amounts he vetoed in connection with the PERS funding issue discussed above. Second, \$14 million was set aside in anticipation that the Legislature would pass administration-sponsored legislation to establish a new rate-setting mechanism for residential care services providers. Finally, \$10 million was set aside to restore the Governor's veto of Budget Act appropriations to the Department of General Services. In total, the elimination of these set-asides reduces the expenditure total by \$307 million to account for the fact that these expenditures are not currently authorized.

Unavoidable Costs/Savings Will Reduce Expenditures by \$1 million.

The estimate of General Fund expenditures shown in Table 1 recognizes certain unavoidable costs and savings which were not recognized by the Department of Finance in its most-recent estimates. These are shown as "unavoidable cost/savings" changes in Table 1, and include the following:

- \$60 million in General Fund deficiencies approved by the Director of Finance as of this writing. The largest of these deficiencies include \$38 million for increased inmate populations (Department of Corrections), and \$20 million for Medi-Cal rate increases.
- The repayment of "loans" made to K-12 school districts will reduce 1986-87 expenditures by \$56 million. (As discussed earlier, the administration's estimates did not account for the 1985-86 cost of the loans to K-12 school districts or their potential repayment in 1986-87.)
- Finally, we have adjusted the expenditure total downwards to account for savings in the University of California teaching hospital subsidy (\$5.4 million).

Chaptered Legislation Will Increase Expenditures by \$170 million.

Legislation signed after the Budget Act, or otherwise not included in our July estimates, will increase expenditures by \$170 million.

As noted earlier, the Governor vetoed \$283 million from the 1986 Budget Act to compensate for the lower-than-anticipated level of savings achieved on the PERS issue. Legislation to restore the vetoed funding was passed by the Legislature and signed by the Governor, after reducing the appropriations to approximately \$93 million. Specifically:

- Senate Bill 759 (Ch 891/86) appropriates \$53.4 million to partially restore funding to school districts for Urban Impact Aid, Meade Aid, and Small School District Transportation Aid;
- Assembly Bill 3216 (Ch 892/86) appropriates \$25 million to the Department of Health Services to augment the funds provided for the Medically Indigent Services Program, and \$8.8 million to the Department of Social Services to augment funds provided for the In-Home Supportive Services Program and the Child Welfare Services System;
- Assembly Bill 3 (Ch 1467/86) appropriates \$6.15 million to the Board of Governors of the California Community Colleges for allocation to community college districts to partially fund districts for revenue losses attributable to losses in average daily attendance (ADA) in 1985-86 and 1986-87.

All other legislation signed after the Budget Act or otherwise not included in our July estimate is expected to add \$77 million to the expenditure totals.

Other Potential Expenditures

The estimates of General Fund revenues and expenditures shown in Table 1 do not make allowance for other potential expenditures that could significantly reduce the General Fund's end-of-year balance. Table 2 summarizes our estimates of these potential expenditures. As shown in the table, we have identified three types of potential expenditures:

- The cost of deficiency requests received by the Department of Finance but not yet approved;

- The cost of restoring funds vetoed from the budget by the Governor in connection with the PERS funding issue; and
- Other potential deficiencies identified by the Legislative Analyst's Office.

In summary, the General Fund could face increased costs of up to \$580 million on account of these potential expenditures, which would reduce the estimated uncommitted balance in the General Fund from \$718 million to approximately \$138 million.

Table 2

Other Potential Expenditures for 1986-87
General Fund
(dollars in millions)

	<u>Amount</u>
Deficiency requests received but not yet approved	\$43
Restoration of Budget Vetoes	155
Other potential deficiencies:	
Medi-Cal funding	166
K-12 education funding	68
Social Services funding	56
Prisons	71
Mandated Local Programs	<u>21</u>
Subtotal, other potential deficiencies	<u>\$382</u>
Total, Other Potential General Fund Expenditures	\$580

Deficiency Requests Received but Not Approved (\$43 million). The Director of Finance has notified the Legislature, but not yet approved, \$43 million in deficiencies for the 1985-86 and 1986-87 fiscal years. Of this figure, \$29 million is accounted for by two requests--a \$14.6 million request to fund Medi-Cal abortions and a \$14.6 million request for the Department of Forestry's emergency fire suppression program.

Restoration of Budget Vetoes (\$155 million). As mentioned earlier, the Governor vetoed \$283 million in programs from the budget, promising to restore these funds if the PERS-related legislation were passed. To date, the Governor and the Legislature have restored \$93 million of this amount from the General Fund, and \$35 million from the Petroleum Violation Escrow Account. Should the Governor and the Legislature act to restore the balance of these vetoes, General Fund expenditures will increase by \$155 million.

Other Potential Deficiencies (\$382 million). Our review indicates program areas where identified General Fund expenditures are likely to exceed the amount anticipated in the 1986 Budget Act. These are:

Medi-Cal. There is a potential funding shortfall in the Medi-Cal program of \$166 million. Three items make up this shortfall. First, the Department of Finance reduced the Department of Health Services's (DHS) expenditure estimate by \$115 million to reflect the possibility that the estimate was too high. Expenditure data for the first three months of this fiscal year supports the original DHS estimate. Second, the Governor vetoed \$25 million from the Medi-Cal budget item based on an anticipated speed-up in claims processing that, had it occurred, would have shifted \$25 million in 1986-87 costs to 1985-86. Expenditure data for the first three months of this fiscal year indicate that the speed-up never happened. Finally, the checkwrite schedule shows that one additional unanticipated checkwrite will occur in 1986-87. The DHS estimates that the additional checkwrite will increase expenditures by \$26 million.

Department of Education Funding Shortfalls. There are four potential funding shortfalls in this area, totaling \$68 million. These include:

- Court-Ordered Desegregation. San Jose Unified School District has recently been placed under court order to desegregate its schools, and therefore is eligible to receive reimbursement for specified costs under the provisions of AB 38 (Ch 180/85). Reimbursement costs to the General Fund could total \$39 million.
- Declining Federal Lands Revenue. The 1986 Budget Act anticipated that revenues totaling approximately \$38 million would be received on account of federal onshore mineral royalties (the Department of Education receives the bulk of this money). Due to a drop in the price of oil, we estimate that these revenues will decline by \$14.1 million. By law, the General Fund must make up this difference.
- School Overcrowding. 1986 legislation (SB 327) increases the authorized level of incentive payments to school districts operating year-round schools because of overcrowding. The cost of the increased payment is estimated to be \$10 million for 1986-87. However, no funds were provided for this purpose.
- Fullerton-Rowland. The Department of Education informs us that \$5 million may be needed to pay for additional claims arising from the Fullerton-Rowland court decisions.

Higher-Than-Anticipated Welfare Program Costs. There is a potential funding shortfall of \$56 million for various welfare programs. These include:

- A shortfall of \$28.4 million in the AFDC program. This figure reflects a \$22.9 million loss of Federal Financial Participation (FFP) funds in AFDC cases affected by the judgment against the

state in the Simon v. McMahon court case, and a \$5.5 million loss of FFP funds for AFDC-Foster Care (Severely Emotionally Disturbed Children program).

- \$18.8 million for the Supplemental Security Income/State Supplementary Program (SSI/SSP), due to a lower-than-estimated federal COLA for this program.
- \$1.8 million to restore funding losses to the In-Home Supportive Services Program, resulting from a reduction in a federal block grant.
- \$7 million in increased General Fund costs for the Work Incentive Program, due to federal funding cuts.

Higher Prison Populations. There is a potential funding deficiency of \$70.5 million due to inmate population growth and increased costs for local assistance.

The Department of Finance and the Department of Corrections project a total deficiency of approximately \$108 million in 1986-87, consisting of \$104 million for 7,075 more inmates than budgeted and about \$4 million for increased local assistance. The Department of Finance has already approved deficiency requests of \$37.5 million, which leaves a potential deficiency of \$70.5 million.

Deficiencies in Mandated Local Program Reimbursements. The State Controller's Office has completed the audit of state-mandated local program claims for the 1983-84 and 1984-85 fiscal years, and has identified a potential funding shortfall of \$20.7 million. The Commission on State Mandates is likely to request that this amount be funded in the local government claims bill to be introduced in January.

**Comparison of the Department of Finance's and Legislative Analyst's
Office Estimates of the General Fund Condition**

Table 3 highlights the differences between our current (noncontingency) estimate of the General Fund condition and the most recent estimate released by the Department of Finance in the Final Change Book. It should be noted that most of the differences between the two estimates result from developments which have taken place since the department prepared its estimate, for example, recent deficiency requests and legislation.

Table 3
Comparison of DOF and LAO
Estimates of the General Fund Condition
1986-87
(dollars in millions)

	Department of Finance (October)	Legislative Analyst's Office (November)	Difference
Starting Balance (7/1/86)	\$570	\$293	-\$277
Revenues and Transfers	31,140	31,137	-3
Expenditures	30,650	30,703	53
Ending Balance (6/30/87)	1,060	727	-333
Funds Already Committed	14	9	-5
Reserve for Economic Uncertainties	1,046	718	-328

As the table shows, our beginning balance estimate is \$277 million lower than the department's. This reflects primarily the revenue and expenditure adjustments for 1985-86 discussed earlier.

Our estimates for 1986-87 revenues and transfers closely coincide with the department's. We have made a small adjustment to account for legislation which affects the revenue estimate.

With regard to expenditure estimate differences, we have made major upward adjustments to reflect \$191 million in unrealized PERS savings, \$60 million in recently approved deficiency requests, and \$170 million in recent legislation. We have also made major downward adjustments to eliminate \$307 million in set-asides and to account for the repayment of "loans" to K-12 schools and expected savings in the UC teaching hospital. The net result of these adjustments is that we project expenditures to be \$53 million higher than the department's most recent estimates.

The net result of our estimate differences is that we expect the ending balance in the General Fund to be \$727 million on June 30, 1987, or \$333 million less than the department's estimate of \$1,060 million. The bulk of this difference is accounted for by our lower estimate of the General Fund's beginning balance.

Finally, we have made a small adjustment to the amount of funds already committed to reflect an allocation of \$5 million from the Disaster Response-Emergency Operations Account authorized by the department in June. Taking all of these adjustments into account, we show an uncommitted reserve of \$718 million, which is \$328 million less than the department's estimate of \$1,046 million.

The Evolution of the 1986-87 Budget

Table 4 depicts, in summary fashion, the changes in estimated General Fund revenues and expenditures that have occurred since the 1986-87 budget was first submitted to the Legislature in January 1986. This table shows that:

- Our current estimate of expenditures--\$30,703 million--is \$4 million more than the level initially proposed by the Governor (though major changes have been made to the original make-up of these expenditures).
- Our estimate of revenues--\$31,137 million--is \$60 million less than the level forecast by the Department of Finance in May.

Table 4

Evolution of the 1986-87 Budget
(dollars in millions)

	<u>Expenditures</u>	<u>Revenues</u>
Governor's Budget, as submitted to the Legislature (January)	\$30,699	\$31,024
Changes initiated by the administration	<u>61</u>	<u>173</u>
Governor's Budget, as Revised (May)	\$30,760	\$31,197
<u>Actions on the Budget Bill</u>		
Changes to the Governor's Budget:		
Made by the Legislature		
Nonattainment of PERS related savings	\$191	--
Funding Reductions	-329	-\$5
Funding Increases	582	18
Made by the Governor		
Re-estimates	5	-75
Amounts Vetoed	<u>-675</u>	<u>--</u>
Budget As Chaptered (June)	\$30,534	\$31,135
<u>Subsequent Changes</u>		
Additional Changes Proposed by the Governor	<u>116</u>	<u>5</u>
Revenues and Expenditures as Proposed by the Governor	\$30,650	\$31,140
Legislative Changes	54	-3
LAO Re-estimates (November)	<u>-1</u>	<u>--</u>
Revenues and Expenditures as Estimated by Legislative Analyst (November)	\$30,703	\$31,137

Trends in General Fund Expenditures

Table 5 shows General Fund spending from 1974-75 through 1986-87 in both current and real (that is, inflation-adjusted) dollars. It shows that General Fund expenditures in 1986-87 will exceed 1985-86 expenditures by 5.6 percent. When expenditures are adjusted for inflation, however, the increase is smaller--about 2.4 percent (using 1974-75 as the base year). This is a rough measure of the extent to which state-funded programs and activities will grow in 1986-87.

Per capita spending. Another method that can be used to compare trends in General Fund expenditures is to examine spending on a per-capita basis. In 1974-75, the state spent from the General Fund approximately \$394 per Californian. In current dollars, our estimates for 1986-87 provide for expenditures totaling approximately \$1,145 per citizen, 191 percent more than the 1974-75 level. When per capita General Fund expenditures are adjusted for inflation, however, the increase since 1974-75 is reduced to 33 percent.

Table 5
Trends in General Fund Expenditures
1974-75 through 1986-87

	Total Expenditures (dollars in millions)				Per Capita Expenditures			
	Current Dollars ^a		1974 Dollars ^b		Current Dollars ^a		1974 Dollars ^b	
	Amount	Change	Amount	Change	Amount	Change	Amount	Change
1974-75	\$8,349	--	\$8,349	--	\$394	--	\$394	--
1975-76	9,517	14.0%	8,797	5.4%	442	12.2%	409	3.8%
1976-77	10,488	10.2	9,130	3.8	478	8.1	416	1.7
1977-78	11,708	11.6	9,525	4.3	524	9.6	426	2.4
1978-79	16,272	39.0	12,207	28.2	712	35.9	535	25.6
1979-80	18,568	14.1	12,584	3.1	798	12.1	541	1.1
1980-81	21,066	13.4	13,024	3.5	886	11.0	548	1.3
1981-82	21,695	3.0	12,473	-4.2	896	1.1	515	-6.0
1982-83	21,755	0.3	11,798	-5.4	883	-1.5	478	-7.2
1983-84	22,872	5.1	11,857	0.5	908	2.8	471	-1.5
1984-85	25,767	12.7	12,684	6.8	1,006	10.8	495	5.1
1985-86 ^c	29,079	12.9	13,685	7.9	1,132	12.5	533	7.7
1986-87 ^c	30,703	5.6	14,013	2.4	1,145	1.2	523	-1.9

a. Source: State Controller.

b. "1974 dollars" equal current dollars deflated by the change in the Gross National Product implicit price deflator for state and local purchases of goods and services since 1974-75, as estimated by the Department of Finance in November 1986.

c. Legislative Analyst's estimate as of November 1986.

Appropriations of Petroleum Violation Escrow Account Revenue

During 1986, the Legislature approved seven bills that appropriated a total of \$172.5 million in Petroleum Violation Escrow Account (PVEA) revenue received from the federal government. Table 6 summarizes the purposes for which these appropriations were made.

Table 6
Legislation Chaptered in 1986
Appropriating Petroleum Violation Escrow Account Revenue
(dollars in millions)

<u>Bill</u>	<u>Chapter</u>	<u>Amount</u>	<u>Purpose</u>
AB 694	1339	\$36.0	Energy conservation assistance to small businesses (\$3 million) and Native American communities (\$3 million) and air conditioning and insulation for schools (\$30 million).
SB 880	1343	40.5	Energy conservation loans to local governments (\$14 million), energy efficiency projects at state-supported universities and colleges (\$12 million), traffic signal timing program (\$7.5 million), and energy conservation grants and loans to school districts (\$7 million).
SB 1144	1342	40.0	Low-income home weatherization (\$30 million) and Low-Income Home Energy Assistance Program (\$10 million).
SB 1145	1341	5.0	Energy assistance program for farms.
SB 1146	1338	11.0	Energy conservation assistance to small businesses.
SB 1147	1340	5.0	Purchase flexible-fuel vehicles (\$2.5 million). Demonstrate methanol in heavy-duty diesel engines and purchase and operate methanol buses (\$2.5 million).
SB 2516	890	<u>35.0</u>	Local assistance for transit capital improvements.
Total		\$172.5	

Background

The Petroleum Violation Escrow Account (PVEA) is an escrow account maintained by the federal government. Revenues in the account are derived from negotiated settlements, administrative rulings, and court judgments against oil companies that overcharged customers during the period in which federal oil price controls were in effect (September 1973 through January 1981). When the federal government or the courts have not been able to identify specific victims, funds in the account have been distributed to the states so that they can provide restitution to the public. Prior to 1986, the state received and spent about \$29 million from previous PVEA cases.

\$104.5 Million Remains Available for Appropriation. The state has received approximately \$277 million from recent PVEA settlements for various energy-related programs. The \$277 million consists of approximately \$206 million from settlement of the Exxon case (March 1986), \$66 million from the Stripper Wells case (July 1986), and \$5 million from eight smaller cases. The state might receive roughly an additional \$100 million in PVEA funds at an unknown time in the future. Legislation chaptered in 1986 appropriates a total of \$172.5 million, so that a total of \$104.5 million currently remains available for appropriation.

Restrictions on Use of Exxon Funds. The federal court has restricted expenditures of funds from the Exxon case to specific energy-related programs. Potential uses of funds from the Stripper Wells case are much broader. Generally, the Governor must submit an expenditure plan to the federal Department of Energy and the federal court, which must be approved before any of the PVEA funds may be spent.

PART II

MAJOR BILLS ENACTED IN 1986

A. Revenue Measures

Senate Bill 55 (Chapter 54)

This act allows farming businesses to carry forward net operating losses for purposes of the state Personal Income and Bank and Corporation Tax laws. In effect, these businesses will be able to use losses incurred in one or more years to offset income earned in subsequent, more profitable years and thereby reduce their tax liabilities. Prior to enactment of SB 55, the only businesses that could carry forward net operating losses were new small businesses and businesses operating in designated "enterprise zone" areas of the state.

The act specifically permits farming businesses to carry over net operating losses which occur between 1985 and 1992, for a maximum of 15 years following the year of the losses. The maximum amount of losses that may be carried over is \$50,000 per year. Taxpayers may claim tax deductions for such losses of up to a cumulative amount of \$250,000. The losses may be deducted only against income from farming.

Fiscal Effect. The Franchise Tax Board estimates that the act will result in General Fund revenue losses in the range of \$6 million in 1986-87, \$9 million in 1987-88, and increasing amounts thereafter. However, the actual losses could vary widely from these estimates because there is no reliable information on such factors as the number of farming

businesses which would qualify for the carry forward or how their losses would compare with their profits in future years.

Senate Bill 85 (Chapter 660)

This act makes changes to the "unitary" method of apportioning the income of multinational corporations to California for state tax purposes. In general, corporations will be allowed to elect to exclude their foreign operations from the income and apportionment factors used to determine their state Bank & Corporation tax liability under the unitary method. This is referred to as the "water's-edge" election. Corporations that make this election also will be allowed an exemption for 75 percent of the dividends received from foreign corporations in which they have a controlling interest. However, certain foreign operations will continue to be combined with a corporation's domestic operations. The election is binding for a "rolling" 10-year period.

Water's-edge corporations will be required to pay an annual "election" fee equal to 30 one-thousandths (30/1,000) of 1 percent of the total dollar value of their property, payroll, and sales in California. The fee amount would be reduced if the corporation makes new investments in California.

The proceeds from the fee will be deposited into a special fund (the California Unitary Fund) and used for specified state and local economic development programs, including infrastructure projects. Two-thirds of the fee revenue will be for state projects and one-third for local projects. To administer these programs, the act establishes the

California Development Review Panel, the state Small Business Bond Insurance Corporation, and the Office of Trade Policy and the Office of Export Promotion within the state World Trade Commission.

The act also restricts two corporate tax preferences. First, it limits the ability of corporations to defer reporting income (and thus defer taxes) associated with sales when the buyer makes installment payments. Second, it disallows the deduction for additions to bad debt reserve accounts for most corporations except financial institutions. (These changes are intended to reduce the revenue losses resulting from the waters's edge election.)

The act takes effect on January 1, 1988.

Fiscal Effect. According to Franchise Tax Board estimates, the net General Fund revenue losses from the act will be approximately \$40 million in 1987-88 (partial-year effect), \$150 million in 1987-88, and increasing amounts in subsequent years. The board also estimates that the election fee will result in revenue gains to the California Unitary Fund of approximately \$10 million in 1987-88 (partial-year effect) and \$35 million annually thereafter.

Assembly Bill 2536 (Chapter 16)

This act, which became effective March 11, 1986, provides flood relief to individuals and local governments adversely affected by the storms and floods of February 1986.

The act transfers \$115 million from the Reserve for Economic Uncertainties to the Disaster Response Emergency Operations Account. Of this amount, \$80 million is allocated to counties for the repair of public

facilities and other storm-related costs, such as disaster victim relief and the costs of federal relief program participation. The act also allocates \$10 million to the State Department of Social Services for individual grant assistance, and transfers \$5 million to the 1986 Flood Relief Account for the costs of levee repair and specified flood clean-up activities.

In addition, the act extends property tax relief to designated disaster victims. Current law allows casualty losses in a presidentially declared disaster area to be carried back one year in computing taxable income for personal or corporate income taxes. This act allows qualified victims to carry casualty losses forward for a five-year period. Existing law also provides counties the option to reassess at a lower value certain real property that is damaged as a result of a storm or other casualty. This act allows qualified homeowners to defer their April 10, 1986 property tax payment in conjunction with filing a claim for a lower tax assessment.

Finally, the act requires the state to reimburse local governments for property tax revenues lost due to lowered assessments and the April 10 tax deferral. The act allocates \$20 million for the reimbursement of county revenue losses.

The carry-forward and carry-back of casualty losses will result in unknown loss of General Fund revenues between 1985-86 and 1989-90. The Department of Finance estimates that these losses may range from \$2 million in 1985-86 to \$30 million in 1987-88.

Senate Bill 2527 (Chapter 1515)

This act exempts the sale or transfer of qualified printed advertising materials, such as catalogues, from the sales and use tax. The exemption applies only to materials which consist "substantially" of printed sales messages advertising goods and services. In order to qualify for the exemption, tax-exempt materials must be (1) printed to the special order of the purchaser, (2) mailed or delivered through the U.S. mail or another common carrier, and (3) given at no cost to another individual who then becomes the owner of the material. Examples of materials that are exempt under this act include mail order catalogues and free advertising publications such as the Pennysaver or Magic Ads. The exemption becomes effective January 1, 1987.

This act will reduce General Fund revenues by unknown annual amounts. The Department of Finance estimates that state revenue losses will amount to \$3.3 million in 1986-87 (half year), and \$8 million in 1987-88 (full year), with increasing amounts in subsequent years. These estimates, however, are based on broad assumptions about printing activity in the State of California, and therefore are subject to a substantial margin of error. Our analysis indicates that the Department of Finance estimates probably represent the low end of the range of potential revenue loss. For example, the Board of Equalization, using somewhat different assumptions, projects a full-year state revenue loss of \$66 million.

Senate Bill 1610 (Chapter 214)

This act, which became operative on July 1, 1986, attempts to reduce sales tax evasion among service station operators by requiring fuel distributors or brokers to collect from retailers a partial sales tax

prepayment at a flat rate of 4 cents per gallon. This rate is to be adjusted annually by the Board of Equalization to reflect 80 percent of the combined state and local sales tax on the average selling price of gasoline. The distributors are required to remit this prepayment to the state on a monthly basis. Under prior law, the retailers were required to make prepayments to the state on a monthly basis.

The act makes several additional changes in prepayment requirements for gasoline retailers. First, the act provides that vehicle fuel retailers are not required to prepay sales tax on nonfuel merchandise if the retailer's fuel sales exceed 75 percent of his or her gross receipts. In addition, the act allows prepayment of the tax due for the first 15 days of June to be made in July of the subsequent year, rather than in June of the current year. Finally, the act allows existing gasoline retailers to claim a one-time interest-free tax deferral approximately equal to the amount of one month's prepayment. The retailer must repay this credit in four quarterly installments by July 1, 1987.

This act will increase General Fund revenues to the extent that it reduces tax evasion among service station operators. Our fiscal analysis is based on the assumption that enhanced General Fund revenue collections will amount to approximately \$50 million in 1986-87 and following years.

These revenue gains will be partially outweighed by cashflow and interest losses to the General Fund resulting from prepayment reductions and deferrals. Revenue losses will equal approximately \$41 million in 1986-87, and \$2 million in 1987-88.

In sum, our analysis indicates that this act will result in an unknown net increase in General Fund revenues. Our analysis indicates that this revenue increase probably will approach \$14 million in 1986-87, based on the assumed level of reduced tax evasion. In 1987-88 and subsequent years, the act will increase General Fund revenues by an unknown amount, probably in the range of \$53 million. In addition, local revenues will increase by an unknown amount, probably in the range of \$4.5 million in 1986-87, and \$17 million in 1987-88.

B. Local Government Financing

Assembly Bill 3368 (Chapter 1146)

This act, an urgency measure, appropriated \$5 million from the General Fund for subventions to fiscally distressed counties. Under the terms of the bill, the Director of Finance shall allocate funds, at his discretion, to eligible counties which meet the following minimum criteria:

1. An unemployment rate greater than or equal to 130 percent of the statewide unemployment rate; and
2. The ratio of county costs for the Aid to Families with Dependent Children (AFDC) program to county general purpose revenues exceeds the statewide average ratio.

The state will subvene to the counties designated by the Director of Finance an amount equivalent to the portion of county general purpose revenue AFDC costs which exceeds the statewide average ratio and 10 percent of criminal justice program costs. The amount of the subvention for any one county will be reduced by the amount of any funds received by that county in 1986-87 pursuant to Ch 977/85 (AB 3400, Costa). The maximum grant that a county can receive under this bill is limited to \$500,000. In addition, the subventions to eligible counties are to be based on a pro rata share of the \$5 million appropriated by this act.

The subventions may be used for any county purpose.

Senate Bill 2117 (Chapter 1147)

This act, an urgency measure, established the Governor's Rural Renaissance program. Specifically, the act creates two new economic

development programs designed to address the economic problems of rural counties:

1. The Rural Economic Development Promotion Program will provide grants to 41 specified rural counties for promoting or advertising economic development and tourism.

2. The Rural Economic Development Infrastructure Program will provide loans and grants of up to \$1 million to local agencies for purposes of financing public improvements, including sewer and water facilities, streets, storm drains and bridges. The loans and grants will be available to cities, counties, and special districts in the 41 specified rural counties. In addition, counties or special districts in the remaining 17 counties can apply for loans with respect to projects in their unincorporated areas. The act creates a Rural Economic Development Infrastructure Panel to award the loans and to determine the terms of the loans.

Chapter 1147 appropriated \$7,950,000 from the Special Account for Capital Outlay (SAFCO) to the Rural Economic Development Fund, also created by this act, for direct allocation to the counties through the promotion program. The act specifies a maximum grant that may be awarded to each of the 41 counties (the Governor vetoed a \$50,000 grant provided for Marin County). No appropriation is included for the infrastructure program, but the act states the Legislature's intent that this program shall have priority for funding from SAFCO in the 1987 Budget Act.

Both programs will be administered by the Department of Commerce, in conjunction with the Rural Economic Development Infrastructure Panel. The act appropriated \$143,000 from the General Fund to the Department of Commerce for administrative expenses in 1986-87.

C. Resources

Assembly Bill 1982 (Chapter 6)

This act, an urgency measure, authorizes the sale of \$150 million in general obligation bonds to provide loans to public agencies to finance (1) water conservation and groundwater recharge facilities and studies (\$75 million) and (2) agricultural drainage water facilities and studies (\$75 million). The measure was approved by the voters as Proposition 44 on the June 1986 ballot.

The act also continuously appropriates the bond funds to the Department of Water Resources (DWR) and to the State Water Resources Control Board (SWRCB) (\$75 million each) to provide the loans. The department will provide loans for water conservation and groundwater recharge, and the board will provide loans for agricultural drainage.

The act sets the maximum amount of any loan for a feasibility study at \$100,000. The maximum loan for constructing water conservation and groundwater recharge projects is \$5 million, and the maximum loan for constructing treatment, storage, or disposal facilities for agricultural drainage is \$20 million.

The act sets the annual interest rate for the loans, in both programs, at half the interest rate paid by the state on general obligation bonds in the calendar year in which the loan agreement is executed. We estimate that if all loans are repaid on time, the net state cost will total about \$70 million over 20 years--an average of \$3.5 million annually--for the interest subsidy and program administration.

Assembly Bill 2668 (Chapter 410)

This act, an urgency measure, authorizes the sale of \$100 million in general obligation bonds for loans and grants to improve and rehabilitate domestic water systems. The act also continuously appropriates these funds to the Department of Water Resources (DWR). The measure was approved as Proposition 55 on the November 1986 ballot.

The act states that the priority for loans and grants will be based on the threat to the public health and financial need. The maximum loan allowed is \$5 million and the maximum grant allowed is \$400,000. The act sets the interest rate on loans made under this bond law and the similar 1984 bond law at half of the average interest rate paid by the state on general obligation bonds in the calendar year in which the loan agreement is executed. If all loans are repaid on time, the net cost to the state for grants, the interest subsidy, and program administration would be up to \$165 million over a 30-year period--an average of up to \$5.5 million annually.

Assembly Bill 3683 (Chapter 511)

The act authorizes the Air Resources Board to allow new heavy-duty vehicles that do not meet California emission standards to be sold in the state if a "nonconformance fee" is paid by the manufacturer and if certain other conditions are met. The state nonconformance requirements and fee would substitute for the federal noncompliance program. The fees would increase each year that the manufacturer was not in compliance. The provisions of the bill sunset on January 1, 1999.

Fiscal Effect. The Air Resources Board expects revenues from the nonconformance fee to be between \$3 million and \$6 million annually to the Air Pollution Control Fund, beginning in 1990-91 and continuing through 1993-94 (when more stringent standards will take effect). Revenue after 1994 is unknown (standards will change at that time, but none have yet been set). The amount of fee revenue will depend on the number of manufacturers that participate in the program, the number of noncomplying vehicles, and the level of noncompliance by the vehicles.

Assembly Bill 2775 (Chapter 1265)

This act, an urgency measure, appropriated \$6.2 million from the Special Fund for Economic Uncertainties to pay farmers, brokers, shippers, wholesalers, and retailers for their economic losses caused by "the confiscation and destruction of a significant portion of the 1985 watermelon crop." The statute also requires the State Controller to provide a list of the payments to the Franchise Tax Board, so that payments may be "intercepted" to pay any debt owed to the state. The act states the Legislature's intent to provide compensation for these claims once the State Board of Control, with the Department of Food and Agriculture's assistance, evaluated the legitimacy of claims.

Assembly Bill 2020 (Chapter 1290)

This act, an urgency measure, enacts the California Beverage Container Recycling and Litter Reduction Act to encourage the recycling of aluminum, glass, and plastic nonrefillable beverage containers. The Department of Conservation will administer the program.

The act requires beverage distributors to pay the department a 1-cent redemption value for each nonrefillable beverage container sold to retailers beginning October 1, 1987. The redemption value will increase to 2 cents on December 31, 1989, and to 3 cents on December 31, 1992 for any type of beverage container with a redemption rate less than 65 percent.

The department will certify recycling centers and container processors. The certified recycling centers will pay consumers the 1-cent redemption value plus any redemption bonus (an additional amount paid from the unclaimed redemption values to encourage the increased recycling of particular container types) for each returned nonrefillable beverage container. Recycling centers also may pay more to consumers for containers with a large scrap value. The recycling centers will sell their containers to processors who will be reimbursed by the department for the redemption values, redemption bonuses, and handling costs for the beverage containers that they recycle.

The department may also establish processing fees for any type of nonrefillable beverage container that has a scrap value below its recycling costs. The beverage manufacturer will pay the department this processing fee. The department, in turn, will pay the processing fees to recycling processors for redeemed containers. The redemption values left after payment of all administrative costs, redemption value refunds, and establishing a reserve, plus the processing fees collected on unredeemed containers will be used to fund litter abatement programs, grants to community conservation corps, and redemption bonuses.

Fiscal Effect. The act appropriates \$5 million from the General Fund as a loan to the Department of Conservation for start-up costs until the program commences collecting revenue on October 1, 1987.

Currently, sales of beverages in California involve about 12 billion containers annually. Therefore, the payment of the 1-cent redemption value by beverage distributors will result in annual revenue of about \$120 million to the California Beverage Container Recycling Fund. During the nine months the program will be in effect in 1987-88, the department will receive about \$90 million from these redemption value payments. In addition, the department may receive processing fees, if it establishes any. The act sets a beverage container recycling goal of 80 percent for each type of container. If this 80 percent goal is achieved, \$72 million will be disbursed in redemption payments, leaving \$18 million in unclaimed redemption payments for expenditure on contracts with nonprofit agencies and recycling promotion.

D. Education

I. K-12 Education

Senate Bill 327 (Chapter 886) and Assembly Bill 2926 (Chapter 887)

These acts, along with clean-up measures SB 2068 (Chapter 888) and AB 3470 (Chapter 889), expand the eligibility criteria and impose a local matching fund requirement for school districts electing to participate in the State School Building Lease-Purchase program. Under this program, the state essentially provides grants to local school districts which meet specified qualifications for the construction of new and reconstruction of existing school facilities. Major provisions of these acts are as follows:

1. Eligibility. Establishes as an alternative to an existing process, a simplified and more generous method of determining a district's eligibility for state funds.

2. Match. Requires districts to provide a variable local matching contribution based on a complex calculation related to a maximum level of revenue that could be generated if the district imposed a developer fee, as specified.

3. Developer Fee. Authorizes school districts to impose developer fees, subject to limitations, as specified, on residential and commercial/industrial construction (under current law, only cities and counties have such authority), and prohibits cities and counties from issuing a building permit absent certification from the district that any required developer fee has been paid.

4. Square Footage. Increases square footage allowances under two separate provisions by a total of approximately 10 percent, and allows districts using local funds to exceed state space standards by up to an additional 10 percent without being penalized against future square footage eligibility.

5. Exclusions. Expands the types of areas that will not or may not be charged against a district's eligibility for state funding.

6. Enrollment Projections. Extends the time periods, as specified, for districts to project enrollments, and provides for alternative projection periods.

7. Reconstruction. Expands the definition of reconstruction.

8. Year-Round Education Incentive Payments. Provides an additional General Fund allocation of up to \$125 per (average daily attendance (ADA), to be adjusted for inflation, to districts operating year-round schools because of overcrowding. (Current law provides for an allocation of \$25 per ADA.)

9. Tidelands Oil Revenues. Extends for two additional years (from 1988-89 to 1990-91), the \$150 million annual appropriation of tidelands oil revenues to the State School Building Lease-Purchase Fund.

Fiscal Effect. As a result of the provisions which expand eligibility requirements, these acts will result in an unknown potential redistribution of State School Building Lease-Purchase funds among eligible districts. To the extent that these acts result in a greater number of districts qualifying for larger amounts of state aid, available funds will not stretch as far as they would have under prior law.

These measures will also result in annual General Fund costs of up to \$25 million (based on current district participation levels) to provide the additional year-round school incentive payment established by these acts. In addition, these measures will result in a \$150,000 cost to the State School Lease Purchase Fund to finance the costs of a study on shortening and simplifying the process for financing local school facilities needs.

Based on estimates that there will be approximately 300 million square feet of residential housing constructed in 1987, and assuming that all districts levy the maximum fee, the residential portion of the developer fee could generate approximately \$450 million in 1987. This estimate does not reflect any square footage added to existing dwellings. We have no estimate on the amount of revenue that would be generated from the commercial/industrial portion of the developer fee. Any such revenue increases, however, would be offset by unknown, but probably major (multi-million dollar) revenue losses to school districts from no longer being able to have school districts levy developer fees without any limitation.

There would be an unknown, but probably major (multi-million dollar), cost avoidance to the State School Building Lease-Purchase Fund by the amount that could be generated from the developer fee.

This measure creates a mandated local program by prohibiting cities and counties from issuing building permits absent certification from the relevant school district that any necessary developer fees have been paid. Any mandated costs that could occur are unknown.

Assembly Bill 4245 (Chapter 423)

This act, as approved by the voters on the November 1986 ballot, would authorize the sale of \$800 million of state general obligation bonds in order to provide funds for the construction, reconstruction, or modernization of elementary and secondary school facilities.

At least \$400 million of the bond money would have to be used for the construction of new school facilities. No more than \$360 million of the funds raised from the bond sale could be used for the reconstruction or modernization of existing facilities. Up to \$40 million of the bond sale proceeds could be used to buy and install air-conditioning equipment and insulation materials for eligible school districts with year-round programs.

For these types of bonds, the state typically would make principal and interest payments over a period of up to 20 years from the state's General Fund. The average payment would be about \$66 million each year if \$400 million in bonds were sold in both 1986-87 and 1987-88 at an interest rate of 7 percent. In addition, sale of these bonds (1) could cause state and local governments to incur unknown increased costs under other bond programs and (2) result in an unknown reduction in state income tax revenue to the extent that California taxpayers buy these tax-exempt bonds instead of making taxable investments.

Senate Bill 759 (Chapter 891)

This act appropriated \$53.4 million from the General Fund in 1986-87 to partially restore funding for school districts' entitlements to Urban Impact Aid, Meade Aid, and Small School District Transportation Aid that was vetoed by the Governor from the 1986 Budget Act. As passed by

the Legislature, SB 759 provided \$106.7 million to fully restore this funding. The Governor, however, vetoed half of this amount prior to signing the bill. As a result, the act restores half of the funding required for the programs in the current year.

Assembly Bill 3263 (Chapter 1124)

This act appropriated \$1.8 million from the General Fund in 1986-87 to fund deficiencies in K-12 apprenticeship programs operated in 1984-85 and 1985-86. The act requires that \$371,000 be made available to apprenticeship programs operated in 1984-85 and \$1.4 million to programs operated in 1985-86.

Assembly Bill 3158 (Chapter 1258)

This act, an urgency measure, appropriated \$3 million from the General Fund in 1986-87 to provide an "emergency apportionment" (loan) to the Berkeley Unified School District (BUSD). Repayment, which shall begin no later than July 1, 1987, will be in accordance with existing law, which provides for a five-year repayment plan, including interest based on the current rate of the Pooled Money Investment Fund.

The act also provides that the BUSD (1) may use the proceeds from the sale of surplus property to repay the loan, and (2) notwithstanding other limitations, shall be eligible for state school deferred maintenance aid funds. In effect, the act provides that the district may repay the loan with funds that would otherwise be available for its deferred maintenance needs and the state may provide additional aid to "backfill" this diversion of funds. We estimate potential total costs to the State School Deferred Maintenance Fund of between \$1 million and \$3 million, depending on the value of any surplus property sold by the BUSD.

Chapter 1258 also creates a mandated local program by requiring the Alameda County Superintendent of Schools to provide information and assistance to the Superintendent of Public Instruction, as required, until the loan is repaid.

II. Higher Education

Assembly Bill 3409 (Chapter 1465)

This act appropriated \$275,000 from the General Fund in 1986-87 to the Chancellor of the California Community Colleges to fund (a) two task forces--one on a funding mechanism for the community colleges and one on community college credentials--and (b) a staff study of educational and fiscal quality indicators.

Assembly Bill 3 (Chapter 1467)

This act appropriated \$6,151,000 from the General Fund in 1986-87 to the Board of Governors of the California Community Colleges for allocation to community college districts to partially fund districts for revenue losses attributable to losses in ADA in 1985-86 and 1986-87. The Legislature provided \$34,296,000 to fully fund this program. The Governor, however, item-vetoed \$28,145,000.

The Governor also item-vetoed \$21 million provided by the Legislature for half-year funding for a statewide program of assessment and counseling for community college students.

Senate Bill 417 (Chapter 1196)

This act appropriated \$200,000 from the General Fund in 1986-87 to the Student Aid Commission to establish the California State Work-Study program. Funding is provided for first-year administrative costs of the

commission (\$125,000) and start-up costs of participating institutions (\$75,000). No funding is provided for direct financial aid; however, the measure expresses legislative intent that funding be provided in the annual Budget Act.

The work-study program is designed to provide financial assistance and work experience to needy postsecondary students through a program of state-subsidized employment. Students must demonstrate financial need and maintain satisfactory academic progress in order to be eligible for employment under the program.

The commission is required to convene an advisory committee to provide recommendations on program direction and administration, a formula to allocate funds, and criteria to select participating institutions.

Assembly Bill 559 (Chapter 1494)

This act increases from 11 to 15 the number of commissioners on the Student Aid Commission. Of the additional four members, two will be appointed by the Speaker of the Assembly and two by the Rules Committee of the Senate.

This act also specifies what sources of income and losses shall be considered in determining an applicant's need for state financial assistance.

E. Criminal Justice

Senate Bill 2543 (Chapter 1519)

This act, an urgency measure, appropriated the money in the 1986 County Correctional Facility Expenditure Fund for construction and renovation of county adult and juvenile detention facilities. The money in the fund is available from the County Correctional Facility Capital Expenditure Bond Act of 1986 (Proposition 52), which authorized \$495 million of bonds, and from the interest earned on the amount.

The bill specifies that the money shall be used for renovation, replacement, reconstruction, or construction of county jail facilities, county medical facilities designated to house persons charged with or convicted of a crime, and who are mentally ill, and county juvenile facilities. In addition, the act specifies that the money may be used for construction of separate local detention facility space for detoxification of persons arrested because of intoxication.

The act establishes criteria for allocating the money among counties. Specifically, the act:

1. Appropriated \$20 million to the Department of the Youth Authority for allocation to counties for juvenile facilities by March 1, 1988. The measure provides that the department could spend up to \$200,000 for administrative costs and for performing a statewide needs assessment.

The measure requires the department to establish criteria for allocation of the funds, as specified.

2. Appropriated the remainder of the funds (\$475 million, plus an indeterminable amount of interest income) to the Board of Corrections for allocation to counties for adult correctional facilities, as specified. The act provides specific allocations to counties and sets forth criteria for the board to use in determining allocations. The act specifies that the board may use up to 1 percent of the amount for administrative costs, as specified.

3. Establishes three ad hoc advisory committees of specified persons to establish standards of enforcement, so that the allocation of funds is in accordance with the specified mandates of existing law. The measure specifies that the three include committees on mental health, public inebriates, and alternatives to incarceration.

4. Specifies certain limitations on use of the funds. The measure reiterates that a county must provide at least 25 percent of the costs of the project. Under Proposition 52, a 25 percent match is required unless the Legislature waives the requirement. The measure also requires counties to meet other specified standards and conditions.

F. Health

I. Acquired Immune Deficiency Syndrome (AIDS)

Assembly Bill 2404 (Chapter 1462)

This act, an urgency measure, establishes an Acquired Immune Deficiency Syndrome (AIDS) Vaccine Research and Development Grant (VRDG) Fund. The act appropriated \$4 million from the General Fund to the VRDG Fund for grants to no more than three California AIDS vaccine manufacturers for research and development of AIDS vaccine. The act also establishes procedures and criteria for awarding grants by the Department of Health Services (DHS), and creates a five-member advisory committee to review and make recommendations regarding grant awards.

Grants will be available only until federal approval for clinical testing of the vaccine on humans is received. At that time, the DHS could (1) request that any funds remaining in the VRDG Fund be returned to the General Fund or (2) use the funds to support clinical trials or additional research. The bill requires grant recipients who sell, deliver, or distribute a federally approved AIDS vaccine to pay the VRDG Fund \$1 for every dose sold until the grant is repaid. After grant repayment, royalties negotiated by the DHS would be paid to the General Fund.

Assembly Bill 4250 (Chapter 1463)

This act, an urgency measure, contains a number of provisions related to development of a vaccine for Acquired Immune Deficiency Syndrome (AIDS) after initial research on the vaccine is completed. Specifically, the measure:

- Appropriated \$6 million (\$3 million in 1986-87 and \$3 million in 1987-88) from the General Fund to subsidize human clinical research trials for an AIDS vaccine.
- Creates the AIDS Vaccine Guaranteed Purchase Fund, which would guarantee purchase of at least 500,000 units of vaccine at a cost of not more than \$20 per dosage (up to \$1 million) during the three-year period following initial marketing of the vaccine. The fund would incur costs only to the extent that manufacturers sell fewer than 750,000 doses in the three-year period.
- Exempts manufacturers of an AIDS vaccine from strict products liability for any damages proximately or legally caused by any design or warning defect of the AIDS vaccine, or for breach of implied warranty, if a trial judge determines that the AIDS vaccine is "unavoidably dangerous."
- Creates the AIDS Vaccine Victims Compensation Fund to compensate victims for damages due to injuries caused by an AIDS vaccine. The fund shall be supported by a surcharge of up to \$10 on each unit of vaccine sold, and payments to victims shall be entirely contingent upon the availability of monies in the fund.

The bill also creates a 14-member AIDS Vaccine Injury Compensation Policy Review Task Force to study and make recommendations to the Legislature on the implementation of the AIDS Vaccine Victims Compensation Fund by June 30, 1987.

II. Hazardous Waste

Assembly Bill 2948 (Chapter 1504)

This act establishes local hazardous waste planning and coordinated state and local hazardous waste facility siting processes. Specifically, this act:

- Establishes a voluntary local hazardous waste management planning process. The act requires local governments that choose to participate in the local hazardous waste planning process to follow a prescribed schedule in adopting a plan and to include specified elements within the plan. All plans must be adopted at the local level by February 1, 1989. Chapter 1504 requires the Department of Health Services (DHS) to (a) develop guidelines for the local planning process, (b) provide technical assistance and data to counties preparing plans and (c) review and approve local plans by no later than April 30, 1989.
- Creates a new subaccount to defray state and local costs of participating in the local planning process. The act transfers \$10 million from the Hazardous Waste Management Planning Subaccount within the HWCA to be appropriated by the Legislature in 1987-88 and 1988-89 for support of local and state costs of participating in the local hazardous waste management planning program. These funds were specifically reserved for this purpose by Ch 1440/85 (AB 1024).

- Creates a coordinated state and local process for siting and permitting new hazardous waste facilities. The act specifies timelines for local land-use decision-making, and a process for appealing local decisions and mediating disputes between local agencies and project applicants. The act requires the establishment of local assessment committees to review permit applications and requires various state agencies to assist local assessment committees in evaluating the applications. The act establishes a Local Agency Technical Assistance Account--supported by specified fees--to offset the cost to local governments in maintaining assessment committees. The act does not specify a funding source for state costs to support the coordinated review process. These costs would probably be less than \$250,000 annually.

Assembly Bill 4283 (Chapter 1506)

This act, an urgency measure, revises and extends until April 1, 1988 fees that support the state's costs for regulating the generation, treatment, transport, and storage of hazardous materials. These fees are deposited into the Hazardous Waste Control Account (HWCA).

In the past, the HWCA was supported by fees levied on the disposal of hazardous waste. The state's authority to set base fee rates at levels higher than \$1 per ton expired on June 30, 1986. Specifically, the act:

- Revises disposal fees so that the fee charged will generate 46 percent of the amount appropriated from the HWCA in any given year. The act exempts from the disposal fee generators

disposing of fewer than 500 pounds of waste annually. The act also imposes fees on businesses transporting wastes out of state for disposal; previously, wastes shipped outside the state for disposal were not subject to fees.

- Establishes facility fees to be paid by all hazardous waste treatment, storage, recycling, and disposal facilities. This fee will be set to generate 25 percent of the amount appropriated from the HWCA in any given year. Individual facility charges will depend on the size and type of a facility.
- Establishes generator fees to be paid by firms that generate more than five tons of hazardous waste per month. The base rate for this fee will be set to generate 25 percent of the amount appropriated from the HWCA in any given year.
- Authorizes the DHS to establish fee-for-service charges to cover the reasonable cost of services that are in addition to routine inspection, surveillance, and consultation services. These and other fees, together with fines, penalties, and interest earnings, will support 4 percent of the HWCA appropriations.
- Appropriates funds as follows: (1) \$700,000 from the HWCA to the Board of Equalization to support collection of the newly established fees, (2) \$100,000 from the HWCA to the DHS for various activities related to the implementation of the act, and (3) \$50,000 from funds originally appropriated to the DHS,

to the Joint Legislative Audit Committee for an evaluation of the HWCA fee system.

The fees established by this act will generate approximately \$32.3 million in 1986-87. This is \$30.8 million more than the fees authorized by existing law and \$22.7 million more than fee collections in 1985-86.

G. Pensions/Divestiture

Assembly Bill 134 (Chapter 1254)

This bill requires the divestment of state pension investment funds in companies doing business in South Africa. The act prohibits, effective January 1, 1987, state pension systems from making new investments in such companies. Furthermore, the measure requires that all existing South African investments be sold from state pension portfolios between January 1, 1988 and January 1, 1991. The bill also provides financial protection to state pension plan fiduciaries implementing the provisions of this act.

The measure could have major fiscal impacts on state pension funds. These funds probably would incur major transaction costs to divest existing investments and in purchasing stocks in smaller-sized companies. The funds could also incur costs to indemnify their fiduciaries. The affect of the measure on pension investment returns is unknown, and will depend on how plan managers respond to the requirements of the act.

H. Business and Transportation

I. Transportation

Assembly Bill 3838 (Chapter 831)

The act, an urgency measure, authorizes the Department of Transportation to design and construct traffic capacity improvements to the Benicia-Martinez Bridge, and to proceed at the earliest practicable time, with preliminary work on a new toll bridge parallel to the Benicia-Martinez Bridge. The department estimates that it would cost up to \$13 million from toll bridge revenues to do the necessary preliminary planning and engineering work for a new bridge over a four-year period.

Senate Bill 878 (Chapter 301)

This act, an urgency measure, provides for local financing of transportation in specified areas, and separately, imposes a fee on certain traffic violators. First, Chapter 301 authorizes the imposition of a special sales tax of one-half or 1 percent, as specified, upon approval by a majority of the voters, in any county of the nine-county San Francisco Bay area (including Santa Clara County after November 1, 1995). The act also provides for administration of any expenditure plan adopted and any sales tax imposed, and authorizes the issuance of bonds, based on the anticipated tax revenues, to fund transportation projects.

Chapter 301 also provides similar authority for Fresno County and sets the maximum tax rates at one-half of 1 percent for up to 20 years to finance transportation improvements.

In addition, Chapter 301 clarifies current law to require the courts to order the payment of an additional \$10 fee on traffic offenders attending traffic schools in lieu of adjudication of traffic offenses.

Fiscal Effect. If all eight eligible Bay Area counties and Fresno County approve the imposition of a one-half of 1 percent sales tax, up to \$253 million in additional local revenues could be generated annually for highway and local transportation projects. After November 1, 1995, if Santa Clara County voters approve, the county could also impose a one-half percent sales tax for transportation purposes. Currently, a one-half of 1 percent sales tax yields about \$70 million per year in Santa Clara County.

To the extent that tax-exempt bonds are issued, as authorized under Chapter 301, General Fund revenues will be reduced. Increased sales tax deductions on state personal and corporate income tax returns will result in a loss to the state General Fund of up to \$10 million annually. In addition, because state agencies will not be exempt from the higher local sales tax, the state might pay up to \$2.4 million annually in additional sales tax.

In addition, Chapter 301 will provide approximately \$3 million local revenues annually from the additional \$10 fee charged to traffic offenders who attend driving schools in lieu of adjudication of traffic offenses.

Assembly Bill 3625 (Chapter 693)

The act requires the Department of Motor Vehicles to accelerate allocations of motor vehicle registration and license fee revenues deposited in the Uncleared Collections Account to the Motor Vehicle

Account, the Motor Vehicle License Fee Account, and the State Highway Account within one year after the fees are collected. Under current law, the department is allowed to hold such fee revenues for up to four years if necessary to allow motorists time to complete registration transactions.

By accelerating allocations, up to \$10 million in total revenues will be transferred to the accounts in the last half of 1986-87, increasing up to \$20 million in 1987-88, and annually thereafter. The funds will be distributed to the accounts in the proportion to the revenue allocated to those accounts by the department in the previous fiscal year.

Assembly Bill 3666 (Chapter 1305)

The act, effective July 1, 1987, establishes a tour bus driver certification program that requires every tour bus driver to possess a driver's license and tour bus certificate. It directs the Department of Motor Vehicles to administer the program and also establishes a \$41 certification fee to offset the department's costs.

The department will incur (1) start-up costs of \$78,000 in 1986-87, (2) first-year implementation costs of almost \$610,000 in 1987-88, and (3) costs of up to \$650,000 annually thereafter. The \$41 fee will generate approximately \$615,000 annually starting in 1987-88.

Assembly Bill 3262 (Chapter 1306)

The act establishes a program to regulate the maintenance and operation of tour buses and designates the California Highway Patrol (CHP) as the lead state regulatory agency. The act also appropriates (1)

\$92,000 from the Motor Vehicle Account for the Department of Motor Vehicles (DMV) to report to the Legislature by January 1, 1988 concerning the accuracy of driver's license records and (2) \$62,000 from the Public Utilities and Transportation Reimbursement Account for the Public Utilities Commission (PUC) to review and adjust the amount of insurance required of the carriers and ensure the financial ability of each carrier to maintain and properly operate its tour buses. In addition, the PUC is required to report to the Legislature by January 1, 1988 on its actions.

The CHP will incur costs of up to \$235,000 in the last half of 1986-87, \$470,000 in 1987-88, and approximately \$390,000 annually thereafter to administer the inspection program. Such costs will be offset by inspection fees. In addition, the PUC will incur annual costs of almost \$100,000 under the act.

II. Banking

Assembly Bill 1492 (Chapter 1057)

This act, effective January 1, 1991, authorizes (1) out-of-state bank holding companies to acquire or merge with California banks or bank holding companies and (2) out-of-state savings companies to do business in California. The authorization is subject to specified conditions and certain reciprocal authorizations extended to California-based banks and savings companies by the respective states in which such non-California financial institutions are headquartered.

Senate Bill 2300 (Chapter 1250)

This act authorizes a bank holding company or a savings company-- whose operations are "principally conducted" (as defined) in one of the 11

specified western states--to do business in California under specified forms and conditions. Further, the authorization is contingent upon the home state of such non-California bank holding company or savings company extending "substantial reciprocity" (as defined) to California bank holding companies or savings companies to do business in that state.

Provisions of this act will take effect July 1, 1987 and terminate January 1, 1991.

According to the Departments of Banking and Savings and Loan, their administrative costs resulting from this act will be fully funded from the fees these departments will be authorized to charge under this act.

I. Welfare and Employment

Senate Bill 920 (Chapter 1118)

This act assigns an additional penalty assessment to driving under the influence (DUI) offenses in order to increase funding for county alcohol abuse primary education and prevention programs.

Current law provides that a portion of each fine collected from certain alcohol-related offenses be used to fund county alcohol programs. This act requires that in addition to the fines, persons convicted of specified alcohol-related offenses pay an alcohol abuse education and prevention penalty assessment of \$50. The penalty assessments are to be deposited into a special county alcohol abuse and prevention fund for allocation to county alcohol abuse education and prevention programs. The fines will result in an annual increase in revenues of \$6.8 million to the county alcohol abuse and prevention fund.

The programs implemented under this act are to emphasize joint school-community primary education and prevention and to focus on youth and families. The programs may include school and classroom-oriented programs, school or community-based nonclassroom alternative programs, and family-oriented programs. The act provides that counties may choose to combine or coordinate these new programs with existing alcohol education and prevention activities.

We estimate that this act will result in unknown annual administrative costs statewide to local county treasurers to allocate funds, probably less than \$500,000. The act allows counties to use up to 5 percent of the funds collected for their administrative costs.

Senate Bill 738 (Chapter 1454)

This act, an urgency measure, restores potential federal funding cuts in support for county child support enforcement programs. The act requires distribution of these funds to counties in the form of increased incentive awards for effectively collecting child support payments from responsible parents. Currently, federal and state law provide incentive awards to counties to encourage collection of child support payments for children who receive support under the Aid to Families with Dependent Children (AFDC) and AFDC-Foster Care (AFDC-FC) programs. Federal law also establishes incentives for collection of child support payments for non-AFDC families.

The Department of Social Services estimates the act will result in General Fund costs of up to \$11.8 million in 1986-87, and unknown amounts annually thereafter. Actual costs would depend on the level of federal funding provided each year. Under a worst-case scenario, the bill would cost \$11.8 million in 1986-87 and \$9 million in 1987-88. This would occur if federal financial participation is set at 60 percent or lower. Under this scenario, state incentive awards for AFDC child support collections would increase by about 4 percent, to a total of 11.5 percent, and awards for non-AFDC families would be established at 4 percent.

Senate Bill 1567 (Chapter 1490)

This act, an urgency measure, makes two major changes in the current Emergency Assistance (EA) programs for AFDC-FC, AFDC-Unemployed Parent (AFDC-U), and Abused, Neglected, and Exploited Children (ANEC). These changes involve (1) restrictions on the criteria under which

children can receive EA services through the Child Welfare Services (CWS) program and (2) elimination of federal EA funding for AFDC-FC and AFDC-U. These changes will result in additional General Fund cost of \$6.85 million and General Fund cost avoidance of \$10.8 million in 1986-87 and annually thereafter.

Criteria Restrictions. Children who are abused or neglected may receive emergency assistance or emergency shelter care through the federal EA-ANEC program if they meet certain eligibility criteria. Currently, the state claims federal EA funds on an individual child basis, according to the income and resources of the child. Federal regulations, however, require that EA funds be claimed on a family basis which considers the income and resources of the family, rather than the child. This act would establish new eligibility criteria that would bring the state's program into compliance with federal regulations. The Department of Social Services estimates that this program change will result in a loss of federal funds of \$4.15 million annually. The General Fund will backfill this amount because services to children will not be reduced accordingly.

Elimination of Federal Funding. Previously, the state claimed federal EA funds for AFDC-FC and AFDC-U for a limited amount of time if the recipient met certain eligibility standards. The federal government has advised the state that the state's criteria do not meet the federal regulations. The act would eliminate any claiming of federal EA funds for these two programs and would result in additional General Fund costs of \$2.7 million annually because services to recipients would not be reduced. The loss of federal EA funds will also result in additional

costs to the counties of \$4.5 million because these costs will be shared by the counties at the regular sharing ratios of the AFDC-FC and AFDC-U programs. The counties' share of nonfederal costs is 5 percent for AFDC-FC and 10.8 percent for AFDC-U.

The Department of Social Services advises that the federal government will disallow the state's claim for \$22.1 million in federal EA funds anticipated in the 1986 Budget Act due to the state's noncompliance with federal regulations. However, with the EA program redesign contained in this act the state will be able to claim and receive about \$10.8 million in federal funds because the redesign will bring the state into compliance with federal regulations. Therefore, this act will allow the state to avoid an additional General Fund cost of \$10.8 million in 1986-87 and annually thereafter.

Assembly Bill 3216 (Chapter 892)

This act, an urgency measure, appropriates \$8.8 million from the General Fund to the Department of Social Services (DSS), and \$25 million to the Department of Health Services (DHS) to augment the funds provided for three specified programs in the Budget Act of 1986. This bill appropriates a portion of the funds for these three programs which were vetoed from the Budget Act of 1986. The bill appropriates the funds to the following programs:

- \$25 million to DHS to augment the funds provided for the Medically Indigent Services Program (MISP).
- \$5 million to DSS to augment the funds provided for the Child Welfare Services System (CWS).

- \$3.8 million to DSS to augment the funds provided for the In-Home Supportive Services (IHSS) program.

Senate Bill 274 (Chapter 119)

This act, an urgency measure, appropriates \$15.4 million from the General Fund to the Department of Social Services (DSS) to augment the funds provided for the In-Home Supportive Services (IHSS) program by the Budget Act of 1985. The amount appropriated by this bill increases the total amount of General Fund support available for the IHSS program to \$90 million (an increase of 21 percent over the amount provided in the 1985 Budget Act).

In addition, the bill requires that "within a reasonable period of time" the department must approve or require modification of county plans to reduce services. Current law does not establish a time period.

Assembly Bill 1362 (Chapter 1075)

This act, an urgency measure, establishes a supplemental grant payment for qualified families under the Aid to Families with Dependent Children (AFDC) program. Under current law, a family's welfare grant is calculated in part based on income earned during the previous month. Because of this method of determining grant amounts, if a family's earnings in the previous month are higher than in the current month, its welfare grant may be reduced. This act requires that supplemental payments be provided to families in order to compensate for these reductions in grants. The act requires that the supplemental grant raise a family's total income to 80 percent of the appropriate need standard.

The Department of Finance estimates this act will result in General Fund costs of \$2,897,000 in 1986-87 and \$5,792,000 beginning in 1987-88 and annually thereafter.

Senate Bill 1577 (Chapter 1455)

This act extends until January 1, 1990 the current maximum benefit level for Disability Insurance (DI) benefits. Currently, an individual may receive DI benefits for a maximum of 52 weeks, with the value of benefits not to exceed total wages earned during a one-year base period. Under current law, however, this maximum benefit level would sunset on January 1, 1987, at which point the maximum benefit level would be reduced to 39 weeks of benefits, not to exceed 75 percent of base period wages. The measure will result in additional benefit costs to the DI Fund of approximately \$66 million in 1987-88 and \$85 million annually thereafter. The exact costs will depend on actual DI claims activity.

Senate Bill 1633 (Chapter 1309)

This act, an urgency measure, establishes a new formula for computing the Disability Insurance (DI) tax rate beginning in 1987. The purpose of the new formula is to replenish and stabilize the DI fund balance. The existing tax rate formula has produced significant fluctuations in the fund balance over the past several years, resulting in a year-end deficit of \$19 million in 1985 and a projected year-end deficit of \$97 million in 1986.

This act raises the maximum DI tax rate from 1.0 percent to 1.2 percent. The Employment Development Department (EDD) estimates that workers will pay a tax rate of 1.2 percent in 1987 and 1.1 percent in 1988

under the new formula, compared with 1.0 percent in both years under the current formula. The higher tax rate will generate additional revenues for the DI Fund of \$173 million in 1986-87 and \$366 million in 1987-88.

Senate Bill 1997 (Chapter 1206)

This act, an urgency measure, transfers \$20 million from the Employment Training Fund (ETF) to the Unemployment Fund (UF), effective June 30, 1986. The \$20 million will be credited to the accounts of employers with positive balances in the UF--those employers whose unemployment insurance contributions exceed the unemployment benefits paid to their former employees.

Under current law, positive reserve employers pay a 0.1 percent Employment Training Tax (ETT) into the ETF. Funds from the ETF support the Employment Training Panel (ETP) program, which provides employment training for individuals covered by the Unemployment Insurance program. Of the ETT revenues collected annually, \$55 million annually is appropriated for the ETP, with the balance returned to the UF. Since its inception in 1982-83, the ETP has been unable to spend its annual appropriation. This act returns to the UF \$20 million of the funds available in the ETF as of June 30, 1986.

J. Capital Outlay

I. Department of Corrections

In 1986, the Legislature passed five major bills addressing new prison construction and the need to alter existing prisons.

Assembly Bill 2545 (Chapter 409)

This act establishes the New Prison Construction Bond Act of 1986. The act, approved by the voters in the November 4, 1986 election, provides an additional \$500 million in general obligation bonds for construction of adult prisons and youth institutions. The bond proceeds are to be available upon appropriation by the Legislature. The 1986 Budget Act and special legislation enacted during 1986 include appropriations from the bond funds totaling \$468 million.

Assembly Bill 4356 (Chapter 532)

This measure, as passed by the Legislature, (1) appropriated over \$450 million from various sources for new prison construction, (2) increases, by \$675 million, the authorization to finance new prison construction through lease-purchase arrangements, and (3) revises the authorization for establishing a prison in Riverside County.

1. This measure appropriates \$453 million as follows:

- (a) \$83 million from the General Fund, to be repaid from the 1986 Bond Act or lease/purchase proceeds:
 - \$13 million for the Corcoran prison project.
 - \$12 million for the Del Norte prison project.
 - \$43 million for the Prison Industry Authority.

- \$15 million for augmentations of previously funded projects.
- (b) \$1 million from the 1984 Prison Construction Fund bonds for work on the Del Norte prison project (vetoed by the Governor).
- (c) \$369 million from the 1986 Prison Construction Bond Act:
 - \$128.3 million for the Riverside prison project.
 - \$62 million for Prison Industry Authority projects.
 - \$42 million to complete the 500 bed additions at Tehachapi, Susanville and Jamestown.
 - \$114.6 million for the Los Angeles prison project.
 - \$19.1 million for court-ordered renovation projects at Folsom and San Quentin.
 - \$2.9 million to the Department of the California Youth Authority for planning of a new institution.

2. Lease/Purchase Authorizations. The measure increases the existing authorization for lease/purchase financing of new prisons from \$300 million to \$975 million. Of the \$675 million increase, \$350 million is authorized to finance the Corcoran prison project, and \$325 million is for the Del Norte prison project. This measure continuously appropriates the lease/purchase proceeds for work on these two projects.

3. Prison in Riverside County. This measure authorizes construction of a 2,000 bed Level II (low-medium security) prison in Riverside County. Chapter 1549, Statutes of 1982, authorized the Department of Corrections to establish up to six 500-bed prisons in Los

Angeles and Riverside Counties, together with service units of up to 200 beds. Thus, a total of 3,400 beds had been authorized between the two counties. This measure establishes the specific security level and number of beds for the Riverside project.

The Governor vetoed the \$1 million appropriation from the 1984 Prison Construction Fund for the Del Norte project stating that there were insufficient balances in the fund to cover the appropriation.

Senate Bill 1222 (Chapter 533)

This measure, as enacted by the Legislature, appropriated \$13 million for the Del Norte County prison project. Of this amount, \$12 million is from the General Fund, and \$1 million from the 1981 New Prison Construction Fund (bonds).

This act also specifies that the Del Norte County prison shall include 2,000 Level IV (maximum security) beds, and a 200-bed service unit and is to be known as the Prison of the Redwoods. The previous authorization (Chapter 237, Statutes of 1985) did not specify the capacity or security level of the prison.

The Governor vetoed the General Fund amount stating that sufficient funds for this project would be available from the appropriation made by Assembly Bill 4356 (Chapter 532).

Senate Bill 2098 (Chapter 1314)

This act appropriates \$47.7 million to the Department of Corrections to finance court-ordered improvements at San Quentin and Folsom State Prisons. Specifically, the measure appropriates funds for the following purposes:

- \$31.9 million (\$14.1 million from the New Prison Construction Bond Act of 1986 and \$17.8 million from the Special Account for Capital Outlay) for cell renovations, kitchen and laundry repairs at San Quentin.
- \$5.0 million from the New Prison Construction Bond Act of 1986 for renovating food service facilities at Folsom.
- \$10.8 million from the General Fund to finance 271 additional positions as required by court orders (these positions are authorized only until July 1, 1987).

The act also reverts \$17.8 million previously appropriated from the Special Account for Capital Outlay for court-ordered improvements at San Quentin. Thus, the act contains a net appropriation of \$29.9 million (\$19.1 million from the 1986 Bond Act and \$10.8 million from the General Fund).

Assembly Bill 3139 (Chapter 1393)

This act authorized the Department of Corrections to (1) establish a new prison in Madera County and a new camp in Modoc County and (2) prepare site studies for new prisons in Imperial County and western Kern County. This act also appropriates \$9.2 million to the Department of Corrections and \$500,000 to the Youth Authority. Of this amount, \$1.7 million is from the 1984 Prison Construction Fund (bonds) and \$7.5 million is from the New Prison Construction Bond Act of 1986.

Specifically, this measure includes the following appropriations:

- \$1.7 million for additional work at the Northern California Women's Facility (1984 bond funds).

- \$4 million for construction of a new camp in Modoc County.
- \$1 million for site suitability/feasibility studies for new prisons in Imperial and western Kern Counties.
- \$500,000 to the Youth Authority for expansion of education/vocational training space.
- \$1 million to relocate a water line in San Diego County near the Richard J. Donovan Correctional Facility at Rock Mountain.
- \$1 million to pay improvement fees to the water district serving the Richard J. Donovan Correctional Facility at Rock Mountain.

II. Higher Education

Senate Bill 2366 (Chapter 424)

This act enacts the Higher Education Facilities Bond Act of 1986. The act, approved by the voters in the November 4, 1986 election, calls for issuance of \$400 million in general obligation bonds to finance capital outlay projects for the University of California, the California State University, the California Maritime Academy and the community colleges. The measure specifies that the Legislature shall authorize the uses of the bond proceeds in the annual Budget Act. The 1986 Budget Act includes appropriations totaling \$233 million from these bonds.

III. Department of Mental Health

Assembly Bill 1437 (Chapter 17)

This act, an urgency measure, appropriates \$2,178,354 to the Department of Mental Health for security and other related improvements at Patton State Hospital. These improvements will upgrade security at Patton

so that some mentally disordered offenders at Atascadero State Hospital can be transferred to Patton, thereby freeing space at Atascadero for the more violent/escape-prone client. This act also limits the patient population at Patton to the lesser of 1,336 or the licensed capacity and specifies that, to the extent possible, these patients should be assessed to be medium- or low-security risks.