to County Superior Court ruled that such a suit is permissible; the Municipal Court appealed the decision to the Third District Court of Appeal.

In June, DCA submitted an amicus curiae brief in this matter, arguing that such a suit is prohibited by section 117.5. In so doing, DCA seeks to preserve the small claims court as a forum for settling small disputes between parties who have personal knowledge of, and interest in, the disputes.

A decision in the case is not expected for some time.

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 consists of 76 professionally trained analysts and 26 support staff. The staff is divided into ten operating sections, each of which is responsible for a specific subject area. These areas are health, welfare and employment, taxation and economic research, agriculture and natural resources, business and transportation, criminal justice, employee compensation and general service agencies, education, capital outlay, and long-term policy issues.

MAJOR PROJECTS:

State Spending Plan for 1990-91 (August 1990) summarizes the fiscal effect of the 1990 Budget Act, including the effects of major legislation which is part of the overall state spending plan for 1990-91. The report begins by recounting the history of this year's budget crisis, and how it was resolved. It then highlights the funding levels that were ultimately approved for the state's major programs. Finally, the report describes projected state revenues for 1990-91.

The expenditure and revenue estimates in the report reflect (1) the most recent projections of revenue to the General Fund; and (2) the administration's assumptions about caseloads under various entitlement programs. As the fiscal year progresses, these estimates will be modified to reflect factors such as:

-unanticipated economic developments such as might result from the current conflict in the Persian Gulf;

-changes in the rate of expenditure under entitlement programs, such as Aid to Families with Dependent Children and Medi-Cal;

-the enactment of new legislation;

-the fiscal effect of ballot measures approved by the electorate;

-administrative actions taken by the executive branch;

-decisions handed down by the courts; and

-actions taken by Congress and the President on the 1991 federal budget.

Following the longest budget negotiations in California history, the Budget Act of 1990 was signed by the Governor on July 31. In attempting to resolve a $3.6 billion funding gap, a combination of revenue increases and expenditure reductions was agreed upon by the legislature and the administration. Specific adjustments made by the legislature to the Governor's budget resulted in a net expenditure reduction of over $1 billion. In so doing, the legislature rejected many of the Governor's proposed reductions and included reductions that were not proposed by the Governor. For example, the legislature rejected the Governor's proposal to cut $38 million in funding for caseload growth in the Child Welfare Services (CWS) program, and his proposal to use $27.3 million in bond funds for state operations purposes in the Department of Corrections and the California Youth Authority. However, the legislature included a $175 million reduction in the Medically Indigent Services/County Medical Services programs and eliminated the Assistance to Counties for the Defense of Indigent program.

In addition to these adjustments, $1.091 million in expenditures was reduced by various legislative actions, including the rejection of the Governor's proposed In-Home Supportive Services program and AB 8 County Health Services program reductions, and the inclusion of the State Teachers' Retirement System and Public Employees' Retirement System retirement contribution savings measures.

Also, the passage of five bills will create $795 million in increased state revenues. These bills include AB 274 (Isenberg) (Chapter 452, Statutes of 1990), which will raise $561 million by making state tax law conform to recent changes in federal tax law.

The report notes that total state expenditures (from the general fund and state special funds) approved to date amount to $50.9 billion for 1990-91. Spending in the education area accounts for 44% of total state expenditures; health and welfare programs account for 27%; business, transportation, and housing programs account for 7%; youth and adult corrections account for 7%; and 15% is allocated to various programs.

Turning to projected general fund and special fund revenues for 1990-91, the report notes that general fund revenues and incoming transfers from other funds are projected to reach $42.9 billion, and special fund revenues are projected to total $8.8 billion, totalling $51.7 billion in revenue.

Year-Round School Incentive Programs: An Evaluation (April 1990) provides a description of year-round education, describes the state's current involvement in providing financial incentives to school districts to operate year-round education programs, presents criteria for evaluating such incentive payment programs, evaluates existing programs based on these criteria, and describes the major features that an alternative incentive payment program should include.

The report notes that year-round education is an alternative schedule for learning that reorganizes the academic calendar so that instructional blocks and vacation periods are evenly distributed across a 12-month calendar. California provides year-round school incentive funds through two separate programs—the "SB 813 program" and the "SB 327 program"—to encourage school districts to operate year-round education programs as an alternative to constructing new school facilities. To qualify for these incentive funds, school districts must (1) be eligible to participate in the State School Building Lease-Purchase program, and (2) accommodate overcrowding through the use of year-round schools.

In 1988-89, the state provided a total of $34.8 million to fund both the SB 327 and SB 813 programs. These funds were provided to 31 school districts for an estimated 272,000 students who were attending eligible year-round schools. During 1989-90, $43 million was made available to fund these two programs.

LAO found that the state's primary interest in year-round education is its potential for reducing school districts' demands for limited state resources to construct new school facilities. Other reasons why the state might be interested in promoting year-round education have either not been conclusively established or are not strongly enough in the state's interest to merit the provision of financial incentives.

LAO stated that the state's primary goal in providing incentive payments should be to maximize the net amount of the state's cost avoidance from not having to construct new facilities. According to the report, a secondary feature in a year-round school incentive program is simplicity—from the perspectives of both the state and the participating school districts. For the state, simplicity refers to the ability of the state to easily identify eligible participants, and also calculate quickly and accurately an individual district's level of payment. On the local level, simplicity refers to the ability of school districts to understand the program so they can determine whether they are eligible and whether the incentive payments make their participation worthwhile.

LAO's review of existing year-round incentive programs found that the SB 327 and SB 813 programs fail to maximize the amount of the net state cost avoidance for the following reasons:

-For most school districts, the combined level of incentives provides more than 100% of the state's cost avoidance, thereby resulting in no net savings that the state could use to meet other districts' pressing school construction needs.

-The SB 327 incentive formula overpays school districts for land costs relative to the actual costs which would have been incurred under the state building program.

-As currently designed, the programs may function as a subsidy for a district while waiting in line for new construction funds, rather than as an alternative to new construction. To the extent that a district receives both the incentive payments and a new facility, the state clearly realizes no savings at all.

-There is little evidence that the existing incentive programs have had any discernible impact in increasing the total number of pupils on multitrack year-round schedules statewide beyond levels that would have occurred in the programs' absence.

In response to these findings, LAO recommended that the legislature repeal the existing year-round school incentive programs, or enact an alternative incentive program which includes all of the following features:

-provides school districts with no more than 50% of the state's savings;

-reflects district-specific land and construction costs; and

-includes safeguards to ensure that incentives are an alternative to new school construction, rather than a subsidy while waiting in line for a state-financed school.

Issue Memo: K-12 Education (August 1990) provides an overview of 1990-91 funding for K-12 education. The report notes that, in 1990-91, the level of funding per unit of average daily attendance (ADA) will grow 1.5% over last year's level. However, after adjusting for inflation, the per-ADA funding will be lower than in 1989-90. According to the report, 1990-91 revenue for K-12 education programs is expected to total $24.9 billion, increasing 5.8% over 1989-90 available funds.

Pursuant to Proposition 98, the "Classroom Instructional Improvement and Accountability Act of 1988" passed by the voters in November 1988, K-12 schools and community colleges are guaranteed a minimum level of funding. Specifically, Proposition 98 provides that K-12 education shall receive the greater of its 1986-87 percentage of the general fund budget, which was approximately 41% (test one), or prior-year funding level adjusted for enrollment growth and inflation (test two). The state contribution to the Proposition 98 guarantee in the 1990-91 Budget Act is $17.1 billion, based on the maintenance of prior-year funding level requirement, or test two, which provides the higher level of funding.

As introduced in January, the Governor's budget used a broad definition of appropriations which could count towards Proposition 98's minimum funding requirements. This definition, which was consistent with existing legislative and Department of Education policy, included both public and private child development programs. In June, a superior court decision in *CTA v. Huff*, No. 363630 (Sacramento County Superior Court, June 20, 1990), directed the state to use a narrow definition which excludes private child development programs from the guarantee. As a result, the Governor directed that $137 million in funding for privately-operated child development programs not count towards meeting Proposition 98 requirements. This and other adjustments reduced the Proposition 98 minimum funding guarantee by $170 million and made $33 million available for non-Proposition 98 programs. The *CTA v. Huff* decision is currently being appealed.

The report states that the Governor vetoed a total of $475.8 million in K-12 education funding: $435.4 million in Proposition 98 funding, and an additional $40.4 million in non-Proposition 98 funding. Of the $475.8 million vetoed, the Governor "set aside" $404.3 million for subsequent appropriation in satisfaction of Proposition 98 minimum funding requirements. It is the legislature's responsibility to enact appropriation bills which designate the specific uses for this $404 million. The legislature must also decide on an appropriate level for the Proposition 98 reserve, the primary purpose of which is to ensure that any subsequent decline in the level of Proposition 98 guarantee would not cause the guarantee to fall below the level of K-12 funding already appropriated in the Budget Act.

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 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:

Alcoholic Beverages: Regulation, Taxation and Societal Costs (December 1989) describes how the alcoholic beverage industry is regulated in California;