

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:

A Special Report to the State Senate on the Office of State Treasurer (February 1988). When State Treasurer Jesse Unruh passed away last year, he left behind a legacy which has in recent months become the focal point of much discussion, media attention, and political contention. With Unruh at the helm, the Office of State Treasurer has become one of the most powerful offices in state government.

SOR, with the assistance of several consultants to the Senate Rules Committees, undertook one of its most comprehensive projects in recent memory in seeking to (1) dissect and analyze the Treasurer's power base, taking an especially close look at that office's responsibilities concerning issuance of government bonds; (2) enumerate the varied and complex qualifications implicitly required of anyone appointed to the office; and (3) examine the qualifications and congressional voting record of Governor Deukmejian's nominee for State Treasurer, U.S. Representative Dan Lungren.

SOR's study confirmed that the State Treasurer is indeed powerful. The Treasurer's responsibilities are many, touching a broad spectrum of policy concerns, including state and local finance, housing, employment and pensions, senior citizens, environment, energy, education, health, veterans, law and justice, and human rights.

One administrative responsibility which gives the Treasurer significant political "clout" concerns government bonds. SOR found that the Treasurer "has great personal discretion" in hiring the bond attorneys, underwriters, printers, and other specialists who comprise the "specialized bureaucracy and private industry [who turn approved bond measures] into money in the state's accounts,

to be used to build schools, water treatment plants, and prisons, for example." In 1986 and 1987, this meant that the Treasurer awarded a total of approximately \$176 million in private business to such firms in order to issue \$11.2 billion in bonds.

SOR's report identified what it characterized as an "unusual" twist to this scenario, noting that "the majority of [the private business awarded to facilitate bond issuance] is given to firms without any public bid, rationale, explanation, or appeal. The selection rides on the Treasurer's subjective judgment."

According to information contained in SOR's report, considerable latitude exists for the exercise of the "Treasurer's subjective judgment" in numerous policy areas, with the "Treasurer's Office cross[ing] the line from the ministerial acts of a financial custodian to significant public policy decisions on spending and investment."

For example, SOR listed the following areas in which the Treasurer has broad policy discretion:

-The Treasurer chairs the state's Pooled Money Investment Board, which is charged with investing state monies not needed for immediate expenditure. During fiscal year 1986-87, the Board made security investment transactions involving over \$200 billion.

-The Treasurer "evaluates and allocates" funding through several educational finance authorities for construction and renovation of school facilities and acquisition of equipment. In 1987, projects approved by the two authorities totalled approximately \$184.9 million.

-The Treasurer "selects and encourages California businesses to acquire, construct or install pollution control systems and develop technologies which minimize environmental pollution and conserve energy resources through financing from the California Pollution Control Financing Authority." 1987 financing of eight such projects totalled \$629,730,000.

-The Treasurer authorizes revenue bonds to finance construction, expansion, and equipping of private, nonprofit health facilities. In 1987, such financing, comprised of \$469,550,000 in bonds, was approved through the California Health Facilities Financing Authority, which the Treasurer chairs.

-The Treasurer is required to evaluate proposals and allocate scarce financial resources fairly and judiciously between 'private activity' bond issuers such as local governments, special districts, industrial development authorities,

hospitals, and schools through the California Debt Limit Allocation Committee. In 1987, the Committee allocated \$1.9 billion in tax exempt financing across the different uses and users."

SOR's analysis also compared the specific functions and responsibilities of the State Treasurer with the experience and qualifications of nominee Lungren. The analysis determined that in numerous areas, such as office management, fiscal policy development, fiscal management (accounting, budgeting, procurement of business services, etc.), investment, and allocations of scarce financial resources, Representative Lungren's past experience and training is relevant.

In other areas, however, Lungren's relevant qualifications were not discernible to SOR analysts, based on the information provided by Lungren to the Senate Rules Committee. Those areas include evaluation and/or allocation of funding for the construction, renovation, or equipping of school facilities; health facility construction or expansion; acquisition, construction or installation of pollution control systems, energy and pollution control technology development; veterans' assistance; industrial development facilities; and programs to provide affordable housing throughout the state.

SOR turned to Lungren's congressional voting record in an attempt to glean further information as to how he might perform in the role of State Treasurer. In general, SOR found that Lungren's position on public finance issues supports balancing of the federal budget; tax reduction; and budget reductions through cutting or eliminating domestic programs.

SOR focused on some specific substantive policy areas with regard to Lungren's possible performance if confirmed as State Treasurer. One area of special concern was low income housing. SOR noted that the State Treasurer has a "powerful role" in the funding of low income housing programs which derives from membership on important committees which "control the amount and timing of bond sales, tax exempt bonding authority, the ability of local governments and state agencies to sell mortgage bonds, and the allocation of tax credits to qualified investors in low income housing. As the Chairperson or member of these committees, the Treasurer has direct influence over important housing policy decisions."

SOR's report reveals that Lungren has frequently voted against federal housing programs serving low and mod-



erate income persons. Also, in the past four years, Lungren has voted against four major bills intended to provide emergency shelter to homeless persons. (For a related discussion on low income housing problems in California, see *infra* *Housing Alert* summary.)

Lungren's nomination was confirmed in the Assembly but rejected in the Senate earlier this year. As a result, the California Supreme Court has been asked to interpret a vague section of the state Constitution to determine whether confirmation in one house of the legislature is sufficient to win confirmation, as the Governor contends.

Housing Alert: Estimates of Low Income Rental Units in California Subject to Termination of Rent and/or Mortgage Subsidies 1988-2008 (December 1987). In this report, SOR has analyzed data supplied by the U.S. Department of Housing and Urban Development concerning subsidized low income housing in California.

The purpose of SOR's study, which was requested by Senator David Roberti, President pro Tempore of the Senate, was to estimate the number of low income housing units in the state which will be legally eligible for termination of federal subsidy contracts or use restrictions during the next twenty years. As the report notes, the implications of such projections, which indicate the potential for dramatic statewide reductions in the number of subsidized units, become even more critical in light of current low income housing shortages throughout California.

SOR found that approximately 117,000 rental housing units in California could be subject to subsidy termination between 1988 and 2008. The report underscores the significance of such a trend, given the current and projected future lack of available alternative housing at affordable prices, by noting that approximately 41% of these units are presently occupied by elderly tenants, "for whom a move or eviction may be especially problematic."

SOR's report paints a bleak picture for such individuals, observing that due to high costs of new construction, low income housing converted to market rate rentals might be impossible to replace. In support of this conclusion, the report points out that "[i]f only one-third to one-half of [federally] subsidized units were to convert to market rate rents, it is estimated that replacement of the housing would cost between \$2 billion and \$3 billion."

Further compounding the problems

created by housing conversions is the federal government's reduction since 1987 of funding for low income housing programs by up to 78%, according to statistics supplied by the National Conference of State Legislatures and the U.S. Conference of Mayors. Such reductions have significantly impacted California's low income housing supply, which the state Department of Housing and Community Development estimates to be deficient by approximately 498,000 affordable rental units.

In addition to detailing specific types of federal subsidy programs included in its study, SOR's report offers numerous breakdowns of data analyzed, organizing the housing data by geographic region, possible date of conversion, and types of subsidy involved. It also summarizes 1987 and 1988 legislative efforts to address the state's problems involving current and prospective low income housing shortages. Such efforts include the following:

-SB 1297 (Petris) (Chapter 1355, Statutes of 1987) creates a public/private nonprofit corporation to raise private capital for the purpose of financing acquisition and rehabilitation of low income rental housing which is about to convert to market rate.

-SB 1473 (Petris) (Chapter 1383, Statutes of 1987) requires that tenants and local governments be notified at least six months before termination of subsidies for rental housing, and also provides for public hearings on tenant displacement caused by rental conversions.

-SB 113 (L. Greene) (Chapter 658, Statutes of 1987) provides procedural guidelines and priorities for federal tax credit allocation under the 1986 Tax Reform Act. The bill identifies federally-subsidized housing units threatened with conversion among the tax credit allocation priorities.

-SB 572 (Garamendi) (Chapter 1139, Statutes of 1987) and AB 53 (Klehs) (Chapter 1138, Statutes of 1987) establish a state tax credit for low income housing which parallels and is to be used in conjunction with the federal tax credit. Additionally, this legislation provides that when federally-subsidized low income housing is sold to a nonprofit corporation which agrees to maintain the housing for low income occupancy, the seller will be eligible for special capital gains tax treatment, as specified.

Several 1988 measures intended to address the housing dilemma are awaiting the Governor's signature as of this writing. AB 2032 (Brown), SB 1693 (Roberti), and SB 1692 (Roberti) would

provide for three general obligation bond issues to be placed on the June 1988, November 1988, and November 1990 ballots, respectively. Assembly Speaker Willie Brown's bill involves a \$150 million bond issue, while Senate President pro Tempore Roberti's measures would provide for a total of \$450 million in general obligation bonds. The monies derived from these bond issues would be used to fund a variety of low income housing projects, including construction of new rental units; rehabilitation of existing structures (such as hotels) for use as low income housing; homeownership assistance (interest reduction); and creation of new emergency shelter beds for the homeless.

Report on the Super Agencies (November 1987) was issued by the Senate Advisory Commission on Cost Control in State Government, which is staffed by SOR. The Advisory Commission is charged with advising the legislature on ways to increase efficiency, enhance administrative accountability, and apply improved program management systems to state operations.

In keeping with that mandate, the Commission explored the historical development of the state's five "Super Agencies," which were established by legislation in the 1960s; examined the evolution of the agencies' roles *vis-a-vis* their constituent departments, boards, commissions, and bureaus; analyzed some of the pros and cons associated with the agencies' various approaches to administrative oversight, as dictated by the distinct management styles of each of the four governors they have served thus far; and recommended means of addressing some issues identified during the course of the study.

Secretaries of the Super Agencies, which include the Health and Welfare Agency; Youth and Adult Correctional Agency; Resources Agency; Business, Transportation and Housing Agency; and the State and Consumer Services Agency, serve as part of the Governor's cabinet. When the agencies were initially created, the secretaries and their agencies were envisioned as communication conduits and policy coordinators, or administrative facilitators and advisors, of sorts.

Their specific responsibilities, as set forth in statute, include general administrative oversight of their constituent agencies; serving as the principal communication link between those agencies and the Governor; exercising authority vested in the Governor on major policy matters; ensuring the sound fiscal management of administrative entities within



their respective spans of control; and reporting to the Governor on legislative, budgetary, and administrative plans toward achieving long-range policy goals.

Over the years, some critics of the structure have charged that the Super Agencies' functions and responsibilities have evolved—indeed, expanded—to include involvement in the day-to-day administrative minutiae of their constituent agencies' operations. Such criticism has led to several legislative attempts to dismantle the Super Agencies during the 1980s.

Although the Advisory Commission did identify weaknesses in the Super Agency form of executive administration, it recommended retention of the structure, finding it to be “the most effective means for a governor to discharge the duties of [his/her] office.” The Commission found several areas in which improvements could be made, including the following:

- Personnel in Super Agency “exempt” (*i.e.*, non-Civil Service) positions should possess appropriate job qualifications and be utilized only in agency-related functions.

- The Governor should attend cabinet meetings as often as possible, in recognition of the broad authority and policy discretion given to cabinet members, including Super Agency secretaries.

- “[P]rogram-specific activities being administered by [Super] Agencies... [should] be redirected to the particular Agency’s appropriate constituent departments.”

- Super Agencies should continue to review departmental budgets.

- The Governor should not be given the authority to dismantle the Super Agencies, as has been proposed in legislation over the past decade. The Advisory Commission noted that “[t]here is substantial evidence that the present system is serving the Governor well and that he can adjust the plan to meet optional management philosophies.”

The Advisory Commission also recommended that a separate study be conducted to determine “why so many agencies, departments, boards, commissions, and offices of state government are not represented under the [Super] Agency system.... The study could identify the administrative efficiencies which might be achieved by applying to them the same management and structural principles which created the [Super] Agency system of government.”

