



The California Constitution requires that the legislature establish a prudent state reserve fund in an amount it deems reasonable and necessary. This measure instead would require that the budget bill enacted for each fiscal year provide for a state reserve fund in an amount equal to 3% of the total of expenditures authorized to be made from the general fund for that fiscal year. This measure would authorize the legislature to appropriate money deposited in the state reserve fund pursuant to the vote requirements set forth in current provisions of the California Constitution, or upon a majority vote for the funding of any programs for which funding is appropriated in the current budget act. This measure would provide further that the minimum amount required to be deposited in the state reserve fund for the 1997-98 fiscal year shall be equal to one-third, and for the 1998-99 fiscal year shall be equal to two-thirds, of the amount that otherwise would be calculated for that fiscal year. The measure also would reduce the minimum amount to be deposited for each of the two fiscal years succeeding a fiscal year in which the year-end balance in the state reserve fund is less than 50% of the amount required to be deposited in the fund for that year.

The California Constitution empowers the Governor to reduce one or more items of appropriation while approving other portions of a bill, including the budget bill. This measure would require that the annual budget bill include a budget adjustment plan that would set forth budget adjustments to reduce appropriations for that fiscal year or increase general fund revenues, or both, as necessary to eliminate designated imbalances in the general fund budget, as identified by one or more quarterly reports prepared by the Department of Finance and certified for accuracy by the Legislative Analyst. The measure would require that separate legislation be enacted to identify the conditions under which the Governor is authorized to implement the budget adjustments and, in the event of the exercise of that authority, to make any changes in law that are necessary to the implementation of that plan. The measure would provide that the separate legislation would take effect immediately upon enactment, and would be exempt from the two-thirds-vote requirement that applies to general fund appropriations. The measure would specify that the budget bill would not become operative prior to the operative date of that separate legislation.

Under the California Constitution, appropriations from the general fund, except appropriations for the public schools, re-

quire the approval of two-thirds of the membership of each house of the legislature. This measure would specify that the provisions described above would apply to the budget and budget bill for the 1997-98 fiscal year and each subsequent fiscal year, and would be operative for all purposes commencing on July 1, 1997. This measure would additionally exempt appropriations in the budget bill from that two-thirds-vote requirement, and would specify that a statute enacting a budget bill go into effect immediately upon its enactment. [S. RIs, B&FR, CA]

**SB 1 (Alquist).** The Office of Information Technology in the Department of Finance is charged with identifying new applications for information technology, improving productivity and service to clients, and assisting agencies in designing and implementing the use of information technology; OIT operates under the direction of the Director of the Office of Information Technology, who is prescribed specified responsibilities. As introduced December 5, this bill would replace OIT with the Information Services Agency and that Agency would be managed by the Secretary of Information Services, who would have prescribed responsibilities. The Agency would be charged with improving the state's ability to apply information technology effectively, and assisting state agencies in identifying, designing, and implementing these applications. This bill would require the Information Services Agency or its secretary to, among other things, create a Department of Information Services within the Agency to perform the operational duties and responsibilities of the Agency, including performing the duties and responsibilities of the former OIT, as modified; consolidate state information technology services in a manner to be determined by the executive branch, which may include the consolidation of existing data centers; establish policies regarding an independent validation and verification of state information technology projects; perform responsibilities currently performed by the Department of General Services with respect to the acquisition of information technology and telecommunication goods and services; and form user committees and advisory committees. [S. GO]

## ASSEMBLY OFFICE OF RESEARCH

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Established in 1966, the Assembly Office of Research (AOR) brings to-

gether legislators, scholars, research experts, and interested parties from within and outside the legislature to conduct extensive studies regarding problems facing the state.

Under the director of the Assembly's bipartisan Committee on Policy Research, AOR investigates current state issues and publishes reports which include long-term policy recommendations. Such investigative projects often result in legislative action, usually in the form of bills.

AOR also processes research requests from Assemblymembers. Results of these short-term research projects are confidential unless the requesting legislators authorize their release.

## MAJOR PROJECTS

**The Status of Wine-Related Research in California and the United States: A Survey and Analysis** (September 1994) describes and compares the status of wine-related research projects, funding, and public-private partnerships in California, other U.S. wine producing states, and two major global wine producers, Australia and France. AOR prepared the report at the request of Assemblymember Dominic Cortese, Chair of the Assembly Select Committee on California Wine Production and Economy, to quantify current levels of research and provide the basis for discussions involving government, industry, and the research community.

AOR surveyed wine industry organizations in the major wine producing states and Australia and France in order to gather data necessary to evaluate support for wine research in California compared with other states and countries. The report discusses the current status of research projects and funding of the wine industry, based upon telephone interviews with U.S. university researchers in seven wine producing states, and summarizes the status of wine production and sales, government-private cooperative efforts, and research funding and priorities in Australia and France. AOR's major findings are as follows:

- California's wine industry spends only .1% of its \$4 billion in annual sales revenue for research.

- California's wine and grape industry spends more for research than all other states; however, while 92% of U.S. wine production occurs in California, only 54% of total U.S. research funds were allocated to the state in 1993.

- Total grape- and wine-related research estimates in California amounted to over \$1.7 million in fiscal year 1993-94, including grant and contract funding



from both public and private sources; an additional \$2.5 million in public funds was allocated for general support of enology and viticulture at the University of California, bringing total state research funding to approximately \$4.3 million.

• In research funds spent, California came up short in comparison to international wine competitors. France, with a wine industry which is four times the size of the United States', spends more than \$50 million annually on research—more than twelve times the funding for California. Australia, with less than one-third of the U.S. volume, also spends more on research than does California.

AOR concluded that more funding is needed to ensure the long-term health and competitive position of the California wine and grape industries and that, if more funding is unavailable, the Select Committee and other state government representatives should ensure that research efforts are not duplicated and research projects are directed toward long-term objectives to maximize competitiveness in the world market. The report recommends formation of public-private partnerships to provide stable funding, ensure that research benefits are shared among all the partners, and minimize the risks associated with long-term research projects.

**An Introduction to the California Budget** (December 1994) provides a summary of California's fiscal history and an overview of the state's current fiscal issues; the report was prepared by AOR for new Assemblymembers to ensure their effective participation in the annual budget debate and to enable all members to inform their constituents about budget issues and options.

The general fund is the account in which state revenues are deposited to pay for most state operations; the major revenue sources for the general fund are personal income tax, sales tax, and bank and corporation tax. According to AOR, recent trends for per capita revenue from each of the major general fund revenue sources fall below prior trend lines. The report attributed declining general fund revenues to per capita income decline since 1979; changes in income distribution (notably an increase in higher- and lower-income taxpayers and a steady decline of middle-income taxpayers); a shift in the economy from goods to services; recession; and policy decisions, including those resulting in income tax indexing, goods taxed versus services taxed, and special tax status for small corporations.

A special fund is an account for the deposit of state revenues in which the use of the funds is dedicated by law to a spe-

cific purpose; major revenue sources for special funds are motor vehicle-related fees and fuel taxes, and a portion of the sales and cigarette taxes. The AOR report shows that total revenue production for special funds has roughly doubled on a per capita basis between 1981 and 1991. AOR attributes such growth to gas tax increases; transfer of sales tax and motor vehicle-related revenue; and creation of new special funds and increases in taxes on alcohol and tobacco products. The report notes that special funds may be causing problems for the general fund, because many special funds are not subject to the legislative oversight regularly given to general fund expenditures. AOR reports that 34 new special funds were created in 1991-92 and 60 were created in 1992-93.

According to AOR, general fund spending priorities have changed over time. For example, between fiscal years 1982-83 and 1992-93, a greater share of the general fund was spent on K-12 education and corrections, while a relatively smaller share was spent on higher education and tax relief. Moreover, within the higher education spending category, general fund spending shifted from the University of California and California State University to the community college system. AOR stated that economic and demographic trends, court- and voter-mandated requirements, and policy choices have influenced the level of expenditures for particular programs; for example, AOR identified spending on corrections, expansion of eligibility for Medi-Cal costs, reduction of higher education budgets through student fee increases, and lower grant levels for welfare recipients as policy choices that have impacted general fund spending.

AOR explained that the term "budget gap" means the difference between the workload budget and available revenues; AOR reported that California has experienced budget gaps for the last five years. Attempts to balance the budget have included a varying mixture of expenditure reductions, revenue increases, cost shifts to local government, cost deferrals, special funds actions (transfers or loans), and accounting and other miscellaneous strategies.

The AOR report concluded by presenting several suggestions for 1995-96 and beyond. According to AOR, the state should:

- increase state revenues by increasing the sales tax rate, revising personal income tax to eliminate the effect of indexing, adding a new 12% top income tax rate for higher-income taxpayers, creating revised tax brackets, increasing bank and corporation taxes, repealing special status for small corporations, and adopting the

federal method for taxing social security and unemployment benefits;

- adapt the revenue system to focus on services rather than goods;

- bring all special funds into the budget process for annual appropriations and provide staggered sunset review of all special funds to determine the appropriateness of continuing to use special funds for the designated special purposes, assess the cumulative fiscal impact of special funds on the ability of the general fund to meet special needs, and evaluate the transfer of special fund revenue to the general fund;

- bring all tax expenditures into the budget process for annual appropriations and provide staggered sunset review of all tax expenditures, following steps recommended by the Legislative Analyst;

- consider budget cuts for selected categories of budget expenditures, including K-14 education, Medi-Cal, welfare, disability aid, services to the developmentally disabled, higher education, and youth and adult corrections;

- consider that the projected number of inmates, school children, and welfare, disability, and Medi-Cal recipients is expected to increase faster than the rate of population growth, while current trends indicate that general fund revenue growth is flat or declining and Medi-Cal costs are increasing;

- consider that the total operating cost increase from the new "three strikes" law is approximately \$2.4 billion and the cost of building new prisons to accommodate the "three strikes" population increase is approximately \$3.5 billion, in addition to other expenditures attributed to "three strikes" (see agency report on OFFICE OF THE LEGISLATIVE ANALYST for related discussion);

- consider restructuring the state-local relationship to transfer responsibility and funding from the state to counties for health, social service, public safety and trial court programs; and

- consider investments in infrastructure for state and consumer services, transportation, resources, health and welfare, youth and adult corrections, K-12 education, and higher education.

**Workforce Training Resource Guide** (January 1995) was prepared by AOR for the Assembly Subcommittee on Workforce Training, Development, and Education Support; this Subcommittee, which was created within the Assembly Committee on Higher Education in February 1994, is seeking to develop legislation needed to ensure that a high-performance, diverse, technically competent, and economically self-sufficient workforce is created for California's present and future job market.



According to AOR, in preparation for determining the needed legislation, the Subcommittee conducted the following activities during 1994:

- It convened a panel to discuss industry's role in developing a quality workforce. The discussion focused on the California Business Roundtable's report, *Mobilizing for Competitiveness*. The panel included representatives from the State Council on Vocational Education, Regional Occupational Centers, University of California, Council on Private Postsecondary and Vocational Education, California State University, Governor's Office of Child Development, California Community Colleges, and Employment Training Panel.

- It convened another panel to discuss education's role in developing a quality workforce. This discussion focused on the California High School Task Force report, *Second to None*. This panel included representatives from the Assistant Superintendent of Secondary Education, Elk Grove Unified School District, Council on Vocational Education, Commission on Teacher Credentialing, Center for Research in Vocational Education, Governor's Office of Child Development, State Job Training Coordinating Council, and California Community Colleges.

- It convened a third panel to discuss various state agencies' roles in providing quality, efficient, and accountable workforce training programs. The discussion focused on workforce training from the perspective of economic development, changing demographics, high-tech workplace skills, and return on public investment to build an educational infrastructure that supports industry/business needs. This panel included representatives from the Employment Development Department, Department of Education, California Community Colleges, Employment Training Panel, Trade and Commerce Agency, California Manufacturers Association, California Industrial Leadership Council, State Council on Vocation Education, Council on Private Postsecondary and Vocational Education, University of California at Los Angeles, California State University at Sacramento, and the Governor's Office of Child Development and Education.

The purpose of AOR's *Workforce Training Resource Guide* is to identify resources that address workforce development. The Guide includes information on federal and state resources, grants, legislation, and the latest reference materials.

## SENATE OFFICE OF RESEARCH

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Established and directed by the Senate Committee on Rules, the Senate Office of Research (SOR) serves as the bipartisan, strategic research and planning unit for the Senate. SOR produces major policy reports, issue briefs, background information on legislation and, occasionally, sponsors symposia and conferences.

Any Senator or Senate committee may request SOR's research, briefing, and consulting services. Resulting reports are not always released to the public.

### MAJOR PROJECTS

**Law Enforcement's View: The Growing Menace of Fraud in California** (December 1994) focuses on the status of the white-collar crime of fraud in California. In preparing its report, SOR surveyed district attorneys' and sheriffs' offices in all 58 California counties and police departments in the state's 15 most populous cities; according to SOR, the survey responses indicate that fraud is on the rise. For example, the Sacramento County District Attorney's Office reported that consumer protection complaints have more than doubled from 1989 to 1993; the Santa Clara County District Attorney's Office reported that fraud complaints during 1993-94 rose 26% from the previous year; and the FBI's Los Angeles office called Los Angeles "the financial fraud capital of the world." SOR found that losses resulting from white-collar crimes dwarf those associated with other crimes; in Los Angeles County, losses from economic crimes total approximately \$2 billion per year, while financial losses associated with murders, rapes, burglaries, and thefts during 1992 were \$1.3 billion.

Prosecutors responding to the SOR survey expressed frustration about the lack of resources and funding available to adequately address the growing fraud problem. One representative of the state's Attorney General's Office, which disbanded its fraud unit three years ago and assigned those prosecutors to other areas, told SOR that fraud cases are "not cost-effective"—prosecutions are extremely labor-intensive and recovery of the money is rare. Also, prosecutors are often reluctant to prosecute fraud cases because of budget constraints, insufficient resources, and priorities that focus on violent crimes. The police and sheriffs' departments surveyed also expressed frustration about their inability to address white-collar crimes due

to lack of funding, training, and statewide coordination.

According to SOR, real estate fraud merits special attention because long-time homeowners can lose their homes through high-interest loan schemes, forged deeds, or other trickery, and victims often must hire lawyers to pursue remedies; these frauds seem to occur most frequently in South Central or East Los Angeles, where there is a dearth of lending institutions to provide alternative loans to residents. SOR states that African Americans and Latinos are favorite targets of real estate swindlers because those minorities are more likely to be turned down for conventional loans than whites. Homeowners with high equities are also easy targets; swindlers simply forge signatures on phony deeds to homes that have high equities, and then take out huge loans on the property.

Prosecutors and investigators surveyed by SOR offered several descriptions of emerging scams that have come to their attention in recent years. Such scams include phony identification card schemes, automated teller machine (ATM) fraud, computer programming fraud, small business fraud, airline ticket fraud, low-technology embezzlement, phony bank examiner schemes, meat packaging fraud, and "Ponzi" or pyramid schemes. SOR reports that penalties for these white-collar crimes are often inadequate, as the maximum penalties fail to reflect the full damage inflicted by con artists. Moreover, judges rarely impose maximum penalties for white-collar crimes because there is a tendency to overlook the seriousness of non-violent crimes.

The SOR report concludes with the following recommendations, offered by investigators and prosecutors throughout California for addressing fraud in the state:

- Merchants should be required to obtain thumbprints from those who use checks and credit cards; inkless pads are available for this procedure, which would compensate for the ease with which crooks can obtain phony identification.

- Fraud against the elderly should be penalized more severely, given their vulnerability and the frequency with which they are targeted for scams.

- Statistics on the commission of financial crimes should be collected and maintained in a uniform fashion at local and state levels to allow a more accurate assessment of the impact of fraud; this would be a first step in determining the adequacy of resources to combat it.

- A more comprehensive statewide database would permit better tracking of the targets of local fraud investigations