a substantial proportion of cases of child abuse and neglect, and that CWSP has not been successful in minimizing the use of foster care or in preventing reabuse.

According to LAO, the data suggest that county child protective staffing levels alone cannot explain the poor performance of CWSP. However, the veto of $55 million for CWSP in 1990-91 is likely to increase substantially the average caseloads of child welfare services social workers and decrease the time in which social workers have to manage each case. Further, the veto will reduce the availability of services such as drug treatment programs, and transform the social worker into the sole provider of treatment and support services for the majority of clients. Former Governor Deukmejian also vetoed $40 million in community mental health services, decreasing the availability of mental health counseling to abusive families.

LAO concluded that CWSP is at a crossroads, and that the major CWSP issue facing the legislature over the next several years is the level of service that will be provided to needy families. LAO suggested three options:

-permanently reducing services to abused children;

-providing the same level of service available to children since the program was restructured in 1982, by returning to the funding approach used throughout most of the 1980s; or

-enhancing the level of services by increasing the availability of treatment services for children and families.

LAO stressed that a CWSP which provides effective services to treat abusive families while minimizing the use of foster care could prove both less costly and more effective than the current program. However, LAO recognized that, in the short run, it is probably not possible to reduce costs of the program and improve its effectiveness. Thus, if a service reduction is required due to a state funding shortfall, LAO also suggested several options to effect an ongoing reduction in service levels, such as requiring counties to increase the use of telephone screening of child abuse referrals; limiting family maintenance services to those families which have been ordered by the Juvenile Court to receive them; and shortening the length of time that families are permitted to receive child welfare services.

The report offers several recommendations to improve the efficiency and effectiveness of current services. Legislation could be enacted to require counties to screen clients for existing health insurance that would pay for services, and charge clients for services on a sliding-scale basis. LAO also recommends that DSS identify those counties with the most efficient and effective use of social worker time and make statewide use of their methods. Recognizing the wide variation in child abuse telephone screening, LAO recommends legislative requirement of statewide standards.

Despite strict requirements on certain people (such as teachers and health practitioners) to report suspected child abuse, LAO found a large number of unreported cases and recommended a review of current training programs on child abuse reporting. LAO also found that new pilot projects established by Chapter 105, Statutes of 1988, and expanded by Chapter 188, Statutes of 1990, may improve CWSP performance, by allowing counties to use foster care funds to provide additional treatment and support services to some children and families.

If additional funds become available, LAO suggests the legislature increase community resources (such as drug treatment and mental health services), and provide counties with more funds to hire additional social workers and enable them to purchase additional treatment services.

LEGISLATION:

SB 1179 (Alquist), as introduced March 8, would amend existing law which authorizes the Joint Legislative Budget Committee to appoint a Legislative Analyst, and formally establish the Office of the Legislative Analyst in state government. The bill would provide that the Legislative Analyst is a civil executive officer selected by concurrent resolution of the legislature who shall serve until a successor is selected and qualified. This bill is pending in the Senate Rules Committee.

SB 986 (Alquist), as introduced March 8, would delete obsolete provisions and revise others relating to the duties of the Legislative Analyst; and transfer various annual report duties of the Legislative Analyst to specified state agencies. This bill is pending in the Senate Rules Committee.

AB 1258 (Polanco), as introduced March 6, would require the Legislative Analyst to study the efficiency of the state's permitting process as it relates to various environmental protection laws and permit requirements on industrial facilities. This bill is pending in the Assembly Natural Resources Committee.

ASSEMBLY OFFICE OF RESEARCH

Director: Steve Thompson
(916) 445-1638

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 sate 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:

Inner City Business Loan Funds in California: Results and Lessons for the 1990s (January 1991) addresses the issue of financial assistance to new or existing businesses in inner city areas. The report examines the network of existing inner city business financing mechanisms in California: community-based loan funds, state small business loan guarantees, and federal Small Business Administration loan guarantees. The report also examines the new federal Community Reinvestment Act (CRA) guidelines and their initial impact on inner city business lending.

The report reviews the history and performance records of six major northern California community-based funds. These loan funds were created to supplement small business lending by banks and other private institutions. The performance records available show generally superior repayment rates. Although a valuable layer of business lending, community-based funds have very limited capital and reach. Community-based funds in southern California were not reviewed by AOR.

California has operated a small business loan guarantee program since 1968 that now has a trust fund of more than $33 million. Loans are made by a bank or other lending institution and guaranteed (up to 90%) by a state regional corporation. Eight regional lending corporations operate under the supervision of the Office of Small Business in the state Department of Commerce. To qualify, a business must meet five general criteria (Corporations Code section 14071).

Priority is given to businesses in low-income areas and to minority-owned businesses. During the 1980s, loan loss rates were 3-11%. To reduce loss rates, a new management team plans to restructure some regional offices and improve recordkeeping and performance. AOR found that this state program will likely become a solid lending source while safeguarding public funds. However, the report states the reach of the program is too limited, with less than 300 loans guaranteed.

The largest small business lending program is administered by the federal Small Business Administration (SBA). SBA guarantees up to 90% of loans made by private financial institutions; the agency also makes a few direct loans to Vietnam veterans and handicapped individuals. SBA's primary loan guarantee programs are known as the 7A and 504 programs. With a $1 million maximum, the 7A program is broader, and includes financing for working capital, equipment, business buy-outs, and leasehold improvements. The 504 program, which has a $750,000 maximum, is limited to financing real estate acquisition, construction, or renovation of owner-occupied structures. California's major financial institutions rarely participate in SBA programs; the state's major participating lender (with over $73 million loaned) is the Truckee River Bank. By requiring a business to have two years of profits to be eligible for a loan, SBA operates as a long-term lender, providing established small businesses with greater leeway in lending (rather than start-up funds for fledgling businesses).

In 1977, Congress enacted the Community Reinvestment Act (CRA), 12 U.S.C. § 2901 *et seq.*, as a response to alleged disinvestment by financial institutions in low-income and minority neighborhoods. CRA requires financial institutions to meet "the credit needs of the entire community, including low and moderate income neighborhoods, consistent with the safe and sound operation of the institution." However, CRA requirements are vague, and do not mandate any specific level of inner city business lending.

Initially, CRA had little impact until social advocacy groups pressured financial institutions to follow CRA's mandate. Additionally, federal regulatory agencies have recently acted to require a certain inner city commitment from financial institutions. Governmental interpretation of the CRA has moved from a prohibition on "redlining" inner city areas to a mandate to lend in low-income areas. In 1989 and 1990, a number of major banks in California made multi-million dollar commitments to inner city lending. However, the report states that CRA's potential for inner city business lending is limited, because it does not require specific levels of business lending. In addition, major banks are unwilling to disclose information on business loans and performance rates.

The report concludes that no new state programs or bureaucracies are necessary, but recommends building on existing programs in three ways:

-Inner city loan activities generated by new private sector CRA initiatives should be monitored. This data would also help define what additional state initiatives, if any, are needed.

-California should explore options (similar to those used in Florida and Michigan) to double its current $33 million available in loan guarantees.

-State Enterprise Zone tax incentives (under which a bank or other private financial institution may deduct the interest payments of Enterprise Zone business loans) should be expanded.

A fourth recommendation is inner city investment by individual citizens and foundations through local subscription funds. The report concludes that expansion of existing programs and an infusion of private capital will provide a more deliberative, reflective, and long-term approach to assist viable inner city businesses.

SENATE OFFICE OF RESEARCH

Director: Elisabeth Kersten
(916) 445-1727

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:

In January, SOR released three reports, described as "Blueprints," which offer strategies for addressing major public policy issues of the 1990s:

Blueprint for Our Future: Meeting Human Needs in the 1990s (January 1991) focuses on the increasing demands on public programs in three areas: health issues, family policy, and population changes. Regarding health issues, the Blueprint summarizes problems relating to access to health care, adolescent pregnancy and parenting education programs, drug use, AIDS, mental health, and public health objectives. The Blueprint suggests certain actions in response to these problems, including restructuring employer-based health insurance, reorganizing and expanding services for pregnant minors, providing a multi-faceted approach to drug and alcohol abuse, encouraging the development and use of experimental drugs for AIDS, and reducing fragmentation of mental health services.

The Blueprint's family policy section summarizes issues relating to the family, including child care, parental leave, foster care, child support, the disparities between rich and poor, domestic violence, and integrated family services. Among other action proposals, the Blueprint suggests improving enforcement of child support awards, increasing income tax rates for the highest-income taxpayers, reinstating the inheritance tax, and integrating and consolidating services available to poor families.

The third section of this Blueprint, covering the dynamics of population change, reviews immigration/border issues and consumer protection and antitrust problems. Proposed actions include a study of the costs and benefits of documented and undocumented foreign workers and an increase in the penalties for consumer fraud.

The concluding section, funding options, addresses California's budget needs and proposes a combination of innovative and traditional methods for increasing tax revenues in order to finance the Blueprint's recommended actions. The Blueprint's proposals for resolving the budget shortfall include broadening the sales tax base by taxing some services, adding a new tax rate for the wealthiest taxpayers, eliminating mortgage deductions for second homes, and increasing the tax on alcoholic beverages.

Blueprint for Our Future: Safeguarding California's Environment (January 1991) presents a two-part discussion of issues relating to the preservation, management, and improvement of California's environment. The first section, "Focus on Environmental Contaminants," discusses four areas: pollution prevention, environmental health, ecological farming, and approaches to pollution control. The second section, "Focus on Growth," discusses problems and possible actions in five additional areas: state-managed growth, regional planning, open space, traffic congestion, and coastal protection.