



## OFFICE OF THE LEGISLATIVE ANALYST

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Created in 1941, the Legislative Analyst's Office (LAO) is responsible for providing analysis and nonpartisan advice on fiscal and policy issues to the California legislature.

LAO meets this duty through four primary functions. First, the office prepares a detailed, written analysis of the Governor's budget each year. This analysis, which contains recommendations for program reductions, augmentations, legislative revisions, and organizational changes, serves as an agenda for legislative review of the budget. Second, LAO produces a companion document to the annual budget analysis which paints the overall expenditure and revenue picture of the state for the coming year. This document also identifies and analyzes a number of emerging policy issues confronting the legislature, and suggests policy options for addressing those issues. Third, the Office analyzes, for the Assembly Ways and Means Committee and the Senate Appropriations and Budget and Fiscal Review Committees, all proposed legislation that would affect state and local revenues or expenditures. The Office prepares approximately 3,700 bill analyses annually. Finally, LAO provides information and conducts special studies in response to legislative requests.

LAO staff is divided into nine operating areas: business and transportation, capital outlay, criminal justice, education, health, natural resources, social services, taxation and economy, and labor, housing and energy.

### MAJOR PROJECTS

**LAO Reviews 1994-95 State Budget.** On July 8, Governor Wilson signed the 1994 Budget Act, along with various trailer bills which make substantive statutory changes necessitated by the new budget. All together, the legislation authorizes total state spending of \$57.5 billion, consisting of \$40.9 billion from the general fund, \$13.7 billion from special funds, and \$2.9 billion from selected bond funds; this represents an increase of 5.9% in total state spending over 1993-94.

On July 13, LAO released *Focus: Budget 1994*, which reports on the major features of the budget package. According to LAO, the 1994 budget package represents a two-year plan for balancing the state's budget. California will end the 1994-95 fiscal year with a deficit in its reserve fund

of approximately \$1 billion; this deficit is expected to be eliminated by the end of the 1995-96 fiscal year, leaving a small reserve of \$23 million. The 1995-96 figures are based upon the administration's estimates of revenues and expenditures for that year, including adjustments to reflect the 1995-96 impacts of actions taken pursuant to the budget agreement. Among other things, the administration's budget estimates of revenues assume that the state's economy will continue its recovery from the recession and show modest but steady growth through 1996, and that the federal government will provide \$3.6 billion over the two-year period in new federal immigration-related assistance.

LAO also discussed a feature of the budget agreement known as the standby "trigger" mechanism, which is intended to ensure that the two-year budget plan stays on track; the trigger mechanism, which requires automatic spending cuts to be implemented under specific conditions, could be activated in either 1994-95 or 1995-96 if the state's cash position deteriorates and is not corrected by legislative action.

Further, LAO explained how the budget package attempts to close the \$4.6 billion budget gap which LAO has estimated will otherwise occur at the end of the 1994-95 fiscal year. [14:2&3 CRLR 23-24] According to LAO, the budget shifts \$1.5 billion—approximately one-third of the total budget funding gap—to other levels of government; includes cost deferrals and revenue accelerations of \$1.4 billion; reduces program expenditures—including Aid to Families with Dependent Children (AFDC) and Medi-Cal—by \$1.1 billion; and includes increased resources of approximately \$600 million.

Additionally, the LAO report addressed the effect of the 1994-95 budget on five major segments of state government: health and welfare, Proposition 98 education, higher education, judiciary and criminal justice, and general government. Among other things, LAO made the following statements regarding the 1994-95 budget:

- The budget authorizes expenditures of approximately \$14 billion on health and welfare programs; this represents an increase of \$445 million, or 3.3%, over estimated general fund spending for these programs in 1993-94. However, the 1994 figure assumes receipt of \$407 million in federal funds for the costs of health and social services provided to undocumented persons and refugees, and a substantial increase in federal funds to reimburse counties for administrative and case management services provided to Medi-Cal beneficiaries. The Governor's budget re-

duces the maximum AFDC grant by 2.3% beginning September 1, reduces the \$70 monthly special needs payment for pregnant women on AFDC to \$47, and—effective January 1, 1995—prohibits increases in AFDC grants for children conceived while on aid.

- The budget provides \$24.9 billion in Proposition 98 funding for K-12 educational programs; this exceeds the actual amount provided in 1993-94 by \$520 million.

- Annual fees for students enrolled in University of California schools will increase by \$345 to \$3,799; annual fees for students enrolled in California State University schools will increase by \$144 to \$1,584; and annual fees for students enrolled in California community colleges will remain at \$390.

- The budget for judiciary and criminal justice programs includes \$4.6 billion from the general fund and \$256 million from state special funds, for a total of \$4.8 billion in state funds; the general fund amount represents an increase of \$351 million, or about 8.3%, above estimated spending for these programs in 1993-94.

- The legislature passed AB 2385 (Committee on Ways and Means) to raise both judges' and the state's contribution rates paid into the Judges' Retirement System from 8% to 11% of judges salaries, effective January 1, 1995; this would have reduced general fund costs by a total of \$7 million over 1994-95 and 1995-96. [14:2&3 CRLR 24-25] On July 9, however, Governor Wilson vetoed the measure (see LEGISLATION).

**Bonds and the November 1994 Ballot** (August 1994) is a policy brief in which LAO discussed several bond measures which were scheduled to appear on the November 1994 ballot; at the time of LAO's report, the legislature was deciding which, if any, additional general obligation bond measures to place on the November 1994 ballot.

According to LAO, tens of billions of dollars will be needed over the next five years to meet the state's currently-identified capital outlay needs; only \$1.3 billion of previously authorized general obligation bonds is available to address these needs. Further, LAO commented that the state's annual debt burden has risen sharply in recent years; in 1994-95, the state will pay an estimated \$2.2 billion in debt service on general obligation and lease-payment bonds. These debt costs are a direct trade-off to using general fund monies for support of other state programs. LAO also noted that how well the state addresses its capital outlay needs will influence the state's future competitiveness, economic growth, and Californians'



quality of life. To determine the level of debt the state should assume, LAO believes the legislature should focus on the trade-off between using state revenues to pay debt service on bonds to address the state's capital needs versus using these revenues to support or enhance other state programs. Additionally, the legislature should consider the following factors in making decisions regarding additional bond measures: whether the capital outlay program is clearly a state responsibility; if the program is a local responsibility, why the state should assist with funding; whether there are ways to reduce capital outlay needs; whether the capital outlay program is urgently required for health and/or safety purposes; and whether funding will be available to operate and maintain the capital investments.

**Information Technology: An Important Tool For a More Effective Government** (June 1994) is LAO's review of the state's use of information technology (IT) as part of California's operational infrastructure. According to LAO, the state spends over \$1 billion every year on IT—\$1 out of every \$23 spent on state operations; since 1983–84, these expenditures have increased 158%. The Office of Information Technology (OIT) in the Department of Finance is the organization responsible for overseeing the use of IT in the state, although the Department of General Services has primary control over certain aspects of the state's telecommunications.

While acknowledging many significant advances in the state's deployment and uses of IT, LAO found that fundamental problems still prevent the state from realizing a better return on its IT investments; according to LAO, these problems also contribute to repeated failed efforts to develop computer-based systems on time, within cost, and which produce anticipated benefits. Among other things, LAO found that there is no centralized, effective leadership to chart and guide the state's course for its growing reliance on IT; there is no statewide plan for information technology; there is a redundancy of data maintained in separate computer systems; non-compatible computing systems continue to proliferate; and there is inadequate coordination of the activities of major data centers. Additionally, despite the expenditure of billions of dollars to implement IT, neither the executive, judicial, nor legislative branches of government can easily access the mountain of data stored in the state's computer files and convert it to useful information.

Specifically, LAO identified eleven projects which have experienced signifi-

cant problems in the implementation of new IT systems. For example, the Department of Motor Vehicles spent \$40 million on an unsuccessful database redesign (*see* report on BUREAU OF STATE AUDITS for related discussion); cost increases, delay, and reduced net benefits have plagued the Department of Social Services' statewide automated welfare system project; and a new system of imaging technology for the Secretary of State failed and was abandoned.

In order to ensure better IT project successes, LAO recommended that the state certify departments as to their ability to implement a proposed IT project; train and certify project and contract managers; document poor and superior contractor performance and maintain a central, online computer file regarding such contracts accessible by state agencies; require independent, qualified review of complex projects; require that feasibility study reports identify the need for outside assistance and include the associated costs; and, where practical, fund major projects only through a pilot or prototype phase, so that full implementation costs, schedules, and benefits can be more accurately projected.

**Proposition 172—How Did it Affect Spending for Public Safety?** (June 1994) is LAO's review of the implementation of Proposition 172, which established a permanent statewide half-cent sales tax for support of local public safety functions in cities and counties. [14:1 CRLR 23; 13:4 CRLR 25] The measure, which was approved by voters at the November 1993 election, was placed before the voters by the legislature and the Governor as partial mitigation for the property tax transfers included in the 1993–94 state budget agreement. In its report, LAO reviewed how counties—the primary beneficiaries of Proposition 172—have budgeted the funds in 1993–94 and assesses the impact of proposed public safety "maintenance of effort" (MOE) requirements on county budgets. Among other things, LAO found the following:

- Counties will spend approximately \$5 billion statewide for public safety functions in 1993–94, an increase of about \$100 million over the 1992–93 level of spending.

- Enactment of Proposition 172 prevented 1993–94 reductions in county expenditures for public safety totalling roughly \$700 million statewide.

- Three measures then pending before the legislature which would impose MOE requirements—AB 3746 (Mountjoy), ABX 142 (Mountjoy), and AB 2788 (W. Brown)—would result in large, immediate, and ongoing expenditure reductions for non-

public safety programs in most counties, roughly on the order of \$1.4 billion statewide.

- Any MOE requirement reduces local discretion to tailor the mix of services at the local level to meet local needs and reduces the accountability of local officials; this will be especially true over time as county fiscal conditions continue to erode.

In conclusion, LAO recommended that because Proposition 172 has resulted in counties spending more for public safety in 1993–94 than otherwise would have happened, and because LAO believes it is important that some measure of local discretion be maintained with respect to local budget decisions, local governments should be given the maximum possible control over their budgetary decisionmaking.

**The President's Welfare Reform Proposal: Fiscal Effect on California** (August 1994) is LAO's assessment of President Clinton's welfare reform proposal, which is generally designed to facilitate employment for AFDC recipients. According to LAO, the major features of the reform proposal would make the current JOBS Program (GAIN in California) more employment-oriented, and phase in its participation starting with AFDC parents born after 1971; establish a two-year time limit on JOBS and require those who reach this time limit to participate in a new WORK Program, which would place individuals in jobs paying wages subsidized in whole or part by the government; make other AFDC program changes, including increasing the resource limits for AFDC eligibility; and adopt various changes in the child support enforcement program.

Among other things, LAO concluded that the proposal would result in five-year state costs (state and county funds) of about \$400 million; these costs may be offset at least in part by unknown savings from reduced dependency on AFDC, due primarily to increases in employment and increased child support collections. Also, state costs beyond the five-year timeline would increase significantly as more AFDC recipients are phased into the JOBS and WORK programs; in the sixth year of welfare reform, for example, state costs for the WORK Program would be \$130 million. Finally, LAO found that the single largest cost to the state (about \$245 million over five years) is not the result of providing employment and training services through the JOBS and WORK programs; rather, it is due to increasing the AFDC resource limits, thereby making more individuals eligible for aid. According to LAO, removing this provision from



the proposal would result in a 50% reduction in California's projected five-year costs.

## LEGISLATION

**AB 2385 (Assembly Committee on Ways and Means).** The existing Judges' Retirement Law requires the state and judges to contribute 8% of their monthly salary to the Judges' Retirement Fund. As amended July 1, this bill would have increased the state and the member contribution rate of persons who first became judges on or after September 18, 1959, from 8% to 11%, thereby increasing the amount of the state's contribution from the general fund and the amount paid into a continuously appropriated fund. Governor Wilson vetoed this bill on July 9, suggesting instead that the legislature adopt a "reasonable reform proposal" drafted by the Judicial Council, with modifications as suggested by Wilson. However, the legislature took no such action before it recessed (*see* MAJOR PROJECTS).

**AB 2790 (Lee),** as amended August 27, would have required the Legislative Analyst to request the Director of General Services to solicit bid proposals for an independent contract for a statewide study of businesses owned and operated in the state by minorities, women, or disabled persons, and to award the contract to a contractor that meets certain requirements; required the Legislative Analyst, within a specified time period prior to the award of the contract, to submit, for review by the appropriate policy and fiscal committees of the legislature, specified information regarding the award of the contract; specified when the study is to be completed, and required the Legislative Analyst to submit a final report of the study's findings to the Governor and the legislature not more than three months following completion of the study; and required the Legislative Analyst to designate an advisory group to aid in the selection of the contractor. This bill was vetoed on September 25 by Governor Wilson, who stated that such legislation is unnecessary in light of SB 718 (Roberti) (Chapter 1208, Statutes of 1991), which directs the University of California to conduct a "disparity study" using private funds; however, as the Governor's veto message acknowledges, no such private funding has yet been identified.

**AB 625 (Archie-Hudson),** as amended August 24, would have—among other things—required the Legislative Analyst to transmit to the legislature and the Governor, by April 1, 1996, recommendations and proposals for legislation concerning an assessment of alternative organiza-

tional structures for implementing the federal State Postsecondary Review Program. Governor Wilson vetoed this bill on September 30.

**AB 1487 (Burton).** Under existing law, legislative employees who had two or more years of service, were employed by the legislature on January 1, 1991, and who resigned or were released from service due to a force reduction before January 1, 1992, are eligible to take promotional civil service examinations for three years following their resignation or release. As amended August 8, this bill would instead have authorized legislative employees with two or more years of service who were employed with the legislature at any point in time and who resign or are released from service at any point in time to take promotional civil service examinations for two years following their resignation or release. This bill would also have specified that a person who establishes eligibility on a promotional civil list and who has resigned or been released from LAO or the Office of the Auditor General maintains that eligibility for the duration of the particular list. Governor Wilson vetoed this bill on September 29.

**AB 1965 (Goldsmith).** Existing law requires each county to relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease, or accident lawfully resident therein, when these persons are not supported and relieved by their relatives and friends, by their own means, or by state hospitals or other state or private institutions. These programs are commonly referred to as county general assistance programs. Existing law, effective until January 1, 1995, authorizes each county to adopt general assistance residency requirements, discontinue general assistance benefits, and establish a standard of general assistance for applicants and recipients who share housing with one or more unrelated persons or with one or more persons who are not legally responsible for the applicant or recipient under specified circumstances. As amended August 9, this bill extends these provisions until January 1, 1997, except that it eliminates the authority to establish a general assistance standard for recipients who share housing. The bill requires the Legislative Analyst to conduct an evaluation of the impact of these residency and benefit discontinuance provisions. This bill was signed by the Governor on September 27 (Chapter 952, Statutes of 1994).

The following is a status update on bills reported in detail in CRLR Vol. 14, Nos. 2 & 3 (Spring/Summer 1994) at pages 25–26:

**AB 2711 (V. Brown),** as amended August 26, enacts the State Government Strategic Planning and Performance Review Act and requires the Controller, the Department of Finance (DOF), and the Bureau of State Audits, in consultation with the Legislative Analyst, to develop a plan for conducting performance reviews of all state agencies. This bill requires DOF to survey state agencies to obtain specified information concerning strategic plans and to identify state agencies for which DOF recommends the development or updating of a strategic plan. Those identified agencies would be required to develop a strategic plan and report to the Governor and the Joint Legislative Budget Committee regarding the steps being taken to develop and adopt the plan. This bill was signed by the Governor on September 24 (Chapter 779, Statutes of 1994).

**SB 1233 (Hayden),** as amended June 29, would have required the Legislative Analyst to analyze each tax expenditure program to determine if program objectives are being realized, whether each program's benefits exceed its revenue cost, and whether there is a less costly way of providing the same benefits, and to report thereon to the legislature. On August 31, Governor Wilson vetoed this bill.

**SB 1837 (Campbell),** as amended May 5, requires the Legislative Analyst, to the extent that any fiscal estimate of the annual state budget involves one or more proposed changes in state tax law having a designated fiscal impact, to prepare the estimate, except as specified, on the basis of assumptions that estimate the probable behavioral responses of taxpayers and others to the proposed changes, and to include in the fiscal estimate a statement identifying those assumptions. This bill was signed by the Governor on August 31 (Chapter 383, Statutes of 1994).

The following bills died in committee: **SB 2012 (Torres),** which would have required the Legislative Analyst to conduct a study reviewing the parimutuel license fee structure of the six major United States horse racing jurisdictions; **ACA 2 (Hannigan),** which would have provided that statutes enacting budget bills shall go into effect immediately and eliminated the two-thirds vote requirement for the passage of appropriations from the general fund; **ACA 3 (Richter),** which would have, among other things, permitted one statute enacted during each calendar year of the biennium of the legislative session to embrace more than one subject if the statute makes changes in law that are directly related to the implementation of the appropriations in the Budget Act enacted that year, that fact is expressed in its title,



and the bill that enacts the statute is presented to the Governor at the same time as the bill that enacts the Budget Act; and **ACA 21 (Areias)**, which would have provided that if the Governor fails to sign a budget bill on or before June 30, then on July 1 an annual budget that is the same amount as that which was enacted for the immediately preceding fiscal year shall become the state's interim budget for the new fiscal year and the balance of each item of that interim budget shall be reduced 10% each month, commencing August 1, until a new budget bill has been signed by the Governor.

## ASSEMBLY OFFICE OF RESEARCH

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

**Defense Conversion Resource Guide, Third Edition** (July 1994). In October 1993, AOR prepared a resource guide to assist the Assembly Task Force on Defense Conversion in achieving its mission to maximize federal defense conversion funding for California and assist communities affected by military base closures and the conversion of defense-related industries in California. [14:1 CRLR 24] AOR supplemented the 1993 edition with a second edition in January 1994. [14:2&3 CRLR 26] In July, AOR published a third edition, which provides contact names for federal, state, and other resources; updates selected 1994 federal and state grant information; summarizes recent federal and state legislation affecting defense conversion; and provides a list of selected reference materials. Copies are available through the Assembly Publications Office at (916) 445-4874.

**Gender Pricing Surveys** (June 1994). At the request of Assemblymember Jackie Speier, AOR conducted two telephone surveys to determine whether California merchants charge higher prices for goods and services based on a person's gender. In the first AOR survey in March 1993, AOR surveyed hair salons and dry cleaners; for each of the services, AOR randomly selected five businesses in each of five cities—Fresno, Los Angeles, Sacramento, San Diego, and San Francisco. Representing themselves as consumers, AOR staff members inquired about prices. Ten of the 25 hair salons surveyed quoted higher prices for women's services than for similar men's services, with an average difference of \$5. Seven of the 25 dry cleaners surveyed charged more for cleaning women's suits, with an average difference of 58 cents. Larger differences, however, were found in prices for laundering men's and women's shirts or blouses; sixteen of the establishments charged more for washing women's blouses, with an average difference of \$1.71. AOR's second survey, which was completed in June 1994, showed that women also pay more than men for suit alterations at Nordstrom, Macy's, and Weinstock's; in some instances, women are required to pay \$6–\$25 for services which men receive for free.

Assemblymember Speier used AOR's surveys—which were released in June—to build support for AB 2418 (Speier), the Equal Pricing Act of 1994, which would have prohibited businesses from pricing good or services based upon gender. On September 30, however, Governor Wilson vetoed AB 2418, contending that the Unruh Civil Rights Act already prohibits unlawful gender-based pricing practices, and stating that the legislation "failed to provide explicitly that businesses do have a right to base prices upon legitimate factors." However, the Governor did approve SB 1288 (Calderon), which directs the Department of Consumer Affairs, by June 1, 1995, to provide notice to licensees of the Board of Barbering and Cosmetology that the Unruh Civil Rights Act prohibits gender-based pricing; SB 1288 was signed by the Governor on September 11 (Chapter 535, Statutes of 1994).

**AOR Investigates Department of Fish and Game.** Again at the request of Assemblymember Jackie Speier, AOR recently conducted an investigation to review allegations of illegal contracting procedures and improper use of public funds, among other things, by the California Department of Fish and Game (DFG). In December 1992, DFG regional manager James Messersmith allowed a California Department of Transportation (Caltrans) contractor to replace a Ryer Island ferry

pier with creosote-treated timber, despite state statutes which prohibit the placement of creosote-impregnated wood into state waters; creosote is a derivative of coal tar, a known human carcinogen which—according to Solano County officials—is harmful to salmon and other wildlife that inhabit Solano County's Cache Slough. The Solano County District Attorney filed misdemeanor criminal charges against Messersmith in June 1993, but agreed to drop them in April 1994 after DFG agreed to pay \$5,000 to cover court costs and to adopt a policy prohibiting the use of creosote in state waterways. Due to the Messersmith incident, Solano County was also forced to excuse a stipulated \$300,000 criminal fine against Santa Fe Railway for the same violation, noting that, "at a minimum it seems unjust to file a criminal case and fine a large reputable corporation...for creosote contamination when Fish and Game's management allows another agency to violate a strict liability law concerning water pollution." Instead of the stigma of having to pay criminal fines for allegedly dumping thousands of tons of creosoted timbers into state waterways, Santa Fe was permitted to "donate" \$300,000 to state and local accounts.

AOR conducted the investigation to determine whether Messersmith—who was later promoted—took the blame for higher government officials (including Wilson administration appointees) who may have ordered the project to go forward "despite the fact that creosote played a major role in two controversies in [Messersmith's] region in the past year, and despite the fact that his subordinates and the contractors all objected vociferously to its use." AOR's investigative report includes the following findings:

- Messersmith apparently knew (or believed) that the disposal of creosote-treated lumber in state waters is illegal under Fish and Game Code sections 5650 and 5652, because he signed an April 1992 letter citing those statutes and warning United Transportation Union that creosote dumping is unlawful. Further, during 1992, his office participated in the widely-publicized investigation of Santa Fe Railway which resulted in a multiple-count indictment against the corporation for violation of those statutes, at the exact time Messersmith was ordering his subordinates to approve Caltrans' Ryer Island ferry pier project.

- DFG apparently circumvented state contracting procedures by hiring—without the required written consent of the Attorney General's Office—a private attorney to defend Messersmith against the Solano County misdemeanor charges.