Analysis of the 1988-89 Budget Bill

Summary of Recommendations

Office of the Legislative Analyst
February 1988

TABLE OF CONTENTS

Introduction .... *iii*

Judicial

Judicial 1

State Block Grants for Trial Court Funding 3

Executive

State Board of Equalization 5

State and Consumer Services

Department of General Services 7

Department of General Services—Capital Outlay 8

Department of Veterans Affairs, Veterans' Home of California—Capital Outlay 9

Business, Transportation and Housing

Department of Commerce 11

Department of Transportation 12

Department of the California Highway Patrol 16

Resources

California Conservation Corps 19

Energy Resources Conservation and Development Commission 21

Air Resources Board—Environmental Affairs Agency 22

Department of Forestry and Fire Protection 23

State Lands Commission 24

Department of Fish and Game 25

Department of Parks and Recreation 27

Department of Parks and Recreation—Capital Outlay 28

Department of Water Resources—Capital Outlay 29

State Water Resources Control Board 30

Health and Welfare

Department of Alcohol and Drug Programs 31

Department of Health Services 32

Department of Developmental Services 35

Department of Mental Health 36

Employment Development Department 37

Department of Rehabilitation 38

Department of Social Services 40

Youth and Adult Correctional

Department of Corrections 43

Department of Corrections—Capital Outlay 46

Board of Prison Terms 48

Department of the Youth Authority—Capital Outlay 49

K-12 Education

Department of Education 51

Postsecondary Education
The University of California 57
University of California—Capital Outlay 62
The California State University 63
California State University—Capital Outlay 66
California Community Colleges—Capital Outlay 68
Student Aid Commission 69

General Government
California Horse Racing Board 73
Department of Food and Agriculture 74
Commission on State Mandates 75
Department of Economic Opportunity 76

Tax Relief
Senior Citizens' Property Tax Assistance 77
Senior Citizens' Property Tax Deferral 78

INTRODUCTION

In the *Analysis of the 1988-89 Budget Bill,* we report the results of our detailed examination of the Governor's spending proposals for the coming fiscal year. This document summarizes, by program area, the principal findings and recommendations set forth in the *Analysis*. It also shows how approval of these recommendations would affect the state's fiscal condition and workforce.

Impact of Recommendations--General Fund and Special Funds

Expenditures. Table 1 shows the net effect of our recommended changes to the expenditures proposed in the Governor's Budget. As the table shows, approval of these recommendations would reduce General Fund and special funds expenditures by a total of $328 million. The total reflects:

- $356 million in recommended *expenditure reductions;*
- $31 million in recommended *expenditure augmentations;* and
- $3 million in recommended *funding source changes.*

Table 1
Impact of Legislative Analyst's Recommendations on General Fund and Special Funds Expenditures 1988-89 (dollars in thousands)

Nature of Recommendation	*General Fund*	*Special Funds*	*Totals*
Reductions	-$250,843	-$105,226	-$356,069
Augmentations	30,569	--	30,569
Change Funding Source	-30,735	27,980	-2,755
Totals	-$251,009	-$77,246	-$328,255

Revenues, Transfers and Reversions. We further recommend a number of changes with respect to revenues, transfers, and reversions. The net effect of these recommendations is to *increase* the amount of funds available to the General Fund and special funds by about $5 million.

Legislation. In addition, we recommend a number of changes to existing law. If approved, these changes would increase revenues by approximately $0.5 million.

Thus, the net effect of approving *all* General Fund and special funds recommendations set forth in the *Analysis* would be to increase available funds by $334 million.

Impact of Recommendations--By Program Category

Table 2 summarizes, by program category, the expenditure recommendations which are presented in Table 1. The table shows that the largest recommended reductions in General Fund expenditures are in health and welfare ($59 million), K-12 education ($55 million), and Judicial/Executive ($53 million). These three items make up approximately 66 percent of the total recommended reductions to General Fund expenditures.

Table 2 also shows that recommended expenditure reductions for Business, Transportation and Housing ($58 million) and capital outlay ($38 million) account for most of the special fund recommended reductions. These reductions are partially offset by an increase in special funds expenditures for Youth and Adult Corrections ($29 million).

Table 2
Impact of Legislative Analyst's Recommendations
on Expenditures by Category
General Fund and Special Funds
1988-89
(dollars in thousands)

Program Category	*General Fund*	*Special Funds*	*Totals*
Judicial/Executive	-$52,726	-$397	-$53,123
State and Consumer Services	-51	-405	-456
Business, Transportation and Housing	-500	-57,583	-58,083
Resources	-4,043	-3,203	-7,246
Health and Welfare	-58,563	-4,900	-63,463
Youth and Adult Corrections	-34,206	29,194	-5,012
K-12 Education	-54,928	--	-54,928
Higher Education	-45,120	--	-45,120
General Government	-872	-1,907	-2,779
Capital Outlay	--	-38,045	-38,045
Totals	-$251,009	-$77,246	-$328,255

Impact of Recommendations--Personnel-Years

We also recommend a net decrease of 498 personnel-years (PYs) in the state's workforce. The largest single item contributing to this total is a recommended reduction of 126.7 PYs for the audit program at the Board of Equalization.

Recommendations Pending

We have withheld recommendation on $14 billion in expenditures (all funds) proposed in the Governor's Budget. We have done so whenever information was lacking to evaluate the need for the requested amount. In each of these cases, we will submit supplemental analyses of the proposed funding levels once the necessary information becomes available. In all likelihood, these supplemental analyses will include recommendations for further funding changes. ❖

Judicial

(Item 0250/page 4)

Highlights of Our Recommendations

1. Circuit Justice Court Judges Program Expansion

The budget proposes to expand the Circuit Justice Court Judges Program from three to 30 judges, at a General Fund cost of $1.1 million. Under this program, the state pays for justice court judges to temporarily provide additional judicial support to the justice courts. The request would provide state funding for additional service by justice court judges to the superior and municipal courts.

We recommend deletion of the requested amount because the need for additional assignments has not been proven and the proposal conflicts with existing legislative policy (*Analysis*, page 9).

2. Assigned and Senior Judges Programs

The budget proposes $2.6 million from the General Fund for the Assigned and Senior Judges Programs. These programs allow the Judicial Council to assign existing judges, and judges over the age of 70, to serve in appellate and trial courts, where their services are needed for a variety of reasons.

Our analysis indicates that the proposed amount should be reduced by $902,000, to $1.7 million, for two reasons. First, the budget includes double-funding for positions currently enrolled in the Senior Judges Program ($254,000). Second, the request for the Assigned Judges Program fails to account for the services which will be provided to the superior and appellate courts by the proposed new senior judge positions and the new judges authorized by Ch 1211/87, which made operative the Trial Court Funding Act ($648,000) (*Analysis*, page 10).

3. Trial Court Improvement Fund—Half-Year Funding

The budget proposes to transfer $20 million from the General Fund to the Trial Court Improvement Fund, where it would be available for expenditure beginning January 1, 1989. Chapter 1211, Statutes of 1987 provides that the Judicial Council shall make allocations of grants from this fund to counties that participate in the Trial Court Funding Program for purposes of improving court management and efficiency.

Because the monies in the fund will be available for disbursement only during the last six months of the fiscal year, we recommend a reduction of one-half the annual amount appropriated for the fund, for a one-time General Fund savings of $10 million (*Analysis*, page 13). ❖

State Block Grants for Trial Court Funding

(Item 0450/page 20)

Highlights of Our Recommendations

1. Potential Underfunding

Our analysis indicates that this item is potentially underfunded by approximately $90 million, based on provisions of existing law. The budget proposal is based on anticipated changes to the Trial Court Funding Program and assumptions about how any changes may affect county decisions about whether to participate in the program. Because of the likelihood that the Legislature will amend the provisions of the Trial Court Funding Program in the near future, we will advise the Legislature of the program's funding requirements once such changes are made (*Analysis*, page 22).

2. Prorate Block Grants for Newly-Authorized Judgeships

The budget proposes to provide full block grants for new superior and municipal court judgeships authorized by Ch 1211/87, which made operative the Trial Court Funding Act of 1985.

Our analysis of Judicial Council data indicates that if historical delays in filling trial court judgeships continue, each new position could be vacant for an average of 10 months before a judge assumes the post. ***We recommend a General Fund reduction of $31 million so that the state does not compensate counties for vacant judgeships*** (*Analysis*, page 24). ❖

State Board of Equalization

(Item 0860/page 67)

Highlights of Our Recommendations

1. Increased Audit Resources Not Justified

The budget proposes $4,284,000 and 126.7 personnel-years in the audit program to increase the number of accounts audited. According to the board's budget presentation, this augmentation will increase General Fund revenues by $22.8 million, for a total benefit-cost ratio of 5.3 to 1. Our analysis indicates, however, that this augmentation is likely to produce only $11 million in additional revenue, and that the marginal benefit-cost ratio of the additional auditors is only 2 to 1. This benefit-cost ratio is not consistent with the Legislature's general policy of requiring additional auditing resources to have an incremental benefit-cost ratio of 5 to 1. Moreover, our analysis indicates that the board has not evaluated the productivity of the new auditors approved in prior years, or assessed alternative approaches to improving revenue collection. Consequently, we recommend that Item 0860-001-001 be reduced by $4,284,000 (*Analysis*, page 72).

2. Sales Tax Reimbursements Underbudgeted

The budget estimates that in 1988-89 the Board of Equalization will receive $35,151,000 in reimbursements from local governments for the administration of the 1.25 percent local sales and use tax and the optional transactions and use tax for transit districts. Our analysis indicates that these reimbursements are underestimated by $4.3 million because the estimate does not take into account growth in the sales tax base, or the adoption in November 1987 of a transit tax in San Diego County. Since the board's reliance on the General Fund decreases directly with any increase in reimbursements, we recommend that Item 0860-001-001 be reduced by $4.3 million (*Analysis*, page 76). ❖

Department of General Services

(Item 1760/page 119)

Highlights of Our Recommendations

1. Asbestos Abatement and Underground Tank Clean-Up/ Replacement

The budget includes $13,908,000 to pursue asbestos abatement projects in state-owned facilities. The budget also includes $11,530,000 for projects related to removal, replacement, clean-up, monitoring, and investigation of underground tanks located on state property. We withhold recommendation on these amounts for two reasons:

- The Office of the State Architect (OSA), which administers both programs, has limited experience with the associated work and costs. Therefore, the cost estimates for asbestos abatement and underground tank projects are understandably uncertain. After bids are received on current-year projects in March and April, OSA and the Legislature will have a better basis for determining the appropriate level of work and associated costs for 1988-89.
- It is not clear at this time whether or not there will be a sufficient number of qualified contractors to handle the quantity of asbestos abatement work budgeted in the current year, or proposed in the budget year (*Analysis*, page 131). ❖

Department of General Services — Capital Outlay

(Item 1760-301/page 140)

Highlights of Our Recommendations

1. Site 5—Sacramento (-$800,000)

The budget includes $800,000 for preliminary plans and working drawings of a new state office building on Site 5 in Sacramento (southeast corner of 9th and N Streets). The Department of General Services, however, indicates that this request is for working drawings *only*. The proposed structure would have two tenants: the Board of Control and the State Library. We recommend deletion of these funds. Although the Legislature made the original appropriation for preliminary plans in 1979, and appropriated additional planning funds in 1984, the department indicates the preliminary plans will not be complete in time for legislative review during the budget hearings. Without the preliminary plans, the Legislature does not have the information it needs to evaluate either the programmatic/architectural elements of the building or the associated project costs. Without the appropriate information, we cannot recommend appropriating funds for working drawings. We urge the department to reconsider its current schedule and expedite completion of preliminary plans in order to submit them for legislative review prior to hearings on the budget (*Analysis*, page 144). ❖

Department of Veteran's Affairs, Veterans' Home of California — Capital Outlay

(Item 1970-301/page 170)

Highlights of Our Recommendations

1. **Veterans' Home at Yountville—Master Plan Projects Delayed.**

The budget proposes $12,768,000 for eight major capital outlay projects and four minor capital outlay projects ($200,000 or less per project) to renovate the California Veterans' Home. These projects continue the remodeling of the California Veterans' Home in Yountville, under a master plan developed by the Department of Veterans Affairs in 1979. We recommend a reduction of $8,469,000, because changes in federal regulations will not permit federal construction funding for five of the proposed major projects in 1988-89.

Three changes in federal regulations are responsible for the delays in construction funding:

- A technical regulation, first used in 1987-88, which prevented federal funding of projects with no state appropriation in effect by June 15, 1987. This deadline, which will be relaxed for the 1988-89 funding cycle, prevented the start of a project in 1987-88, which, in turn, will delay the start of a related project in 1988-89.
- A new federal priority system for ranking state veterans' home projects.
- A regulation anticipated in 1988-89 which will allow funding of state projects only if working drawings are 80 percent complete by June 15, 1988.

Construction delays which have resulted from these changes require revision of the entire master plan for renovation of the California Veterans' Home. In many cases, the beginning of one master plan project is contingent on the completion of another, because residents must be moved temporarily to accommodate construction activity. As a result, delay of the projects noted here will affect the construction schedule of projects proposed for future years. We recommend that the Department of Veteran's Affairs develop a revised capital outlay plan for the Home, and submit it to the Legislature prior to budget hearings (*Analysis*, page 171). ❖

Department of Commerce

(Item 2200/page 187)

Highlights of Our Recommendations

1. Sematech Funding Not Needed

We recommend deletion of the $21 million included in the budget to fund a proposal made by the state in the hope of inducing Sematech to locate its facilities in California. Sematech is a non-profit research organization formed by a consortium of U.S.-owned semiconductor companies. However, on January 6, 1987 Sematech announced that it had selected a site in Austin, Texas rather than in San Jose. Because the proposed funding is no longer necessary, we recommend that it be removed from the budget (*Analysis*, page 190).

2. Rural Infrastructure Loan Funds Adequate For Now

The budget requests that $10 million be transferred from the Federal Trust Fund to the Rural Economic Development Grant and Loan Fund to support additional rural infrastructure loans. These funds are in addition to $20 million provided for this purpose in the current year.

According to information provided by the department, there are 18 potential applicants for the existing pool of loan funds that are expected to request $15.3 million, but the amount which will ultimately be committed is likely to be less. The department is not aware of any other potential projects, and we believe it is highly unlikely that any significant number of additional projects could be planned and funded prior to the budget year. ***On this basis, we recommend deletion of $10 million in additional funding for rural infrastructure loans because it is not evident they will be needed in 1988-89*** (*Analysis*, page 190).

3. Special COLA Raises Question of Priorities

The budget requests $500,000 to fund a special cost-of-living (COLA) adjustment for the department's tourism and business marketing programs. This amount is in addition to the 2.5 percent general price increase included in the department's budget. The department asserts that these programs are in need of additional funds because the cost of television, radio and print advertising has increased at a faster rate than the program's budget for the last two years.

We do not disagree with the department's assertion that recent inflation has exceeded the increase in funding for these programs in the last two years. However the same is true for most other programs which rely on state funding, many of which provide vital public services. Because the $500,000 requested as a special COLA adjustment should be used to address the higher-priority needs of other state-funded programs, we recommend that the extra funds requested by the department not be approved (*Analysis*, page 191). ❖

Department of Transportation

(Item 2660/page 219)

Highlights of Our Recommendations

1. Department Proposes to Increase Level of Highway Improvements

We make no recommendation on the department's request for 138 personnel-years (PYs) and $7.2 million from the State Highway Account in order to increase the level of highway capacity improvements because this is a policy issue that should be decided by the Legislature. We recommend that if the Legislature approves this request that it adopt Budget Bill language requiring that these resources be provided contingent upon the California Transportation Commission adopting additional projects into the 1988 State Transportation Improvement Program (STIP).

For the budget year, the department proposes an increase of 876 state PYs in order to design and engineer highway projects, including the above 138 PYs ($7.2 million), to work on about $420 million in additional highway projects. According to the department, this proposal would allow it to achieve an annual capacity improvement program of $1 billion through 1992-93. In our view, the desired level of funding for highway capacity improvements is a policy decision that should be decided by the Legislature. We believe that the Legislature should consider the following factors in making such a decision: (1) how will the capacity improvement program be funded given the current $1.6 billion shortfall in funds needed to construct all highway projects currently programmed in the STIP and (2) what types of projects does the Legislature wish to fund since different types of improvements may be required to address transportation problems in the future (*Analysis*, page 238).

2. Department's Estimate of Consultant Work Too High

We recommend a reduction of $17 million from the State Highway Account because the department has overbudgeted the amount needed to fund work performed by consultants.

For 1988-89, the department proposes about $109 million to contract with private consultants to perform engineering and design work on highway projects normally performed by state staff. The department's proposal assumes an average cost of about $120,000 per PY equivalent to contract with private consultants. Our analysis indicates, however, that both actual costs for 1986-87 and estimated costs for 1987-88 for consultant services have been significantly less than the department's projected costs for the budget year. Based on the department's contracting costs over the past two years, we estimate the department's costs to be about $102,000 per PY equivalent in the budget year. Given this lower cost, we estimate the department will need about $92 million, or $17 million less than the amount requested (*Analysis*, page 242).

3. Department Overbudgeted Costs of New Staff

We recommend a reduction of $1,670,000 from the State Highway Account because the department has budgeted for a significantly higher level of staff classification than warranted based on past experience.

For the budget year, the department proposes an increase of about 922 positions (876 PYs). About one-half of these positions are senior and associate engineering positions which are considered higher level engineering classifications. The remaining positions are for lower level engineering staff and other positions. Our review indicates that the department's proposal overestimates the need for senior and associate engineering classifications, and underestimates the need for lower level engineering staff. Based on historical experience and other factors, we estimate the department has overbudgeted by $1,670,000 the amount of salary and wages needed for new staff in the budget year (*Analysis*, page 246).

4. Funding for Hazardous Waste Investigation

We recommend a reduction of $1.7 million from the State Highway Account because the department's hazardous waste investigation plan indicates that these funds will not be needed in 1988-89. We further recommend that the Legislature adopt Budget Bill language requiring that the funds appropriated for investigating hazardous waste be used for that purpose only.

The department proposes $5 million for the budget year to hire private consultants in order to determine the nature and extent to which hazardous waste materials exist on properties which the department has acquired or is considering to acquire. Based on its hazardous waste investigation plan, however, the department anticipates that it will require only about $2.3 million to perform planned investigations in 1988-89. The department maintains that the full amount is needed because of unforeseen investigations which may occur in the budget year. Because investigation costs vary, we believe there is no precise way of determining such an amount. Nevertheless, we believe a contingency of $1 million would adequately cover any unforeseen investigations. This amount, plus the $2.3 million for planned investigations, would provide the department with $3.3 million to investigate hazardous waste in 1988-89, for a reduction of $1.7 million from the amount requested (*Analysis*, page 247).

5. New District Office in Orange County

The budget requests $13.5 million to establish and support the operation of a new district office in Orange County. Our review shows that $1,594,000 of the requested amount is overbudgeted and should be deleted. This amount includes two components.

First, of the amount requested for various computer equipment, $717,000 is unjustified because (1) the costs of computer-aided design and drafting equipment have been overestimated, and (2) the department cannot substantiate the need or describe the nature of a proposed "local area network" project for which money has been requested. Therefore, we recommend that $717,000 be reduced from the State Highway Account (*Analysis*, page 259).

Second, the department has overstated the amount of space it needs to lease for the new district office by 45,000 square feet. Adjusting for the lesser amount of space needed, we recommend a reduction of $877,000 in the amount requested for the new district office (*Analysis*, page 260). ❖

Department of the California Highway Patrol

(Item 2720/page 266)

Highlights of Our Recommendations

1. Information on Traffic Enforcement Staffing Levels is Not Adequate

The budget proposes $10.9 million from the Motor Vehicle Account to fund 165 additional uniformed officers and 15 related support personnel to be deployed in major metropolitan areas. We are not able to make a recommendation on this request because the department has not provided the Legislature with sufficient information to assess its staffing needs.

Our review indicates that traffic officer staffing levels should be based on desired service levels, and that the establishment of these standards is basically a policy decision to be made by the Legislature. Accordingly, we recommend that the department report to the Legislature on desired service levels by major traffic officer functions, and how these service levels will be used to determine current and future traffic officer needs. This information would enable the Legislature to establish a state policy on highway patrol staffing levels and service standards (*Analysis*, page 269).

2. Law Enforcement Radio Equipment Costs Overbudgeted

The budget requests $16.0 million to replace and add law enforcement radio equipment. Together with $15.6 million already approved, but unspent, for 1986-87 and the current year, this amount will bring the total for radio equipment to $31.6 million.

Our review indicates that the total costs for all replacement and additional radio equipment will be substantially less than $31.6 million. The highest bid to provide this equipment was about $22 million. The department, however, may incur other expenses for items not included in the bids, but which are necessary for the replacement program. To allow for these contingencies, we recommend that a total of $25 million be made available for the radio equipment purchase. Accordingly we recommend that $6.6 million be deleted from the budget (*Analysis*, page 271).

3. Requests for Funds Premature

We recommend technical budgeting adjustments for a total reduction of $1.1 million. Included in the $1.1 million is: $585,000 and 1.5 personnel-years proposed for field offices which will not be ready for occupancy until 1989-90 and $553,000 for consultant services and lease expenses which will not be needed in the budget year (*Analysis*, pages 271 and 272). ❖

California Conservation Corps

(Item 3340/page 295)

Highlights of Our Recommendations

1. Homeless Youth Referral Pilot Project Addressed in Legislation

The corps' budget requests a total of $968,000 to contract for the provision of services currently provided by the Homeless Youth Emergency Services Pilot Project administered by the Office of Criminal Justice Planning (OCJP). The pilot project relies on a network of human service providers in San Francisco and Los Angeles to provide services such as outreach, medical care, and shelter to homeless youths. Existing funding for the program ends on June 30, 1988. Pending, urgency legislation, SB 508 (Presley), however, appropriate $968,000 to permanently establish these two projects within OCJP. Therefore, we recommend deletion of the budget request of $968,000 because pending legislation better addresses both the administration of and funding for the Homeless Youth Emergency Services Pilot Project (*Analysis*, page 298).

2. New Homeless Program

The budget requests a total of $2.8 million to establish a "Homeless Youth Program Component" within the California Conservation Corps (CCC). Through the targeted recruitment of homeless youth and single parents, this proposal would expand the corps population by roughly 154 corpsmembers phased in over a one-year period. These additional corpsmembers would devote a substantial portion of their time to the rehabilitation of homeless shelters.

The CCC's homeless proposal has several problems. First, under its existing program, without expanding, the CCC has the ability to (a) recruit homeless young adults and single parents and (b) undertake homeless shelter rehabilitation projects. Second, the CCC proposal will only provide assistance to a small number of individuals—at a very high cost. And third, the CCC proposal fails to address many key implementation issues, including the number and location of the shelters corpsmembers would rehabilitate and coordination with existing programs offered by other state or local agencies. Accordingly, we recommend deletion of the $2.8 million for the "Homeless Youth Program Component."

Given the various shortcomings in the CCC proposal, the Legislature may wish to redirect the funds requested for this program to other programs which serve the homeless population. For example, a portion of the funding could be used to expand the existing OCJP Homeless Youth Emergency Pilot Project (*Analysis*, page 299). ❖

Energy Resources Conservation and Development Commission

(Item 3360/page 305)

Highlights of Our Recommendations

1. Conservation Projects in Higher Education

The budget requests $6 million from the Petroleum Violation Escrow Account (PVEA) for energy conservation and demonstration projects at the three higher education segments. Chapter 1343, Statutes of 1986, appropriated $12 million for these same projects; however, these funds will not be available until late in the current year. Given the existing funds available for this purpose and the lack of justification for any increase in funds, we recommend a reduction of $6 million because the proposal is premature (*Analysis*, page 309).

2. School Bus Purchase and Demonstration

The budget proposes $100 million from the PVEA for demonstrations of various engine technologies and fuel types in school buses. We withhold recommendation on the request pending Legislative review of alternative proposals for use of these funds (*Analysis*, page 310). ❖

Air Resources Board—
Environmental Affairs Agency

(Item 3400/page 324)

Highlights of Our Recommendations

1. Marine Fisheries Mitigation Program

The budget requests $2,150,000 from the state's share of federal offshore oil revenues to implement a multifaceted program to assist fishermen whose activities have been adversely affected by offshore oil and gas development off the southern and central California coast. The agency is proposing a program that would extend for three years, for a total cost of $6 million. The proposal raises the basic policy issue of whether state funds should be used to mitigate adverse effects on the fishing industry caused by exploration and development operations of oil companies in federal offshore waters. The Legislature is currently considering legislation, AB 2605 (Seastrand), which would establish this program. In acting on this bill, the Legislature will have the opportunity to decide the policy and funding questions raised by the Environmental Affairs Agency's budget proposal. Therefore, we recommend deletion of $2,150,000 requested to establish this program. Because the proposal lacks basic information defining the proposed program, we further recommend that *if* the Legislature determines to establish such a program, that it also require the administering agency to (1) prepare workplans based on specific research and development needs for grant or loan programs to develop new fishing areas, gear or technology, (2) prepare a workplan for debris hazard removal, and (3) develop criteria to determine the priority for awarding vessel safety survey and survival equipment grants (*Analysis*, page 325). ❖

Department of Forestry and Fire Protection

(Item 3540/page 333)

Highlights of Our Recommendations

1. New Staff Not Needed for Conservation Camps Water Systems

The budget requests $539,000 from the General Fund for eight new positions to monitor all of the department's conservation camps' water systems on a daily basis in order to comply with state and federal regulations. Our analysis indicates, however, that the additional staff are unnecessary because (1) only monthly monitoring of the water supply systems is required at most of the department's camps, (2) the required monitoring is simple to perform and takes little time to conduct, and (3) it would be impractical to add staff for monitoring the few remaining camps because they are dispersed throughout the state and any new staff would spend as much as half of each workday traveling. Therefore, we recommend a reduction of $539,000 to eliminate the requested eight new positions. We also recommend that the department provide adequate training to its existing staff, so that they can properly monitor water quality and maintain the conservation camps water supply and wastewater treatment systems (*Analysis*, page 338). ❖

State Lands Commission

(Item 3560/page 346)

Highlights of our Recommendations

1. ARCO's $793 Million Lawsuit Against the State

On September 30, 1987 the Atlantic Richfield Company (ARCO) filed a $793 million lawsuit against the state. The lawsuit stems from the State Lands Commission's denial of ARCO's development plan for five ARCO-owned oil and gas leases on state tidelands located off the Santa Barbara coast at Coal Oil Point (near the University of California's Santa Barbara campus). The lawsuit seeks to have the court require the State Lands Commission to approve development of the five leases. Alternatively, ARCO claims damages of $793 million, the amount it estimates to be the present worth of its leasehold interest, if the development is permanently blocked. The suit also claims damages of $2.7 million, increasing at the rate of roughly $55,000 per day, resulting from delay in the development of the five leases.

The pending ARCO case poses complex legal questions and represents a potentially major state fiscal liability (in addition to substantial foregone state revenues if the leases remain undeveloped). Accordingly, we recommend that the Attorney General and the commission's counsel report at budget hearings on the state's prospects in the ARCO litigation, including the timing of the litigation, the potential for a settlement and the Legislature's options for resolving the dispute (*Analysis*, page 349). ❖

Department of Fish and Game

(Item 3600/page 355)

Highlights of Our Recommendations

1. Fish and Game Fund Should Pay for More of the Department's Activities

We recommend a funding shift of $925,000 from the Environmental License Plate Fund (ELPF) to the Fish and Game Preservation Fund (FGPF) to fund the department's activities according to the findings of its cost allocation study.

The Fish and Game Code establishes a funding policy for the department under which activities that primarily benefit *game* species generally are paid from the FGPF, and activities that primarily benefit *nongame* species generally are financed from other sources such as the General Fund or ELPF. In order to address past legislative concerns regarding the implementation of this funding policy, the department developed a new cost allocation methodology and time reporting system to determine how much each fund should pay to support its current level of activities in accordance with the funding policy. The main conclusion from a recent test of the cost allocation methodology is that in 1986-87, the department inappropriately spent $925,000 from the ELPF on activities that the FGPF should have funded.

Despite this finding, the budget does not propose to reconcile the department's funding and activities. Our review indicates that the findings from the department's test of its cost allocation methodology justifies a funding shift of $925,000 in the department's budget in 1988-89 (*Analysis*, page 360).

2. Loan Repayment Due

We recommend the appropriation of $1,750,000 from the Fish and Game Preservation Fund (FGPF) to repay an outstanding General Fund loan.

Chapter 170, Statutes of 1986, (the Omnibus Deficiency Bill of 1986) provided a loan of $1,455,000 from the General Fund to the FGPF in 1985-86 to cover the costs of overtime payments required by the federal Fair Labor Standards Act. In making the loan, the Legislature required the department to repay the loan with interest. The budget does not provide for any repayment of this loan.

While the Legislature did not specify *when* the loan should be repaid, we see no reason to delay the repayment. In order to repay the loan principal and interest in 1988-89, we estimate that the 1988 Budget Bill should appropriate approximately $1,750,000 (*Analysis*, page 363). ❖

Department of Parks and Recreation

(Item 3790/page 388)

Highlights of Our Recommendations

1. Operating Funds for Prairie City Off-Highway Vehicle Park are Premature

We recommend deletion of $813,000 from the Off-Highway Vehicle (OHV) Fund and 8 personnel-years (PYs) requested to begin state operation of the Prairie City Off-Highway Vehicle Park, owned by Sacramento County. The county closed the park to regular use in 1986 due to liability and insurance problems. The department took over the park in July 1987 under a special operating permit from the county, and has begun negotiating with the county to transfer *ownership* of the park to the state. However, the Legislature has not authorized the department to acquire Prairie City. Consequently, the request for staff, operating expenses and equipment appears to be premature.

In addition, we recommend that the department report at budget hearings on the source of its authority to enter into the current-year operating agreement for Prairie City. The department did not submit this agreement to the Legislature or to the Public Works Board for review and approval as Section 18.10 of the annual Budget Act requires (*Analysis*, page 395).

2. More Information Needed on OHV Resource Management Plan

We withhold recommendation on $718,000 from the OHV Fund and two PYs requested to implement a new resource management program in the department's OHV division, as required by Ch 1027/87 (SB 877). The department has not provided an adequate description of proposed contract studies or justified the number of positions requested to administer the work. Until the department provides (1) a more developed program plan and (2) a better indication of how the department's budget-year workplan will satisfy statutory requirements, there is no analytical basis to evaluate whether the proposal is adequate or to estimate contract costs (*Analysis*, page 396). ❖

Department of Parks and Recreation — Capital Outlay

(Item 3790-301/page 400)

Highlights of Our Recommendations

1. Contingency Budgeting for Storm Damage Repairs

The budget requests $2 million from park bond funds for unspecified repairs to existing park facilities "in the event of additional storm damage prior to the budget year." We recommend deletion of these funds because the request represents unnecessary contingency budgeting. If storm damage does occur this winter, the department would have sufficient time to submit specific funding requests to the Legislature prior to the conclusion of budget hearings. Further, the Department of Finance can address urgent needs by using the reserve for contingencies and emergencies (*Analysis*, page 407). ❖

Department of Water Resources — Capital Outlay

(Item 3860-301/page 420)

Highlights of Our Recommendations

1. Merced County Streams Project

The budget requests reappropriations totaling $2.3 million from the Special Account for Capital Outlay (SAFCO) for the Merced County Streams flood-control project, to be constructed by the U.S. Army Corps of Engineers beginning in 1988-89. The Reclamation Board (within the Department of Water Resources) will use the requested funds to pay the state's share of the project costs ($1.8 million), and to loan Merced County (the local sponsor) its share of costs for lands, easements, and rights-of-way, as authorized by state law. The request for $2.3 million in 1988-89 represents costs for the first phase (Castle Reservoir) of a potential four-phase project with a total cost of $94 million and future maintenance costs estimated to be $1.5 million annually. New federal cost-sharing requirements, however, also require an additional cash payment of at least 5 percent of project costs from nonfederal sponsors, and under state law the local sponsor would provide these funds. The corps cannot begin construction on the project until it and the board have signed a Local Cooperation Agreement (LCA) that guarantees payment of the nonfederal share and includes a detailed financial plan. The board, in turn, cannot provide a financial plan and should not sign an LCA until Merced County specifies how it will (1) meet the new federal 5 percent cash requirement, (2) repay the state loan for the cost of land easements, rights-of-way and relocations (LERRS), and (3) finance its share of all project costs and future maintenance costs, if the LCA covers all project phases. Consequently, we withhold recommendation on the proposed reappropriations pending receipt and analysis of information from the Reclamation Board on (1) the status of Merced County's financing plan, and (2) funding requirements in 1988-89 if the LCA cannot be signed in time to begin construction on schedule (*Analysis*, page 423). ❖

State Water Resources Control Board

(Item 3940/page 426)

Highlights of Our Recommendations

1. Oversight of Underground Tank Cleanup Off to a Slow Start

The budget requests a total of $10.8 million for the second year of a pilot program to contract with local agencies to oversee the cleanup of leaking underground tanks. This program would be funded from $7.4 million in toxic cleanup bond funds from the Department of Health Services (DHS) and $3.4 million in federal funds.

The 1987 Budget Act provided $7.5 million in bond funds to DHS to contract with the board for the first year of the pilot program. At the time of this *Analysis*, however, the program had not been implemented, and no contracts had been signed with any local agencies. Therefore, the board will have little information to provide the Legislature on program implementation in the current year.

As a result, the Legislature will have to evaluate the budget request for the program's second year primarily on the basis of the contracts that will have been signed by the time of hearings and the plans for, rather than the results of, their implementation.

Accordingly, we withhold recommendation on the total of $10.8 million requested for the second year of the pilot program, pending receipt and review of the contracts signed by the board and preliminary information on the implementation of the program in the current year (*Analysis*, page 434). ❖

Department of Alcohol and Drug Programs

(Item 4200/page 456)

Highlights of Our Recommendations

1. Expenditures for the Prevention of AIDS Among Intravenous Drug Abusers

The budget anticipates that California will receive $17.3 million in federal Emergency Substance Abuse block grant funds in 1988-89. Although the 1987 Budget Act requires the department to allocate the first $5 million of these federal block grant funds for AIDS prevention among intravenous drug abusers in the current year, the budget proposes to allocate only the first $3.5 million for this purpose in the budget year. Since we have no reason to believe that the Legislature has changed its priorities as reflected in the 1987 Budget Act, we recommend that the Legislature instruct the department to redirect a total of $1.5 million in federal funds from alcohol and other drug programs to provide the full $5 million allocation to prevent the transmission of AIDS among intravenous drug abusers.

In addition, we recommend that prior to budget hearings, the department advise the Legislature as to how it intends to allocate the $5 million to counties, ensure effective spending of these funds by counties, and coordinate with the Department of Health Services, Office of AIDS, to prevent the spread of AIDS among intravenous drug abusers (*Analysis*, page 459). ❖

Department of Health Services

(Item 4260/page 464)

Highlights of Our Recommendations

1. Licensing and Certification Funding Ratios

The budget proposal for licensing and certification of health care facilities assumes that the federal government will fund a greater portion of licensing and certification workload than it currently funds. Consequently, the General Fund amount proposed in the budget is too low and the federal funds amount is too high. Because inappropriate funding of the division could result in reductions in licensing or other department activities, we recommend an increase of $1,072,000 from the General Fund, with a corresponding reduction in federal funds to correctly fund the program's budget (*Analysis*, page 476).

2. Licensing and Certification Surveyor Overbudgeting

The budget proposes $4,011,000 ($2,351,000 General Fund) and 71 positions to implement the second phase of a three-year program to increase the Licensing and Certification Division's staff, in line with a workload study completed in March 1987. We identified two technical problems with the proposal: (a) the department included 20.5 positions of the 71 positions in its budget twice and (b) the funding ratio for the proposal is incorrect. To correct the overbudgeting, we recommend a reduction of $959,000 ($764,000 General Fund) (*Analysis*, page 479).

3. Health Facility Licensing, Laboratory Licensing, and Public Health Fees

Annual licensing fees for hospitals and long-term care facilities and fee adjustments for other types of health facilities licenses, laboratory licenses, and various public health programs are set in the Budget Act based on formulas specified in statute. The fees and fee adjustments proposed in the 1988 Budget Bill are incorrect because they are based on the budget for the current year instead of the budget for 1988-89. We recommend amendments to the Budget Bill to make the fee adjustments consistent with the budget proposal. The effect of this recommendation is to increase General Fund revenue by at least $778,000 in 1988-89 (*Analysis*, page 475).

4. **Additional Federal Maternal and Child Health Block Grant Funds Available**

The budget proposes to spend $24.5 million in federal Maternal and Child Health (MCH) block grant funds in 1988-89 for various MCH programs. The budget also proposes to carry over $4 million of the available MCH block grant funds to the next fiscal year. This amount is similar to the amount carried over to the current year and to 1988-89. Because these funds could be spent on addressing unmet service needs, we recommend that the Legislature augment the MCH program by $4 million in federal MCH block grant funds (*Analysis*, page 499).

5. **Caseload is Leveling Off in the Alternative Test Site Program**

The budget proposes to augment funding for anonymous testing for the AIDS virus by $1.1 million in 1988-89 to pay for an additional 2,000 tests per month. In total, the budget proposes $6.4 million to provide 13,000 tests per month through this program. The most recent utilization estimates for the anonymous testing program indicate that workload is leveling off, making an augmentation above current-year levels unnecessary. Therefore, we recommend that the Legislature delete $1.1 million from the amount proposed for the program (*Analysis*, page 506).

6. **Site Mitigation—Lack of Bond Funds and Bond Expenditure Plan Overdue**

The budget proposes $60.9 million from the Hazardous Substance Cleanup Fund (bond funds) for state administrative expenditures ($21.2 million), the underground tank program ($7.5 million), and cleanup contracts ($32.2 million). The administration is proposing a new hazardous waste cleanup bond measure in the amount of $200 million for the November 1988 ballot to fund a portion of the program costs in the budget year. We identified two major concerns related to the site mitigation program:

- Delays in the availability of the new bond funds could significantly impair the department's ability to operate the program. Our analysis indicates that $30.2 million, or 94 percent, of the funding proposed for site mitigation contracts in 1988-89 will need to come from the new bond act. The department would be unable to enter into site mitigation contracts using the new bond act funds between July and November because the election is not scheduled until November. In addition, there could be a cash flow problem after the election because the administration indicates that none of the bonds will be sold in 1988-89. We recommend that the department report at budget hearings on how it intends to operate this program in light of these funding problems (*Analysis*, page 527).

- Two legislatively mandated reports—the annual report due October 1, 1987 and the bond expenditure plan due January 10, 1988—had not been submitted at the time our analysis was prepared. These reports provide essential information to evaluate the program's past performance and determine whether budgetary promises for the future are realistic. We withhold recommendation on the proposed appropriation of $21.2 million for administrative costs, pending submission and review of the overdue reports (*Analysis*, page 528).

7. Medi-Cal Immigration-Related Proposals

The budget proposes $137.8 million ($28.9 million General Fund) for changes in Medi-Cal eligibility for aliens mandated by two federal laws enacted in 1986, the Immigration and Reform Control Act (IRCA) and the Omnibus Budget Reconciliation Act (OBRA). We withhold recommendation on the budget proposal, pending legislative action on the administration's proposal to implement the IRCA and the OBRA. We also recommend that the administration address problems we identify in its estimates of funding needs (*Analysis*, page 541).

8. Medi-Cal Managed Care Proposal

The budget proposes $2,968,000 ($1,991,000 General Fund) and 29 positions to expand the use of "managed care" delivery systems in the Medi-Cal program. In a "managed care" delivery system, participating health care providers receive per capita payments each month, whether or not the Medi-Cal recipient requires care that month. The capitation payment takes the place of the fee that is normally charged each time a Medi-Cal recipient is treated.

Among the service delivery systems included in the proposal is an organized health care delivery system in San Diego County. Under this system, all Medi-Cal recipients in San Diego County would be enrolled in a primary care case management or prepaid health plan. This proposal is similar to the "Expanded Choice" proposal rejected by the Legislature in 1986. ***We recommend deletion of $1,302,000 ($1,151,000 General Fund) and 10 positions associated with the San Diego County system because the proposal is premature.*** We withhold recommendation on the rest of the proposal, pending receipt of more information about the proposal's potential for Medi-Cal savings (*Analysis*, page 556). ❖

Department of Developmental Services

(Item 4300/page 559)

Highlights of Our Recommendations

1. Medi-Cal Funding of Case Management Services.

The budget proposes to spend $5.4 million during 1988-89 in order to develop and implement a system of billing Medi-Cal for the case management services provided to clients by regional centers. The budget reflects the receipt of $31.5 million in federal funds from billing reimbursements, for a net savings of $26.3 million. ***Our analysis indicates that the budget fails to reflect $22 million in federal reimbursements that will be received for services provided during the current year.*** We recommend that the Legislature reduce General Fund support for the regional center budget by $22 million to reflect receipt of these funds. We withhold recommendation on the proposed 1988-89 funding adjustments, pending submission of more detailed budget and workload information (*Analysis*, page 572).

2. Regional Placement Pilot Program.

The budget proposes an augmentation of $752,000 in order to expand the department's existing Regional Resource Development project (RRDP) currently operating at Sonoma State Developmental Center (SDC). In this pilot, Sonoma SDC clients are placed into the community through a regional approach involving the SDC and a group of regional centers that cover the surrounding areas. We recommend deletion of these expansion funds because the department's proposal appears to be premature. The department was unable to provide basic information on the proposal, such as budgets for the current or budget years or any data or evaluation of the existing pilot's success in meeting its objectives (*Analysis*, page 578). ❖

Department of Mental Health

(Item 4440/page 592)

Highlights of Our Recommendations

1. AIDS Unit at Napa State Hospital

We recommend deletion of $1,191,000 for a special 20-bed unit for patients who (a) are infected with the Human Immunodeficiency Virus (HIV) or are diagnosed as having Acquired Immune Deficiency Syndrome (AIDS) or AIDS-related complex (ARC)—which are caused by HIV infection, and (b) exhibit behavior that constitutes a health risk to others and/or need special medical attention due to their AIDS/ARC or HIV status. The department has not documented workload that justifies the need for a special unit to address the medical needs and behavioral problems of these patients, nor designed the proposed unit to meet the needs of patients with behavioral problems (*Analysis*, page 600).

2. Homeless Program for the Mentally Disabled

The budget includes $19.7 million from the General Fund to fund community support services for the homeless mentally disabled. The Governor's Budget does not reflect the availability of approximately $6.1 million in federal funds that will be available in 1988-89 under a new Mental Health Services Block Grant (MHSBG) program established by the McKinney Homeless Assistance Act of 1987. The McKinney Act appropriated funds on a one-time basis for a broad range of programs for homeless persons. We recommend that local assistance funds for the homeless mentally disabled be increased to reflect available federal funds to serve this population. In addition, we recommend Budget Bill language specifying how the additional funds should be used (*Analysis*, page 607). ❖

Employment Development Department

(Item 5100/page 622)

Highlights of Our Recommendations

1. Immigration and Reform Control Act (IRCA) Service Unjustified

The budget proposes $2.4 million from the Employment Development Department Contingent Fund to verify the authorization to work of Employment Services program applicants for employers. We recommend deletion of this program because (a) the department is not required to perform this service under state or federal law, and (b) the service benefits only a small number of the employers who use the Employment Service. Further, we recommend that the department report to the fiscal committees prior to budget hearings on alternatives for providing this service on a fee-for-service basis (*Analysis*, page 627).

2. Disability Insurance Program

Our review of the Disability Insurance (DI) Program indicates that the DI field offices could improve their operating efficiency and timeliness in issuing benefit payments. We, therefore, recommend that the Legislature augment the department's budget by $225,000 to contract with an independent management consultant firm that would identify specific changes to improve both timeliness and efficiency. We also recommend a reduction of $550,000 to correct for overbudgeting of field office staff (*Analysis*, page 631). ❖

Department of Rehabilitation

(Item 5160/page 638)

Highlights of Our Recommendations

1. Unbudgeted Vocational Rehabilitation (VR) Funds

The budget proposes $141 million for VR services and community rehabilitation facilities in 1988-89. Of the total amount proposed, $116 million is from federal funds. The Department of Rehabilitation (DOR) advises, however, that the budget contains at least $8 million less than the total amount of federal funds available to California.

It may be possible for these additional federal funds to be used to support state programs designed to help individuals, such as the physically disabled and the mentally ill, return to employment. Consequently, we recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on (a) the amount of VR-eligible services that are currently provided by the Departments of Mental Health, Alcohol and Drug Programs, Social Services, and Employment Development and the level of General Fund support proposed for these services in the budget, and (b) the feasibility of requiring the DOR to enter into interagency agreements with these departments in order to avoid the loss of $8 million in unbudgeted federal funds (*Analysis*, page 641).

2. Budget Contains $4 million General Fund Set-Aside for a New Work Activity Program (WAP) Rate-Setting System

The budget proposes $62 million from the General Fund for support of the WAP. The rates for WAP providers have been frozen since 1984-85 so that a revised rate-setting system could be developed. The rate freeze, however, will sunset July 1, 1988. If no new rate structure is established by that date, the cost-based rate system in effect prior to the rate freeze will be reactivated.

The budget includes a $4 million General Fund set-aside to fund a revised WAP rate-setting system. The budget, however, does not specify what the new system will be. We are concerned that the department has been unable to provide an estimate of the costs of reverting to the cost-based system. Therefore, we recommend that prior to budget hearings, the department report to the fiscal committees on the costs of reverting to the cost-based system (*Analysis*, page 642).

3. Unbudgeted Federal Title VI Funds

The budget proposes $13 million from the General Fund for the Supported Employment Program (SEP). The DOR advises, however, that it will receive $2.4 million in federal funds in federal fiscal year 1988 for the SEP. These funds are not included in DOR's budget. Therefore, we recommend a reduction of $2.4 million in General Fund monies proposed to support SEP and an augmentation of the same amount in federal fund support in order to reflect the availability of the additional federal funds (*Analysis*, page 643). ❖

Department of Social Services

(Item 5180/page 645)

Highlights of Our Recommendations

1. In-Home Support Services (IHSS) Workers' Compensation Costs

The budget proposes $10.4 million (General Fund) for IHSS workers' compensation costs. Based on recent actual data which show a decreasing rate of growth for these costs in both the current- and budget-years, we recommend a General Fund reduction of $5.6 million for 1988-89 (*Analysis*, page 696).

2. IHSS Contract Costs

The budget proposes $5 million from the General Fund for the IHSS Caseload Management Informations and Payrolling System (CMIPS) in 1988-89. Subsequent to the preparation of the budget, the department awarded a contract for CMIPS that will cost only $3.1 million in the budget year, which is $1.9 million below the amount proposed in the budget. Therefore, we recommend a General Fund reduction of $1.9 million (*Analysis*, page 698).

3. Greater Avenues for Independence (GAIN) Funding Uncertainties

The budget proposes $408 million from all funds ($245 million General Fund) for the GAIN program in 1988-89. While this is nearly double the amount budgeted for the current-year, it is not sufficient to fully fund the program in all counties. The budget proposal raises a major policy issue regarding the funding level for the GAIN program. In *The 1988-89 Budget: Perspectives and Issues*, we discuss three options for funding the program: (1) full funding with no change in program scope, (2) reduce funding requirements by restricting program participation, or (3) reduce funding requirements by changing program design. The amount needed to fully fund the program in 1988-89 depends on various caseload and cost factors which are still uncertain. Consequently, we recommend that prior to budget hearings, the department report to the Legislature on the following factors which are likely to affect the funding needs of the program in 1988-89:

- Unexpended funds in 1987-88,
- Funds available from existing resources to serve GAIN participants,

- Assumptions about caseload in the education component of GAIN,
- Plans to develop a system for containing GAIN costs, and
- Assumptions about costs and funding sources for the training components of GAIN.

We also recommend an augmentation of $3 million (General Fund) and a reduction of $700,000 (General Fund) to correct technical errors in the GAIN budget (*Analysis*, page 701).

4. Budget Overestimates Statutory COLAs

State law requires that SSI/SSP grants, AFDC grants, and the maximum service award under the IHSS program be adjusted to reflect yearly increases in the California Necessities Index (CNI). The Commission on State Finance is the state agency responsible for estimating the change in the CNI. When the department prepared its budget, the commission had not yet received the data necessary to calculate the percentage change in the CNI. The 5.2 percent increase proposed in the budget was based on the Department of Finance's (DOF) estimate of what this change would be. The commission's staff and DOF now advise that the data show that the CNI actually increased by 4.7 percent. Therefore, the amount of the COLAs for social services programs required by current law is 4.7 percent, rather than the 5.2 percent increase proposed in the budget. Consequently, we recommend a reduction of $35.2 million ($23.8 million General Fund and $11.4 million federal funds)—the difference between the costs of the 5.2 percent COLA projected by DOF and the costs of the actual 4.7 percent change in the CNI (*Analysis*, page 717). ❖

Department of Corrections

(Item 5240/page 723)

Highlights of Our Recommendations

1. Inmate and Parole Population Growth

We withhold recommendation on that portion of the department's support budget related to increased costs for inmate and parole population growth.

The budget proposes $151.8 million from the General Fund and $10 million from various other funds to provide additional staffing and operating expenses to accommodate the projected increase in the state's inmate and parole populations during 1988-89.

Our analysis indicates that the inmate and parole population projections are likely to change significantly before final enactment of the Budget Bill. In the past, population projections for the budget year have undergone significant revisions as more recent information on current-year population levels became available.

In addition, the Board of Prison Terms has implemented several changes in sentencing parole violators which have resulted in a significant increase in the number of parolees retained on parole for an additional year. The board's new practices could increase the parole population significantly and are not reflected in the budget as introduced.

These revisions may affect the projected costs of housing inmates and supervising parolees. Updated population projections will be available for the May revision (*Analysis*, page 731).

2. Contracted Psychiatric Beds

We recommend deletion of $1.4 million requested for contract services to secure 50 acute care beds at Atascadero State Hospital for state prison inmates, because the current contract provides for a sufficient number of beds.

The budget requests $1.4 million from the General Fund to expand the current Department of Corrections' (CDC) contract with the Department of Mental Health (DMH) to provide an additional 50 acute care beds for state prison inmates. These beds would be available at Atascadero State Hospital (ASH) commencing in January 1989. The proposal is part of the department's plan to transfer the responsibility for providing day-to-day psychiatric services at the California Medical Facility from the CDC to the DMH.

Our review of data on the CDC's historical usage of these beds indicates that the additional acute care beds at ASH are not needed. The current interagency agreement provides for a total of 407 acute care beds to be provided by DMH. The data indicate that in 1986-87 the average number of beds utilized by state prison inmates under the contract was 360, or 47 below the maximum available under the terms of the contract. For the first seven months of the current fiscal year, the CDC has averaged 354 utilized beds, or 53 below the maximum number of available beds (*Analysis*, page 737).

3. AIDS in Prison

We recommend that the department report during budget hearings on its current policies and long-range plans for managing the AIDS population within the prison system.

The budget requests $1.7 million to establish a special housing unit for inmates with Acquired Immune Deficiency Syndrome (AIDS). This unit, located at the California Institution for Men (CIM), Chino, would house up to 180 inmates in an existing facility and would offer medical and other support services. The department also maintains a 141-bed housing unit at the California Medical Facility, Vacaville, which is currently operating at capacity.

The department projects that there may be up to 183 inmates infected with the AIDS virus by the end of the current fiscal year. This projection, however, may understate the actual number of infected inmates. The incidence rate of the AIDS virus in the Federal Bureau of Prisons suggests that there may be as many as 2,160 infected inmates in the California system.

The department's current practice of segregating inmates infected with the AIDS virus from the general population poses significant policy and fiscal implications. In order for the Legislature to exercise a greater role in overseeing the department's handling of these inmates, the department should report during budget hearings on this issue (*Analysis*, page 739).

4. Custody Staff for the California Institution for Men

We recommend deletion of 16 positions and $682,000 requested from the General Fund for custody staff for an AIDS housing unit at the California Institution for Men (CIM), because the department has already been budgeted for custody staff to supervise these inmates.

As part of its proposal to establish a 180-bed housing unit for inmates infected with the AIDS virus, the department requests support for 11 correctional officers and five sergeants to provide custody oversight for the housing unit. Our review indicates that the additional staff is not justified because custody personnel have already been budgeted for the department according to existing staffing formulas. These formulas generally provide for both custody and support staff.

Inmates infected with the AIDS virus will be redirected to the CIM housing unit from throughout the system. Custody staff should, in turn, be redirected to the CIM housing unit to provide security coverage as the number of inmates assigned to the facility increases (*Analysis*, page 741).

5. Custody Staff for the California Medical Facility-South

We recommend deletion of 13 positions and $537,000 requested from the General Fund for support of custody staff at the California Medical Facility-South (CMF-S), because the department has not demonstrated that these position are needed to address security and safety concerns at the institution.

The budget requests the positions to provide additional security coverage at CMF-S. Our review indicates, however, that CMF-S is one of the safer facilities within the state corrections system as measured by statistics kept by the department. The facility reports lower-than-average incidents of prohibited inmate activities, including assaults, possession of weapons, use or possession of drugs, sex between inmates, and other actions. CDC statistics indicate that CMF-S reported 2.1 assaults per 100 inmates in 1986 compared to the systemwide average of 3.5 assaults per 100 inmates. Similarly, the incidence of drug use at CMF-S was the fifth lowest of the 25 facilities for which data were reported in 1986. CMF-S reported the third lowest number of total incidents per 100 inmates in that year (*Analysis*, page 742). ❖

Department of Corrections — Capital Outlay

(Item 5240-301/page 758)

Highlights of Our Recommendations

1. Facilities Master Plan and Needs for New Prison Facilities in 1988-89.

Over the last few years the Department of Corrections (CDC) has not presented its plans and funding requests for new prison construction in the Budget Bill. Instead, it has presented its funding requests for new facilities in separate legislation, generally late in the legislative session. This process has placed the Legislature in a very difficult position. On the one hand, inmate population is growing at a rapid rate and new prisons are needed. On the other hand, the Legislature is not given sufficient information and time upon which to evaluate new prison requests.

In response to this situation, the legislative fiscal committees last year adopted language directing the CDC to provide its five-year facilities master plan to the Legislature as part of the budget process. The CDC has recently provided that plan to the Legislature. The plan states that "funding will need to be available by mid-1988" (*up to $652.5 million*) for four new prisons. The Governor's 1988-89 Budget, however, does not include any funds for new prisons. The plan itself lacks important information, including *where* the department proposes to build the four new prisons.

So that the Legislature may consider funding needs for new prisons in the context of the annual budget, we recommend that the CDC, prior to budget hearings, report to the Legislature on appropriation needs for its new prison construction program in 1988-89 (*Analysis*, page 760).

2. Excess Fund Balances, Corcoran Prison Project

Our analysis indicates that the amount of funds available for the construction of a 2,916-bed prison near Corcoran (Kings County) exceeds the estimated cost to complete construction of the prison by $38.7 million. The Legislature could apply this amount to offset General Fund payments that otherwise will have to be made to pay off principal and interest on the revenue bonds issued for construction of the prison. We therefore recommend that the Legislature adopt Budget Bill language expressing legislative intent that the $38.7 million be reserved for the purpose of paying off the bonds.

Our recommended language would permit the CDC to use part or all of the money for additional construction costs that may arise during the remainder of the construction project, subject to the review of the same legislative committees that review preliminary architectural plans for new prisons. The recommended language creates potential savings of up to $34.8 million in 1989-90 (the first year in which debt service payments are due) and up to $3.9 million in 1990-91 (*Analysis*, page 762). ❖

Board of Prison Terms

(Item 5440/page 777)

Highlights of Our Recommendations

1. Retention of Parolees Under Supervision

In response to a recent court decision (*In re Welch*), the Board of Prison Terms (BPT) recently has begun taking action to either discharge or retain any parolee eligible for discharge from parole. As a result of the board's decision in each case, large numbers of parolees are now being retained on parole supervision for a second year who previously would have been released from supervision after one year. Our review suggests that this practice will be costly, and that the Governor's Budget does not provide funding for the additional costs that will be incurred by the BPT and the Department of Corrections as a result of this practice.

Accordingly, we recommend that the board report during budget hearings on the types of parolees it is retaining on parole for an additional year and the benefits it expects to result from retaining them. We further recommend that the Department of Finance prepare an estimate of the costs of additional parolee discharge reviews to the board and the costs of additional parolee retentions to the Department of Corrections, and that it identify how these costs will be financed in the current and budget years (*Analysis*, page 778). ❖

Department of the Youth Authority — Capital Outlay

(Item 5460-301/page 795)

Highlights of Our Recommendations

1. New 600-Bed Institution—Stockton ($66 million future cost)

The department's five-year capital outlay plan proposes construction of a new 600-bed institution for 1988-89, at an estimated future cost of $66 million. The Budget Bill, however, is silent on the issue of this facility.

In order to make an informed decision about the appropriate level of construction funding of this project, the Legislature must receive preliminary plans and have sufficient time to review them before considering a request for construction funds. Given the scope of this project, the amount of state funds potentially involved, and the urgency of the need for more Youth Authority beds, we recommend that, by March 15, 1988, the department report to the Legislature concerning (1) the progress of preliminary plans, (2) the proposed source of construction funds, and (3) the proposed construction schedule for this project (*Analysis*, page 796). ❖

Department of Education

(Item 6110/page 805)

Highlights of Our Recommendations

1. State Costs for Court-Ordered School Desegregation

The budget proposes $435.9 million from the General Fund for court-ordered school desegregation programs. This is an increase of $115 million (36 percent) over the current-year amount, and includes increased funding for enrollment growth and a cost-of-living adjustment (COLA). Most of the proposed increase, however ($66 million), is for program expansion that is in addition to enrollment growth and inflation-related increases. Under current law, the state pays for 80 percent of these additional expansion costs.

Our review indicates that, between 1984-85 and 1987-88, desegregation program costs in some districts have grown by 10 percent to 40 percent faster than the rate of inflation and enrollment growth. Part of the reason for this rapid growth is that, by paying for 80 percent of expansion costs, the state provides an incentive for districts to allocate local funds to the fullest extent possible to desegregation programs. Furthermore, our review indicates that, in the absence of state program and cost standards, the local decision to expand desegregation programs automatically results in a state cost, without any state review or regulation of program content, objectives, or cost.

In order to reduce the state fiscal burden for locally-determined program expansion, and to reduce the fiscal incentive for districts to engage in such expansion, we recommend that the state share of expansion costs be reduced from 80 percent to 50 percent. Our review of other education programs with a required match indicates that a 50-50 share between state and local agencies is both common and reasonable. ***Because reducing the state share of expansion costs would result in a savings of $25 million in projected 1988-89 expansion, we recommend that the budget be reduced by this amount.*** We also recommend that the budget be reduced by an additional $5 million to reflect a technical budget correction in the cost-of-living adjustment, for a total recommended reduction of $30 million dollars. We note that this recommendation does not affect the existing level of state support for established desegregation programs (*Analysis*, pages 866-869).

2. Proposed Revenue Limit Equalization Funding Not Needed

The budget proposes $20 million from the General Fund for school district revenue limit equalization. These funds would be allocated to school districts whose revenue limits are below the average revenue limits for districts of similar size and type.

Our review indicates that further revenue limit equalization is neither legally required nor analytically justified. Specifically, the Los Angeles Superior Court ruled in April 1983 that the state is in compliance with the Supreme Court directive (in the "Serrano" decision) to reduce the amount of property wealth-related spending disparities to "insignificant differences" of less than $100 per pupil. In addition, we have found that those districts that are currently not within the prescribed $100 band (as adjusted for inflation) are above, not below it. *In other words, the revenue limit of every district is already at or above the minimum level defined by the $100 band.*

Meanwhile, the budget does not propose to provide a cost-of-living adjustment (COLA) for most categorical programs for which a COLA is not required by law. Our review indicates that a COLA for discretionary categorical programs is needed in order to maintain the purchasing power of ongoing programs that has been lost through inflation. In addition, a discretionary COLA would allocate funds to a larger number of school districts than the proposed revenue limit adjustment and would more effectively target those funds to established programs.

Accordingly, we recommend that the $20 million proposed for revenue limit equalization be used instead to fund a COLA for specified categorical programs. The amount proposed for equalization would fund a 2 percent COLA for those categorical programs for which the budget does not propose a COLA (*Analysis*, page 827).

3. Small School District Transportation Aid Should Support Transportation Costs

The budget proposes to continue funding for small school district transportation aid at its current level of $20 million. This funding is provided from the General Fund for small school districts that—at one point in time—had "excessive" transportation costs. Although this aid is provided on the basis of transportation costs, districts may use it for general purposes and may receive additional transportation aid through the home-to-school transportation program.

Our review indicates that 259 school districts receive a combination of home-to-school transportation aid and small school district transportation aid that exceeds their total approved costs of transportation. The amount of this excess aid ranges from less than $100 to nearly $500,000 and totals $6 million statewide. Meanwhile, many districts that receive only home-to-school transportation aid are reimbursed for less than one-half of their approved costs. We see no justification for this.

We recommend, therefore, that the amount proposed for small district transportation aid be reduced by $6 million to eliminate overpayment to districts whose combination of home-to-school transportation aid and small school district transportation aid exceeds their actual transportation costs. We further recommend that the $6 million be added to the amount proposed for home-to-school transportation funding and directed to districts that are currently reimbursed for less than one-half of their approved transportation costs, in order to achieve a more equitable distribution of transportation aid (*Analysis*, page 829).

4. Special Education Instructional Unit Growth Overbudgeted

Public Law 94-142 requires local education agencies (LEAs) to provide all handicapped pupils with special education, if appropriate. Population estimates indicate that the number of such pupils will increase in the budget year. This increase will result in a corresponding increase in the demand for additional special education classes. The budget proposes $64 million to fully meet the demand for new classes in the budget year.

Our analysis indicates that the budget overestimates the level of demand for additional special education classes. A portion of the estimated-level of demand ($8.8 million) is associated with requests for additional classes in the current year that were approved (but not funded) by the State Department of Education on the basis of waivers from statutory enrollment standards. Because the budget also proposes control language which would limit total funding associated with such waivers to $5 million, the budget overestimates the need for additional funding by $3.8 million.

Furthermore, because the Department of Finance also did not adjust its estimate of enrollment growth to exclude growth associated with LEAs that would not qualify for additional funding under the provisions of existing law, our review indicates that the remaining $60.2 million may also be overbudgeted.

Accordingly, we (1) recommend that the Legislature reduce the amount proposed for special education growth by $3.8 million, and (2) withhold recommendation on the remaining $60.2 million pending a revised estimate of the demand for growth from the State Department of Education (*Analysis*, page 848).

5. High School Pupils Concurrently Enrolled In Adult Education Programs Generate Excessive Funding

High school pupils who concurrently enroll in adult education courses may generate for funding purposes up to two revenue limits—one for their attendance in high school, and the other for their attendance in adult school. A revenue limit is the amount of funding provided per average daily attendance (ADA) to school districts for its programs. While the state funds most attendance in adult school at a revenue limit rate ($1,312) which is about one-half the average K-12 rate ($2,670), the state funds the attendance in adult school of concurrently-enrolled high school students at *the full K-12 rate.*

Our review indicates that there is no analytical justification for the higher funding rate provided for concurrently-enrolled students. The state funds other adult ADA at the lower rate because (1) the number of class hours associated with adult ADA is significantly less than the number associated with high school ADA, and (2) it costs less to operate adult courses. Because these reasons also apply to adult ADA generated by high school students, we believe the Legislature should fund this ADA at the same rate as other adult attendance.

Proponents of the higher rate argue that high school students served in adult education programs require additional services, such as counseling, and therefore are more costly to serve than other students. Our review indicates, however, that these costs are not of a magnitude to warrant *twice* as much funding as other students. Rather, the state could more appropriately recognize these costs by basing ADA for concurrently-enrolled students on a two hour minimum day, rather than the three hour day specified under current law.

Revising the funding provisions pertaining to concurrently-enrolled students in this manner would avoid "overfunding" these services and would also reduce the incentive to enroll students in adult education programs for financial rather than programmatic reasons. Such financial incentives may in part account for the dramatic growth in concurrent enrollments—239 percent—which has occurred since 1984-85.

We therefore recommend that the Legislature fund the attendance of concurrently-enrolled pupils (1) at each district's adult funding rate, and (2) based on a two hour minimum day. Adoption of these

recommendations would result in General Fund savings of $15.6 million in 1988-89 (*Analysis*, page 913).

6. Adult Education Cost-of-Living Increase Exceeds Inflation

Under current law, adult education programs are entitled to receive an annual 6 percent cost-of-living increase (COLA). With few exceptions, this COLA is greater than the COLAs prescribed under current law for general school apportionments as well as most other education programs (4.37 percent), which are tied to the percentage change in the "Implicit Price Deflator for State and Local Government Purchases."

Our review indicates that there is no analytical reason why K-12 adult education programs should be provided with an arbitrarily higher COLA (6.0 percent). The types of goods and services used by K-12 adult programs are the same as those purchased by most other education programs and, thus, there is no basis for assuming that the costs faced by K-12 adult programs rise more rapidly than those faced by other education programs with statutory COLAs.

Accordingly, we recommend that the Legislature provide adult education programs with a 4.37 percent COLA in the budget year, for a General Fund savings of $4 million (*Analysis*, page 911).

7. Education Funds for the Homeless Available in 1988-89

The federal government will provide the state in 1988-89 an estimated $12 million under the Stewart B. McKinney Homeless Assistance Act of 1987, of which $1.8 million will be available for educational purposes. The act requires the state to use these funds to plan and coordinate services for homeless youth, and to alleviate illiteracy among homeless adults.

The budget does not reflect the $1.8 million made available under the McKinney Act for education of the homeless. Accordingly, we recommend that the budget be augmented by $1.8 million to reflect the availability of these funds in 1988-89 (*Analysis*, pages 917 and 926). ❖

The University of California

(Item 6440/page 953)

Highlights of Our Recommendations

1. No Analytical Reason to Support Budgetary Savings Reduction

We recommend deletion of the requested $7.3 million from the General Fund to provide a reduction in The University of California's (UC's) budgetary savings target because there is no analytical reason to grant UC a reduction to its savings target when similar adjustments are not made for other state agencies.

Most state programs have experienced a loss of purchasing power in recent years due to the effects of inflation and the underfunding of merit salary adjustments. Our analysis, however, has not identified any unique analytical reason to reduce UC's budgetary savings target. While we recognize that UC's savings target has increased due to unspecified reductions, we find that these reductions were applicable to most state agencies. For example, while The California State University (CSU) has been subject to the same unspecified reductions, the budget proposes no augmentation to the CSU budget to restore its past underfunding of merit or price increases. Provision of such an adjustment for UC is appropriately a policy issue for the Legislature. We therefore recommend that this request be deleted, for a General Fund savings of $7.3 million in 1988-89 (*Analysis*, page 984).

2. UC Price Increases Are Unjustifiably Greater Than Those of Other State Agencies

We recommend deletion of $6.2 million of the amount requested from the General Fund for UC price increases because the amount requested is in excess of the increases granted other state agencies and there is no analytical reason to provide UC with greater increases.

The UC budget requests $17.2 million from the General Fund to provide for price increases in 1988-89. Our review indicates that several items of expenditure will receive far greater increases than authorized by the Department of Finance (DOF) price letter for 1988-89. This is because UC has been given price adjustments on many items for both the current year and the budget year.

In the course of our review, we identified no other state agency budget with a proposed two-year price increase. A comparison with The California State University (CSU) budget illustrates the magnitude of the adjustment reflected in UC's budget. For example, the CSU budget proposes an increase of 7.9 percent for library subscriptions (the price letter allowance for 1988-89) compared to the 19.4 percent increase proposed for UC (the price letter increase for 1987-88 *and* 1988-89).

As discussed in our earlier recommendation on budgetary savings, most state programs have experienced a loss of purchasing power in recent years due to the effects of inflation. We cannot identify any unique analytical reason to justify the "special increases" proposed for UC in 1988-89 when virtually all state agencies have experienced the same budgetary constraint. Provision of an extraordinary inflation adjustment is appropriately a policy issue for the Legislature. We, therefore, recommend that UC's budget be comparable with all others. With this reduction, UC will be provided with a general price increase of 2.5 percent—the same as that proposed for CSU (*Analysis*, page 979).

3. Teaching Hospitals—Too Early To Appropriate 1988-89 Operating Subsidy

We recommend deletion of $6 million requested from the General Fund for an operating subsidy in 1988-89 because of the uncertainty of projections of net gains and losses.

We further recommend the adoption of Budget Bill language expressing intent to appropriate up to $9 million in the 1989 Budget Bill to offset any 1988-89 losses that might occur at the three hospitals.

Our analysis indicates that given prior history and the uncertainty of estimating hospital net gains or losses, the requested appropriation of $6 million may set aside too much to offset actual losses. Accordingly, we believe it would be more appropriate to defer the 1988-89 subsidy issue until the Legislature considers the 1989 Budget Bill. This would allow for a decision closer to the end of the hospitals' fiscal year when a much more accurate estimate of activity can be made.

We note that deferral does not diminish the state's commitment to provide the teaching hospitals with up to $9 million to offset any loss that they might experience in 1988-89. Moreover, this course of action would allow alternative uses of $6 million from the General Fund in the budget year (*Analysis*, page 972).

4. UC Benefits are Overbudgeted

We recommend deletion of $4.4 million requested from the General Fund to provide price adjustments for UC employee benefits because UC's benefits in recent years have unintentionally increased more than other state employees. The intent of this recommendation is to gradually reestablish parity between UC employees and other state employees.

The budget requests $11.2 million for employee benefit increases, $4.4 million of which is proposed for price increases for health insurance. Traditionally, the state's policy has been to provide comparable benefits between UC and all other state employees. Starting in 1983-84 the state's contribution for health insurance benefits per UC employee became higher than the state's contribution for other employees.

Based on our review of the 1983-84 budget process, we found that UC's increased benefits were the result of an error. Due to this error, the health benefit contribution per UC employee in 1987-88 is as much as $155 per month more than that provided to other state employees.

We find no analytical reason to maintain these differences. Consequently, we recommend a phased approach to equalize the baseline budget. Specifically, we recommend that the state contribution per UC employee be held at the 1987-88 amount until the state's contribution for other employees reaches the UC level.

By gradually reestablishing parity, this recommendation would result in minimal disruptions for UC employees. We recommend continuation of this process in subsequent budgets until the benefit gap is closed (*Analysis*, page 980).

5. Graduate Research Assistantships—Program Will Not Increase Supply

We recommend deletion of the $1.5 million requested from the General Fund for additional graduate student research assistantships because the proposal will not increase the supply of Ph.D. graduates.

According to UC, these research assistantship awards are needed to increase the supply of doctorally trained graduates to meet the future demand for faculty in higher education and/or doctorally trained graduates in industry. This problem is commonly recognized, and we acknowledge it.

If the Legislature agrees that the supply of doctorally trained graduates needs to be increased, then we believe that funding graduate enrollment increases rather than additional research assistantships is a more effective solution to the problem.

The availability of merit-based research assistantships is only a factor in the enrollment levels to the extent that UC cannot attract and retain candidates into the Ph.D. slots authorized. In UC's case, this is not a problem. In fact, the university's graduate programs currently attract many more highly qualified applicants than the number that can be offered admission. Moreover, UC has not provided any evidence that once admitted, these students have not been retained.

Given this situation, the effect of additional UC research assistantships is not to increase the supply of graduates, but rather to increase funding for general research. With these assistantship salary funds, UC faculty will merely employ currently enrolled students to work on their research projects (*Analysis*, page 967).

6. California Science Project Is a More Promising Proposal Than the University/Schools Project

We recommend a General Fund augmentation of $600,000 to provide initial state support for the California Science Project because our analysis indicates that it is based on a proven approach to address an important K-12 curriculum need that has been identified by the Legislature.

We further recommend deletion of $578,000 requested from the General Fund for initial state support of a University/Schools Research and Extension Program in Education because the proposal appears to be an ineffective means of assisting K-12 schools.

Our review indicates that the Science Project is modeled after a proven approach to address an important K-12 curriculum need that has been identified by the Legislature. Accordingly, we recommend a General Fund augmentation of $600,000 for the project. In contrast, the University/Schools Program seems to add an additional layer of administration for a limited service that we believe can be accomplished within existing resources. Consequently, we recommend deletion of the $578,000 requested for this purpose (*Analysis*, page 969).

7. Faculty Salaries—Withhold Pending Additional Data

We withhold recommendation on the proposed salary increase for UC faculty until the May revision of the budget, in order to evaluate whether it is financially feasible to provide faculty salary increases which are at parity with UC's comparison institutions. The comparison institution methodology indicates that a *full-year* increase of 3 percent would be needed in 1988-89 to achieve faculty salary parity with UC's list of comparison colleges and universities. The budget, however, proposes a half-year increase of 3 percent, to take effect January 1989.

The augmentation required for a full-year increase is $13.2 million (*Analysis*, page 978). ❖

University of California — Capital Outlay

(Item 6440-301/page 985)

Highlights of Our Recommendations

1. Los Angeles-Fowler Museum

The budget includes $1.8 million to complete 22,230 assignable square feet (asf) of unfinished space for classroom and laboratories in the Fowler Museum of Cultural History at the Los Angeles campus. The Fowler Museum, which currently is under construction, has been financed with $20.5 million of nonstate funds and is scheduled for completion by December 1989.

We recommend deletion of $1.8 million proposed for this project because the use of state funds to complete space in this facility for classrooms, research laboratories and an organized research unit is not justified. Clearly, new classroom space is not needed because the campus will have excess classroom space through 1992-93. Moreover, we question the use of $1.8 million of limited state bond funds to relocate the laboratories and the organized research unit to new space which provides only 275 asf additional net space for these activities (*Analysis*, page 998).

2. San Diego - Sciences Building

The budget includes $1.5 million for preliminary plans to construct a 110,000 assignable square foot (asf) Sciences Building at the San Diego campus. The total cost of this project is estimated to be $47.6 million and completion is scheduled for November 1992.

We recommend deletion of $1.5 million for preliminary plans for this project because the additional laboratory space provided in the building would give the campus 43,400 asf (31 percent) more space than state guidelines indicate would be necessary when the building is completed. *Moreover, this project does not include any space for undergraduate class laboratories, even though the campus only has 50 percent of the space needed to meet current enrollment demands (Analysis,* page 999).

3. Riverside - Fawcett Laboratory Renovation

The budget includes $1.3 million for working drawings and construction of the Fawcett Laboratory renovation project at the Riverside campus.

We recommend deletion of $1.3 million for this project because the university has not submitted any documentation in support of this project (*Analysis*, page 1,004). ❖

The California State University

(Item 6610/page 1011)

Highlights of Our Recommendations

1. Proposed Funding Level for Off-Campus Nursing Program Is Excessive

We recommend that the proposed General Fund augmentation for state support of the off-campus Statewide Nursing Program (SNP) be reduced by $673,000 in order to fund the program on the same basis as comparable on-campus nursing programs. The SNP is a systemwide off-campus program in which licensed registered nurses can earn B.S. and M.S. degrees in nursing. Currently, the program is supported entirely by student fees. The budget proposes a General Fund augmentation of $3.9 million in order to initiate state support of the SNP in 1988-89.

The budget proposal is based on an assumed student/faculty ratio of approximately 8 to 1, compared to a ratio of 10 to 1 for similar on-campus nursing programs at The California State University (CSU). We find no reason to support the SNP at a higher level of funding than comparable on-campus programs. Accordingly, we recommend that the program be funded on the basis of a student/faculty ratio of 10 to 1, for a General Fund savings of $673,000 (*Analysis*, page 1,024).

2. General Fund Reimbursement for Continuing Education Concurrent Enrollment Should Be Increased

We recommend that the budgeted level of reimbursements from the Continuing Education Revenue Fund to the General Fund, for continuing education students concurrently enrolled in regular (General Fund) courses, be increased by $2.5 million to reflect the increase in revenues from concurrent enrollment.

As part of its fee-supported Continuing Education program, CSU authorizes students to enroll in continuing education courses by attending "regular" campus courses, with the consent of the instructor. Because the General Fund supports CSU's regular education courses, the cost of the concurrent enrollment program is funded primarily by the state. Recognizing this, the Governor proposed, in the 1985-86 budget, that the state share the revenues generated by concurrent enrollment fees. Based on estimated revenues of $4 million and assuming that a 50 percent sharing arrangement would be reasonable, the budget proposed—and the Legislature adopted—

a reimbursement of $2 million from the Continuing Education Revenue Fund to the General Fund. The $2 million reimbursement was continued in subsequent years, and the budget proposes the same reimbursement level in 1988-89. Total revenues from concurrent enrollment, however, are projected to be $9 million in 1988-89. We recommend, therefore, that the General Fund reimbursement be increased to $4.5 million to reflect the 50 percent sharing arrangement (*Analysis*, page 1,027).

3. Budget Proposal for "Expendable Items" Exceeds the Amount Required

We recommend that the budget proposal for an initial complement of expendable items (supplies for new and remodeled buildings) be reduced by $716,000 because the budget inappropriately includes funds for remodeling or renovation projects where no new function was added. According to the Chancellor's Office, expendable items allocated for remodeling projects are required only in those cases where the existing spaces have been modified so as to add a new function or activity (*Analysis*, page 1,039).

4. Comparison Colleges' Law School Faculty Should Not Be Used in CSU's Faculty Salary Parity Calculation

We recommend that the amount budgeted for CSU faculty salary increases be reduced by $2,960,000 in order to eliminate the effect of law school faculty in determining salary parity with CSU's comparison institutions. The California Postsecondary Education Commission (CPEC) submits an annual report showing the salary increase needed to achieve parity with CSU's comparison institutions. Because CSU has no law schools, CPEC revised the methodology in 1985-86, presumably in order to eliminate the effect of law school faculty at the comparison institutions. The adjustment, however, does not account for the full effect of law faculty. We recommend that the adjustment be revised accordingly. Because the budget proposal for faculty salaries is based, in part, on the CPEC methodology, our recommendation would result in a technical reduction in the budget request (*Analysis*, page 1,043).

5. Faculty Salaries—Withhold Pending Additional Data

We withhold recommendation on the proposed salary increase for CSU faculty until the May revision of the budget, in order to evaluate whether it is financially feasible to provide faculty salary increases which are at parity with CSU's comparison institutions. The comparison institution methodology indicates that a *full-year* increase of 4.7 percent would be needed in 1988-89 to achieve faculty salary parity with CSU's list of comparison colleges and universities. The budget, however, proposes a half-year increase of 4.7 percent, to take effect January 1989.

The augmentation required for a full-year increase is $19.9 million, or $16.9 million if our preceding recommendation (law school faculty) is adopted (*Analysis*, page 1,042). ❖

California State University — Capital Outlay

(Item 6610-301/page 1045)

Highlights of Our Recommendations

1. Balance Between Instructional Space and Ancillary Support - Policy Choice for the Legislature

The budget includes $723,000 for preliminary plans for new music and dance facilities on the Fresno and Long Beach campuses. These projects will cost about $38.8 million to complete.

Policy Issue Associated with Space Ancillary to Instructional Program. We withhold recommendation on the Fresno Music and Long Beach dance projects because both projects raise a significant policy issue for the Legislature to review and decide. Both projects place a significant emphasis on the construction of space dedicated to functions, ancillary to the instruction program. Current and projected enrollments are increasing at most state university campuses. As a result, there is a need to provide additional instructional space and ancillary support space throughout the California State University (CSU) system.

The policy issue then is what balance the Legislature wants to achieve between instructional space and ancillary support space when allocating limited capital outlay funds. In deciding this question, the Legislature is faced with several policy implications. For example, if ancillary space has priority over instructional space, should each campus have a 1,200 seat auditorium/theater? If the answer is yes, then when should each facility be provided? In addition, how many small theaters should be constructed on a campus? These policy decisions have major cost implications because these facilities and other ancillary elements are expensive to construct (*Analysis*, page 1,054).

2. Contra Costa Off-Campus Center, Initial Facility

The budget includes $505,000 for preliminary plans and working drawings for construction of initial facilities for a permanent off-campus center on 380 acres of state-owned property in the City of Concord in Contra Costa County to replace the existing temporary center in Pleasant Hill. The estimated future cost to construct this project is $15 million.

We recommend deletion of $505,000 for the Contra Costa Off-Campus Center, Initial Facility because the California Postsecondary Education Commission (CPEC) has requested that the Legislature not approve funding for development of the center until CPEC has received and approved a transportation access plan and environmental impact report (EIR) for the project. The site for the new permanent center has a serious transportation problem (the main access route—Ygnacio Valley Road—is currently heavily congested at peak travel hours). It will probably take a year or more to develop the required transportation plan and complete the EIR (*Analysis*, page 1,062).

3. Off-Campus Centers - Ventura County and North San Diego County

The budget includes $1.8 million for preparation of (1) the master plan for the proposed Ventura Off-Campus Center and (2) the master plan, preliminary plans, and working drawings for academic and support facilities for the proposed North San Diego Campus. The 1987 Budget Act appropriated $19 million for acquisition of sites for the Ventura and North San Diego Centers. In addition, the 1987 Budget Act appropriated $200,000 for preparation of a master plan for the North San Diego Center.

The Ventura site has not been selected and the North San Diego site acquisition has encountered troubles and the master plan and EIR are not completed. Consequently, we have withheld our recommendation on $1.8 million for the Ventura and North San Diego off-campus centers, pending decisions on the acquisitions and completion of the North San Diego master plan and EIR (*Analysis*, page 1,063). ❖

California Community Colleges — Capital Outlay

(Item 6870-301/page 1085)

Highlights of Our Recommendations

1. Funding for New Centers is Premature

The budget includes $1.4 million for working drawings for permanent facilities for three new off-campus centers—West Center, Moreno Valley Center and Norco Center—to be established by the Mt. San Jacinto and Riverside Community College Districts in Riverside County. The total cost of developing these centers is estimated to reach about $39.5 million by 1990-91.

We recommend deletion of the $1.4 million for all three centers because (1) the California Postsecondary Education Commission (CPEC) has not established what additional community college centers and/or future campuses will be needed and when they will be needed (2) the funding of working drawings for initial facilities would serve no advantage unless drawings for site grading and development of roads, parking lots, and utilities are also funded to permit construction and completion of all essential facilities and supporting infrastructure at the same time (*Analysis*, page 1,096).

2. San Francisco CCD - Central Shops and Warehouses

The budget includes $2.2 million for working drawings and construction of a new central shop and warehouse facility at the San Francisco City College. This facility would serve the district's campus and nine centers.

We recommend deletion of $2.2 million for this project because (1) the construction of a new and larger shop and warehouse facility on the relatively small land base of the already overcrowded City College campus, would use up one of the few remaining sites available for future construction of additional library/instructional space, (2) the proposal would provide 13,500 assignable square feet more space for shop and warehouse purposes than is justified under state space guidelines, and (3) excavation of a steep hillside would be required for the first floor of the proposed building, thus substantially increasing construction costs (*Analysis*, page 1,099). ❖

Student Aid Commission

(Item 7980/page 1100)

Highlights of Our Recommendations

1. Cal Grant A and Cal Grant B Maximum Grant Levels

Governor's Proposal. In his 1988-89 budget, the Governor cites that the maximum grants provided under the Cal Grant programs have not kept up with the tuition increases at the private colleges and universities. This, he claims has redirected students from the private institutions to the state's public institutions, which has aggravated overcrowding at certain UC and CSU campuses. Therefore, to relieve some of the enrollment pressures on the public institutions, the Governor proposes to redirect student flow to the private institutions by significantly increasing the maximum Cal Grant A and B award levels only for those recipients who attend private institutions. (The Governor, to a much lesser extent, also proposes to increase the maximum grant for students attending public and proprietary schools.)

Specifically, the Governor proposes an $18 million (14 percent) increase to fund his private institution proposal, which includes the following components:

- *Private, Four-Year Institutions*—increase maximum grants by *24 percent*, (funding increases by $15 million to fund the new maximum award level);
- *Public Institutions*—increase maximum grants for students attending UC and CSU by 5.1 percent and 8.9 percent respectively, (funding increases by $1.3 million);
- *Proprietary Schools*—increase maximum grants for students attending proprietary schools by 4.5 percent, (funding increases by $434,000); and
- *Cal Grant B Subsistence Allowance*—maximum subsistence allowance provided under the Cal Grant B program would increase by 4.5 percent for all recipients, (funding increases by $1.6 million).

Our analysis indicates that the Governor's proposal will not in and of itself, accomplish its intended goal of redirecting students to private institutions and is problematic for several reasons. Specifically, we find:

- *Redirection of Students in 1988 Is Unlikely*—it is unlikely that the Governor's proposal will influence very many students to attend a private institution instead of a UC or CSU campus in the budget year, because students have already applied to colleges for the fall of 1988 and will make their decision of where to attend before the 1988-89 budget is enacted;

- *Redirection of Students in Future Years Unlikely*—it is unlikely that the Governor's proposal will influence many students to attend a private institution in future years because the proposal fails to significantly close the gap between the tuition charged by the private institutions and the maximum grant;
- *Proposal Does Not Balance Choice and Access*—while the Governor's proposal attempts to increase student *choice* by increasing the maximum grant for students attending private institutions, the proposal neglects to address the need to increase student *access* by increasing the *number* of new awards.

Legislative Analyst's Recommendations

We recommend the following:

- *UC and CSU Grant Levels*—increase the maximum awards for students attending UC and CSU to equal systemwide mandatory fees, by consolidating Cal Grant-related funds budgeted for UC and CSU financial aid programs in the Student Aid Commission budget (transfer $7.1 million, and augment $1.3 million);
- *Private and Proprietary Grant Levels*--increase the maximum awards for students attending private colleges and universities and proprietary schools by 6.7 percent ($5.2 million)—the percentage increase in General Fund support for UC and CSU;
- *Cal Grant B Subsistence Allowance*—approve the Governor's proposal to increase the maximum subsistence allowance for all Cal Grant B recipients by 4.5 percent ($1.6 million), and;
- *Excess Funding*—delete $10 million provided for the Cal Grant A and B programs because it is in excess of program needs.

UC and CSU Grant Levels. Consistent with the award policy set forth by the Student Aid Commission (SAC), we recommend that in 1988-89 the maximum award for students attending UC and CSU should be set to equal the mandatory systemwide fees of $1,434 and $684, respectively. Currently UC and CSU receive annual General Fund appropriations to support their financial aid programs. With these funds, both UC and CSU provide additional support to many of their needy Cal Grant A and Cal Grant B recipients in order to "fill the gap" between the students' Cal Grant award and their fees.

We believe that in order to effectively implement and monitor a policy of setting the maximum Cal Grant award levels to equal the systemwide mandatory fees at UC and CSU, all funds provided for Cal Grant A and B recipients should be consolidated into the SAC budget and allocated by SAC through the Cal Grant program.

Private and Proprietary Grant Levels. In order to establish the maximum grant level for Cal Grant students attending private universities, the Legislature needs to articulate its policy concerning the goal it wishes to achieve with this component of the program. If on the one hand, the Legislature wishes to provide maximum choice to students—that is the out-of-pocket costs to a student would be roughly the same if he or she attended a public or a private institution—the grant should be set at one level. If on the other hand, the Legislature wishes the state to provide the same level of support per student—regardless of whether the student attends a private or public institution—the grant should be set at a very different level.

The Legislature has an opportunity during budget hearings to determine its policy with regard to providing financial aid for students attending private institutions. If its policy is determined, the exact grant level can be calculated by the appropriate legislative and agency staff. If on the other hand, more analysis of the issue is desired before a policy decision is made, then we would recommend that the Legislature direct CPEC to study the issue this year and recommend a policy to the Legislature for its consideration next year.

If a legislative policy is not determined, we have no analytical basis for recommending a specific increase in the maximum grant for students attending private institutions. We recognize, however, that (1) the purchasing power of the maximum grant has declined, and (2) the cost of educating a student in private institutions will increase in the budget year. For these reasons we believe that, even in the absence of a policy determination, it would be justified to increase the maximum grant by some percentage in the budget year. We believe that it would be reasonable to use the increase in General Fund support for UC and CSU in the budget year—6.7 percent—as a proxy for the cost increases that will be experienced by private institutions and to increase the current maximum grant by this percentage.

Cal Grant B Subsistence Allowance. The Governor proposes to increase the maximum subsistence allowance for Cal Grant B recipients by 4.5 percent. We believe that this cost-of-living adjustment is appropriate, and accordingly, we recommend approval of this proposal.

Excess Funding. If all the above recommendations are adopted, there will be a net increase of $15.2 million to the SAC budget for Cal Grant A and B awards—$7.1 million transferred from the UC and CSU budgets and only $8.1 million in new funding—for a General Fund savings of $10 million. Accordingly, we recommend deleting this amount.

Options for Remaining Funds—Opportunity to Increase Access. If the Legislature opts to retain all or a portion of the $10 million savings (described above) for student aid, the Legislature could consider augmenting the Cal Grant B program in order to increase the number of new awards. Providing some funding in this area would balance the allocation of new student aid funding in a manner that addresses both the issues of student choice and student access (*Analysis*, page 1,106). ❖

California Horse Racing Board

(Item 8550/page 1170)

Highlights of Our Recommendations

1. State Stewards' Program—Costs Overestimated

The budget requests $3,030,000 for stewards' services in the budget year. State stewards are required to be present at both the "live" racing meetings and at the satellite wagering facilities. The proposed level of expenditures in 1988-89 for both categories is determined by the number of racing events, the contractual rate for stewards' services, and the number of stewards that are required to be present.

Our analysis indicates that the amount requested for stewards' contractual services overstates the actual need. Accordingly, we recommend a reduction of $725,000 to correct for overbudgeting for the cost of stewards assigned to satellite wagering facilities (*Analysis*, page 1,172). ❖

Department of Food and Agriculture

(Item 8570/page 1175)

Highlights of Our Recommendations

1. Veterinary Laboratory Fees Should Provide Additional Operating Revenue

The budget requests a total of $9.8 million for support of the department's veterinary diagnostic laboratory system. Last year the Legislature directed the department to present a plan to increase fee revenues to provide 10 percent of the total operating costs of the veterinary laboratory system in 1988-89. Based on the budget request, the necessary fee revenue would equal $980,000. The budget, however, includes only $400,000 from fees in 1988-89. This is the same amount as estimated for the current year and constitutes only 4.1 percent of the funding for the laboratory system. Consequently, the department's budget request should include $580,000 of additional fee revenue, which could be used to reduce General Fund costs in 1988-89. Accordingly, we recommend a reduction of $580,000 from the General Fund and an equivalent increase in fee reimbursements (*Analysis*, page 1,180).

2. New Vehicles and Equipment

The budget requests $943,000 from the General Fund to purchase new vehicles and other equipment, including 38 trucks, 25 automobiles, 25 mobile radios, and 18 personal computers. Our analysis indicates that most of the requested funds are unnecessary because the budget does not take into account the availability of equipment recently purchased for the apple maggot eradication program, which is being terminated. Because of the availability of this excess equipment, the budget request can be reduced by $625,000. This amount is the cost of the requested new equipment that the department already has in its inventory for the apple maggot program. The department's General Fund needs can be further reduced by selling the remaining excess apple maggot program equipment. Accordingly, we recommend (1) a reduction of $625,000 from the General Fund for unnecessary equipment purchases, and (2) that the department provide the Legislature with an estimate of the value of excess apple maggot program equipment that can be sold (*Analysis*, page 1,180). ❖

Commission on State Mandates

(Item 8885/page 1206)

Highlights of Our Recommendations

1. Reinstated Mandates

The budget failed to include funding for two mandates which were repealed by the 1987 Trailer Bill but reenacted by subsequent legislation. Accordingly, we recommend that funding for the Victim's Statements program be augmented by $600,000 and the Juvenile Felony Arrests program be augmented by $636,000 (*Analysis,* page 1,210). ❖

Department of Economic Opportunity

(Item 8915/page 1215)

Highlights of Our Recommendations

1. Funds for the Homeless Available in 1988-89

The Stewart B. McKinney Homeless Assistance Act of 1987 will provide about $56 million in federal funds to California in 1987-88 and 1988-89, including approximately $12 million that will be available to the state for allocation by the Legislature in 1988-89. This $12 million includes approximately $2 million in Community Services Block Grant (CSBG) funds that will be available to the Department of Economic Opportunity (DEO). The Governor's Budget does not propose to spend the $2 million in CSBG funds made available under the McKinney Act. We recommend that the Legislature augment DEO's budget to reflect these additional federal funds (*Analysis*, page 1,218)

In our discussion of state programs for the homeless in part three of *The 1988-89 Budget: Perspectives and Issues*, we recommend that the Department of Finance provide the fiscal committees with a plan for the use of all of the available McKinney Act funds. In reviewing the administration's plan, the Legislature can consider its options for using the CSBG funds in light of legislative priorities for assisting the homeless (*Perspectives and Issues*, page 109). ❖

Senior Citizens' Property Tax Assistance

(Item 9100 (a)/page 1223)

Highlights of Our Recommendations

1. 1988-89 Funding Overbudgeted

The budget proposes an appropriation of $4.8 million from the General Fund for the Senior Citizens' Property Tax Assistance (SCPTA) program in 1988-89. This assumes that participation in the program will decline from 54,625 claimants in the current year to 54,000 claimants in the budget year. Our analysis indicates that this estimate is overstated because it does not take into account the continuing declines in program participation. Based on data from the Franchise Tax Board, we estimate that participation in SCPTA will decline to 48,700 claimants in the budget year, and that total program expenditures will be $4.3 million. Accordingly, we recommend that Item 9100-101-001 (a) be reduced by $500,000 (*Analysis*, page 1,224). ❖

Senior Citizens' Property Tax Deferral

(Item 9100 (b)/page 1225)

Highlights of Our Recommendations

1. 1988-89 Funding Underbudgeted

The budget proposes the appropriation of $6 million from the General Fund for the Senior Citizens' Property Tax Deferral (SCPTD) program in 1988-89. This proposal assumes that program expenditures will decline 2 percent from the $6.1 million projected current-year cost of the program. Our analysis indicates, however, that the estimated costs of the program are likely to *understate* the program expenditures in both the current and budget years. Based on 1987-88 claims received and processed to date, we estimate that SCPTD will cost approximately $6.5 million in the current year, which is consistent with the program's expenditure level in 1984-85 and 1985-86. Because there is no apparent basis to project any change in expenditures for the budget year, we anticipate that 1988-89 expenditures will also amount to $6.5 million. On this basis, we recommend that Item 9100-101-001 (b) be augmented by $500,000 in order to fund the level of expenditures provided for under current law (*Analysis*, page 1,226). ❖