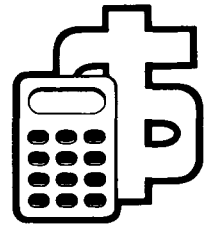


# Legislative Analyst's Office

Legislative Analyst: Elizabeth Hill ♦ (916) 445-4656 ♦ Website: [www.lao.ca.gov](http://www.lao.ca.gov)



The Legislative Analyst's Office (LAO) has been providing fiscal and policy advice to the California legislature for more than 55 years. It is known for its fiscal and programmatic expertise and nonpartisan analyses of the state's budget. Overseen by the 16-member bipartisan Joint Legislative Budget Committee (JLBC), LAO currently has a staff of 49 people. The analytical staff is divided into seven subject area groups of fiscal and policy experts.

The Office serves as the legislature's "eyes and ears" to ensure that the executive branch is implementing legislative policy in a cost-efficient and effective manner. The Office carries out this legislative oversight function by reviewing and analyzing the operations and finances of state government. Historically, one of the most important responsibilities of the LAO has been to analyze the annual Governor's Budget and publish a detailed review at the end of February. This document, the *Analysis of the Budget Bill*, includes individual department reviews and recommendations for legislative action. A companion document, *Perspectives and Issues*, provides an overview of the state's fiscal picture and identifies some of the major policy issues confronting the legislature. These documents help set the agenda for the work of the legislature's fiscal committees in

developing a state budget. LAO staff works with these committees throughout the budget process and provides public testimony on the Office's recommendations.

LAO also reviews requests by the administration to make changes to the budget after it is enacted; prepares special reports on the state budget and topics of interest to the legislature; and prepares fiscal analyses of all proposed initiatives (prior to circulation) and measures that qualify for the statewide ballot.

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## MAJOR PROJECTS

### Health Coverage for Low-Income Families

In *A Model for Health Coverage of Low-Income Families* (June 2, 1999), LAO notes that roughly two million low-income children and parents, primarily in working families, do not have health coverage for a variety of reasons. Most working parents (particularly in two-parent families) do not qualify for Medi-Cal, and Healthy Families only covers children. Many children, although eligible for either Medi-Cal or Healthy Families, are not enrolled in those programs (and therefore do not have health coverage), due in part to complex and confusing eligibility requirements and procedures. Furthermore, the complexity of the current eligibility requirements produces seemingly arbitrary results; similarly situ-

ated families are treated differently (some are eligible for coverage while others are not), depending on their particular work histories, marital status and history, and subtle differences in vehicle ownership. According to LAO, the existing system also results in episodic coverage, with people not enrolling until they have significant health problems. Waiting until a health problem becomes acute often results in less effective treatment and higher costs. In addition, the episodic nature of the coverage, along with the general complexity of the system, results in high administrative costs.

To assist the legislature in its evaluation of pending proposals to expand and simplify health coverage for families, LAO developed a model to provide health coverage for families of low incomes. LAO's "Family Coverage Model" restructures the existing Medi-Cal and Healthy Families programs to provide unified family coverage, expands coverage

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to families with incomes up to 250% of the poverty level, simplifies eligibility to reduce administrative costs, encourages regular and preventive care by limiting retroactive coverage, and maximizes the use of federal funding. By restructuring and

simplifying these programs, LAO's model achieves administrative savings that offset a portion of the cost of expanded coverage. The model is designed to work with, rather than "crowd out," job-based coverage. It includes sliding-scale premiums and excludes families that already have job-based coverage from participating, in order to target the program at the uninsured and minimize crowd-out (the replacement of private coverage with public coverage). The model, however, also includes a "buy-in" approach that lets uninsured low-income families participate in coverage offered by their employer at a reasonable cost to the family while using the employer contribution to reduce state costs. Finally, the model promotes competition and choice by offering families a selection of health plans.

LAO estimates that between 900,000 and 1.4 million additional parents and children would obtain health coverage under its model. The net state cost of providing this additional coverage would range from about \$188 million to \$385 million, depending upon enrollment.

### Water Transfers

In *The Role of Water Transfers in Meeting California's Water Needs* (September 8, 1999), LAO examines California's water supply and demand picture, and the role and purpose of "water transfers"—the transfer of water from

# STATE OVERSIGHT AGENCIES

one party with extra water to another party with temporary or ongoing water needs—in alleviating water shortages and more efficiently allocating this scarce resource. The Department of Water Resources projects significant future-year water shortages in the state, unless actions are taken to increase supplies, reduce demand, or manage the use of water resources better. Water transfers are one potential “management” tool to address water needs.

Water transfers refer to the permanent sale or the short- or long-term lease of part or all of a right to use or be supplied water. Most transfers involve a transfer of the water, not the underlying right. Water transfers in and of themselves do not generate new sources of water. Rather, water transfers are a mechanism to reallocate water among water users, thereby making water more widely available for use on a statewide basis.

Water transfers in California date back to the Gold Rush. An 1859 California Supreme Court decision found that water rights can be transferred like any other property. Interest in water transfers grew particularly in the 1970s and 1980s, when various studies recommended water transfers as an alternative strategy to building new facilities to meet increasing demand. Various legislation enacted in the 1980s provided that it is the policy of the state to facilitate voluntary water transfers. [9:1 CRLR 1] However, few

long-term water transfers have taken place. LAO’s interviews revealed a wide range of problems with the existing “state of affairs” for water transfers in California. For example, most stakeholders agree that existing state law on water transfers does not reflect a clear and consistent policy, and that the state does not have a comprehensive database of information on transfers that are taking place and on the impact of these transfers. According to stakeholders, the lack of a clear statutory policy and comprehensive database impedes transfers and undermines third-party protection. Transfer proponents are concerned that there are impediments to transfers relating to (1) certainty of water rights, (2) the capacity of conveyance facilities to transfer water and the cost to use these facilities, and (3) other transaction costs, such as the costs to attain required public agency approvals. Other parties have concerns about the level of protection afforded “third parties” impacted by transfers (the environment, other water users, the local economy, etc.), viewing such protection as sporadic and inadequate under current law.

To address these problems, LAO recommended that the legislature: (1) consolidate water transfer law into a single act, with a consolidated set of criteria consistent with clearly stated goals; (2) establish a water transfer information office

in the state Water Resources Control Board to coordinate agency review functions, establish baseline data on transfers, assist in the evaluation and mitigation of adverse transfer impacts, and provide forecasts of available capacity in conveyance facilities for transfers; (3) expand public disclosure of certain proposed transfers; (4) strengthen the statutory protection of water rights when a transfer takes place; (5) clarify the statutory definition of “fair compensation” to be paid to use a public conveyance facility for a transfer; and (6) establish in law criteria for transfers that provide more consistent and comprehensive third-party protection, and authorize assessment of a water transfer fee to ensure appropriate state agency review of transfer impacts.

## Other Reports

LAO also issued the following reports between May 1 and October 31, 1999: *Opportunities and Challenges for the State: The Headwaters Forest* (May 1999); *A K-12 Master Plan: Starting the Process* (May 1999); *Substance Abuse Treatment in California: Services Are Cost-Effective to Society* (July 1999); *California and the 2000 Census* (July 1999); *Higher Education “Compacts”: An Assessment* (August 1999); and *California Meets Federal Work Participation Rates for CalWORKs in 1998* (August 1999). In addition, LAO published the *Overview of the 1999-00 May Revision* to the Governor’s proposed 1999–2000 budget on May 17; *Major Features of the 1999 California Budget* on June 22; *Supplemental Report of the 1999 Budget Act, 1999-00 Fiscal Year* on June 23; and a number of other short updates and briefs.

**LAO examines California’s water supply and demand picture, and the role and purpose of “water transfers”—the transfer of water from one party with extra water to another party with temporary or ongoing water needs—in alleviating water shortages and more efficiently allocating this scarce resource.**

## LEGISLATION

**SB 943 (Dunn)**, as amended July 8, extends the January 1, 2000 sunset on the property tax law that permits local agencies to rebate property tax revenues to January 1, 2003, and requires the Legislative Analyst to prepare and submit a report to the legislature by January 1, 2002 which includes information regarding the tax rebate provisions and jobs created by local agencies utilizing the tax rebate provisions. The Governor signed this bill on August 30 (Chapter 274, Statutes of 1999).

**AB 945 (Maldonado)**, as amended in June 1999, would—among other things—require LAO to conduct a study to determine what entity is fiscally responsible for providing specialized health care services to pupils with exceptional needs, and report the results of the study to the legislature and Governor on or before February 15, 2001. [S. Ed]

**AB 1566 (Lowenthal)**, as amended in July 1999, is no longer relevant to LAO.