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# Current Year General Fund Budget Deficiencies

Joint Legislative Budget Committee

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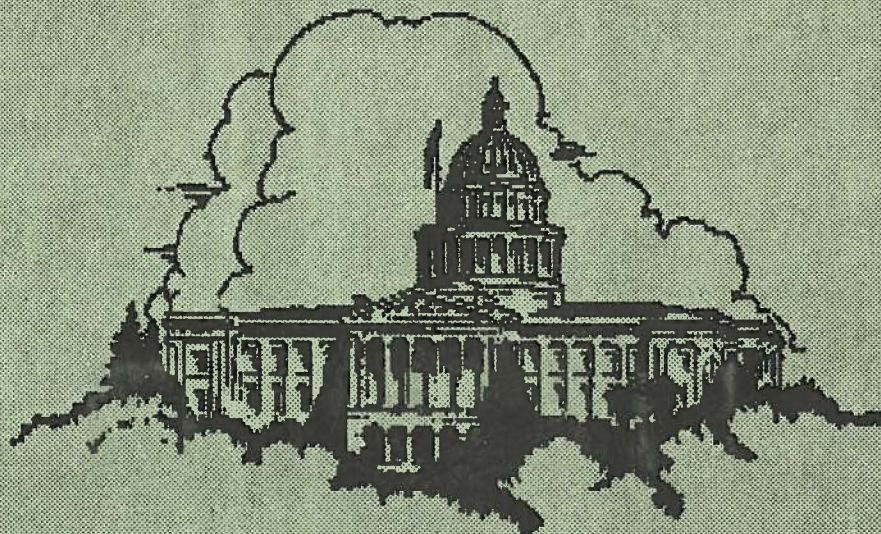
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**CALIFORNIA LEGISLATURE  
JOINT LEGISLATIVE BUDGET COMMITTEE**

**SENATOR WILLIAM CAMPBELL, CHAIRMAN**



**CURRENT YEAR GENERAL  
FUND BUDGET DEFICIENCIES**

**A Report on the  
Hearing of February 27, 1989**

**by the**

**Joint Legislative Budget Committee  
Prepared March 23, 1989**

**John Vasconcellos  
Vice Chairman**

**SENATE MEMBERS**

**Alfred E. Alquist  
Robert G. Beverly  
Bill Greene  
Milton Marks  
Joseph Montoya  
Nicholas C. Petris**

**ASSEMBLY MEMBERS**

**William Baker  
John Burton  
Robert Campbell  
Robert C. Frazee  
Maxine Waters  
Vacancy**

Thomas A. Burns, Staff Director

184-J

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**22**  
**L500**  
**B83**  
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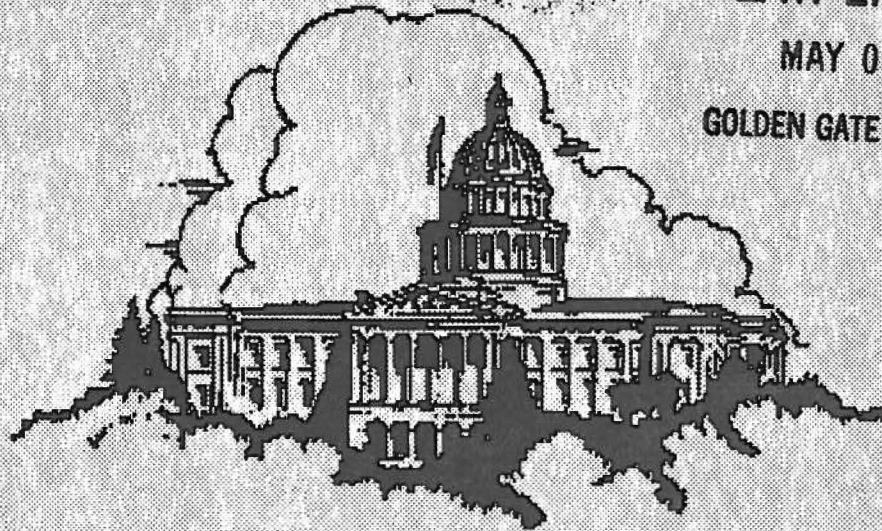
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**CALIFORNIA LEGISLATURE**  
**JOINT**  
**LEGISLATIVE BUDGET COMMITTEE**

**INTRODUCTION**

**March 23, 1989**

The Joint Legislative Budget Committee held a public hearing on February 27, 1989, in Room 112 at the State Capitol in Sacramento to study the issue of current year budget deficiencies. This report represents the outgrowth of that discussion. Contained within are:

- 1) a report on the history and nature of deficiencies in the state budget process;
- 2) a copy of a handout by the Legislative Analyst;
- 3) a copy of the written testimony submitted by the Executive Director of the State Commission on Finance;
- 4) a copy of the Committee agenda for the hearing; and,
- 5) a copy of the transcript of the hearing.

**WILLIAM CAMPBELL**  
Chairman



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**REPORT ON THE HISTORY AND NATURE OF DEFICIENCIES**



## Report on Current Year General Fund Budget Deficiencies

### I. BACKGROUND

#### What is a deficiency?

A deficiency is a proposed expenditure which exceeds the original appropriation due to:

1. Unforeseen circumstances, e.g. more students are enrolling in schools than originally anticipated.
2. An insufficient appropriation, e.g. a mistake was made in calculating the number of Medi-Cal recipients, or the amount of property tax revenues available to local schools was lower than anticipated.
3. An emergency occurs, e.g. fires or floods increase state costs.

Deficiencies may occur in either a General Fund or a Special Fund appropriation to an agency.

#### How do deficiencies relate to the broader state budget picture?

Program growth from rising inflation costs and workload increases, and the revenue to pay for those increases, have become increasingly a concern to legislative and executive fiscal officers across the nation. This interest arises out of reaction over the last decade to the reduction in federal aid to state governments, the tax limitation movement, and the wide-ranging revenue fluctuations in state treasuries as a result of variant state and regional economies.

To meet these challenges, state legislatures have developed a number of novel approaches to budgeting. One of the most important efforts has been the expansion of the fiscal analysis and data processing expertise of their support staff in a concerted attempt to counterbalance existing executive branch capabilities in these areas. Because there were the above constraints on government while the demand for expanding services grew, both the legislative and executive branches began to recognize the critical need to carefully husband the revenue resources that were available to them.

Ever increasing importance was attached to accurately projecting how many people would be paying taxes and how much in taxes they would be paying. As alluded to, Governors have historically had much greater staff capacity to make these kind of projections, largely as an outgrowth of their responsibility to start the budget-making process by presenting a budget proposal to the Legislatures. State legislatures, on the other hand, have been historically without this ability to independently generate forecasts about revenues and the people generating those revenues and, as the budgets were developed over the years, have largely had to rely on whatever the executive branch told them would be the revenue base upon which to budget.

In a study for the National Conference of State Legislatures entitled "The Legislative Role in Revenue and Demographic Forecasting," Tony Hutchison describes, however, how this rising concern over program growth in the face of revenue constraints has resulted in the evolution in the 50 states of independent legislative forecasting efforts. Summarizing this development, Hutchison identifies three different approaches to revenue forecasting among states:

1. Continued dependence by the legislative branch upon the forecast of the executive;
2. Development of a legislatively-generated forecast independent of the executive; and,



### 3. Creation of mechanisms which generate a jointly arrived at legislative/executive forecast.

One of the most accurate forecasting systems in the nation exists in Florida where by statute the executive, legislative and judicial branches hold "consensus estimating conferences" to arrive at jointly agreed to revenue, workload and demographic projections. Illinois, on the other hand, has created a sophisticated legislative forecasting operation-- the Illinois Economic and Fiscal Commission-- which consists of only legislative membership and is charged with revenue estimates, state debt analysis and pension fund review. California has created an independent forecasting commission-- the California Commission on State Finance-- which has ties to both the executive and legislative branches. The Legislature may use either the Governor's projections, those of the State Commission or the prognostications of the Legislature's fiscal counselor--the Legislative Analyst.

Concurrent with this interest in more accurately anticipating what the level of available revenue will be to state governments has been the effort to deal with the rising tide of constitutional and statutory restrictions on the amount of new taxes that state governments might impose. Although federal aid to California has not followed the national trend (largely because of a very heavy federal Department of Defense presence in the state,) the state has certainly been a case study with regard to revenue limits and fluctuations. In fact, California is credited as the origin of the tax revolt movement which has resulted in 21 of the 50 states currently having some type of restriction on increases in either taxes or appropriations.

For California, this turning point came in 1978 with the passage by the voters of Proposition 13, which essentially froze property tax rates. Literature in the field has speculated that this movement gained momentum from extremely large budget surpluses which were accumulating in the state treasury in the 1970's and what was perceived by voters to be an onerous per capita tax burden. The resulting constitutional change-- embodied in Proposition 4 (Article XIII B of the California Constitution)-- restrained the budget process in four aspects:

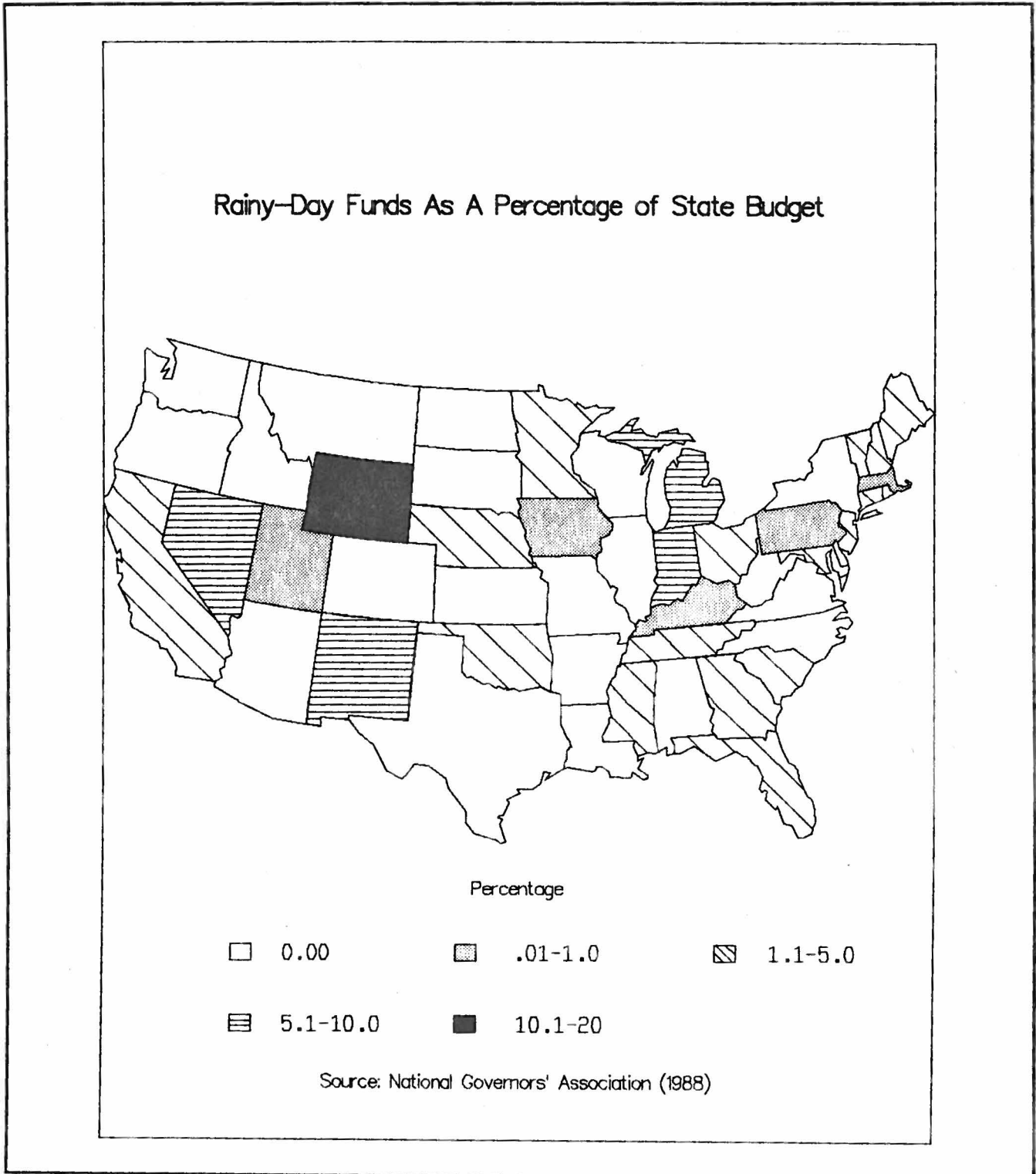
1. A ceiling is placed on tax-funded appropriations of state and local government equal to the appropriation level of the previous year plus an adjustment for fluctuations in population, the cost of living and shifts in responsibility for government programs;
2. A rebate by state and local governments of tax revenue to taxpayers is required for revenue that cannot be appropriated;
3. A reimbursement of local government by state government for compliance costs is required when the state imposes a new program or requirement on local government; and
4. Local government taxing authority was eliminated.

Additionally, California policy-makers continued to have the long-standing balanced budget constitutional exhortation found in most of the states: with only certain special exceptions, government expenditures must be financed from existing revenues. Furthermore, the pressure as evidenced at the polls to hold down the level of taxation produced a federal and state legislative effort to change, simplify and reduce tax codes and rates, making precise revenue forecasting all the more crucial and difficult.

So, the reality of these restrictions, coupled with the concurrent escalating demands for services, caused state leaders in California to look for some innovative approaches to meeting the needs under the new framework. One budget innovation in California that developed as a result was what has come to be popularly referred to as a "rainy-day fund" or "budget reserve," although its statutory style is Special Fund for Economic Uncertainties. In line with the second facet of the appropriations limit outlined above, state policy-makers decided to take what General Fund monies that might have been identified as a "surplus" prior to the passage of Propositions 13 and 4, and appropriated that amount to a special fund as a hedge against unforeseen circumstances. Steven Gold, author of several National Conference of State Legislatures' studies in this area, traces this reserve concept to a working capital fund that evolved in Florida in 1959 and the Counter-Cyclical Budget and Eco-

conomic Stabilization Fund that was set up in Michigan in 1977.

This safeguard was so successful that it has been adopted by 27 states across the nation. The intent of this fund as it evolved was not to meet day-to-day cash flow problems in the state treasury but rather to address emergencies or to protect the General Fund against precipitous shifts in the state's economy and the resulting reverberations to the state treasury. The target frequently alluded to in the literature for these rainy-day funds is 5% of overall General Fund expenditures. California policy-makers have sought to maintain a 3% level, or approximately \$1 billion.





Another budget innovation has been contingent expenditures and contingent taxes. The former can appear in the Budget Act or in legislation if the State Constitution permits appropriations outside the Budget Act, and these expenditures are dependent upon some future, potential revenue or occurrence. For example, if Motor Vehicle Account revenues are sufficient in a certain subaccount, a certain number of new patrol cars may be added to the California Highway Patrol. Contingent taxes become operative if revenues fail to meet certain targets. For example, in 1983, California enacted a sales tax increase that was to take effect if sales tax revenue failed to meet certain expectations.

Like the rainy-day fund, both contingent taxes and expenditures were designed to meet unusual budget happenings and to promote fiscal stability. Deficiency appropriations, referred to in some states as supplemental appropriations, are also budget innovations which have been devised to enhance fiscal constancy and even-delivery of program commitment as originally budgeted. In California, as a result of Proposition 4, the Legislature created a special fund-- like the rainy-day fund-- to address what was at the time seen as smaller scale unforeseen needs not otherwise covered by specific appropriations. Like the rainy-day fund, this deficiency fund (officially styled the Reserve for Contingencies or Emergencies) received an appropriation from the General Fund; unlike the rainy-day fund, which had a target appropriation of approximately 3% of General Fund expenditures, this deficiency fund had a \$1.5 million appropriation from the General Fund in 1979 and continues to receive that level of support today, in addition to a \$1.5 million Special Fund appropriation and a \$1.5 million appropriation from nongovernmental cost funds, which are transfers of money accumulated in funds for retirement, working capital and so on. The total-- \$4.5 million-- represents funds that the Director of Finance, usually in consultation with the Legislature, allocate as one-time expenditures to state agencies experiencing a deficiency problem. Authority to allocate this money comes through an executive order.

An additional \$2.5 million of the monies in this fund constitutes a loan pool available to various state agencies on a temporary basis that experience a short-term delay in funding and face the potential of a program curtailment. The Director of Finance has the discretion as to which of these agencies receive a deficiency loan.

Historically, there has been a recognition that a budget as large as the State of California will experience some errors in projecting program workloads or needs. So, even prior to the budgeting approach changes in the wake of Proposition 4, there was a deficiency process. The occurrence of Proposition 4, however, created a need to more closely scrutinize what constitutes a deficiency and regularize a process that did not conflict with the provisions of Proposition 4 whereby deficiencies could be paid. Thus, the Legislature created the Reserve for Contingencies or Emergencies.

Also prior to Proposition 4 and the deficiency reserve, the Legislature funded the bulk of deficiency items through a single piece of legislation outside the Budget Act, referred to as the omnibus deficiency bill. This legislation-- which continues today and is possible in California as it is permissible to appropriate outside of the Budget Act-- usually occurs in concert with the passage of the budget and attempts to incorporate all identifiable deficiency obligations. Appropriations in this omnibus bill are to the Reserve for Contingencies and Emergencies, from which the Director of Finance allocates funds according to the dictates of the omnibus bill.

Additionally, deficiencies may be covered through appropriations in the Budget Act and individual pieces of legislation. In the case of individual deficiency bills, the appropriation to cover the deficiency may be to either the deficiency reserve or directly to the budget account projected to have a shortfall. If the appropriation is to the deficiency reserve, the Director of Finance by executive order allocates the money as the law requires. Because of the need to keep some controls on the flow of deficiency funding, the Legislature has also created a notification process whereby legislative fiscal staff can track program funding shortfalls. As deficiencies usually occur in the last month of the fiscal year, this notification process provides the Legislature with important information as it is available to the Department of Finance about projected needs and assists legislative leadership in their efforts to understand the budget landscape. This informational process is described in detail below.

**How are deficiencies handled?**

Authority to spend funds at a rate which will cause a deficiency may occur only with approval from the Director of Finance.

Agencies which believe they may incur a deficiency must notify the Department of Finance who in turn must within 10 days notify the Legislature of receipt of a deficiency request.

If the Department of Finance concurs with the agency's assessment of a deficiency, the Director must notify the Joint Legislative Budget Committee 30 days in advance of authorizing the agency to incur a deficiency. In cases of an emergency, the notice to the Committee must occur within 10 days after approval of deficiency spending by the Department of Finance.

Exceptions to these notification requirements are limited only to caseload increases for Medi-Cal, Aid to Families with Dependent Children (AFDC), and Supplemental Security Income/State Supplementary Program (SSI/SSP.)

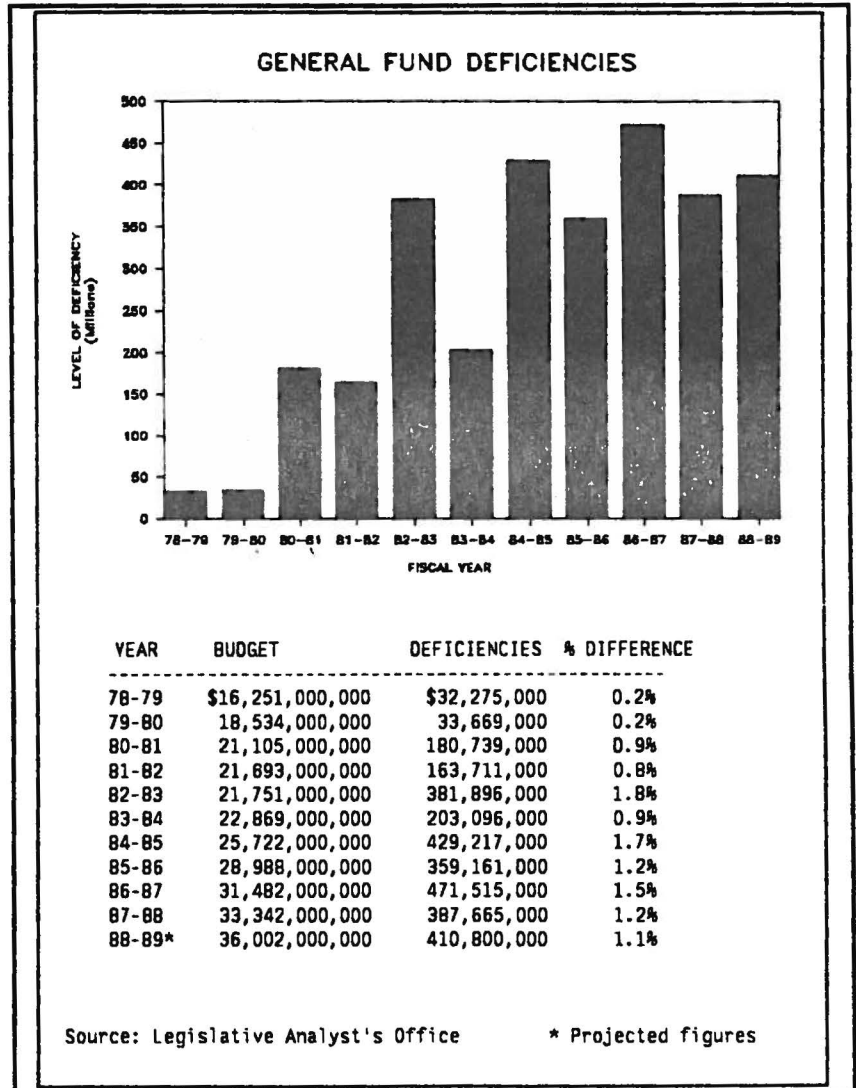
Actual funding of the authorized deficiency comes from an appropriation from the reserve of a fund through legislation.

The following chart shows the historical trend in General Fund deficiencies since 1978-79.

**II. 1988-89 BUDGET SITUATION**

The Governor's proposed budget for 1989-90 identifies and proposes funding for \$231.9 million in deficiencies. In addition, staff has identified the following program areas which may incur a deficiency, some of which have been cited in the formal notification process and some have not:

1. \$5.5 million for Medi-Cal long-term care programs;
2. \$8.6 million in social service programs, such as child welfare and in-home support services;
3. \$27 million for developmental disability regional centers, currently included in Ch 6/89 (SB 50), Seymour;
4. \$3.1 million for unanticipated Workers' Compensation claims;





5. \$7 million to pay judgement and settlement claims against the state, as contained in AB 45, Vasconcellos; and
6. \$4.8 million, of 1989-90 monies for the San Francisco Multidisciplinary AIDS hospital.

In addition to the above deficiencies, the State Commission on Finance has cited in its February, 1989 Quarterly General Fund Forecast some \$207 million in additional current year deficiencies. It should be noted, however, that the current year revenue forecast of the Commission is \$308 million greater than that of the Department of Finance.

The Legislative Analyst, in her Analysis of the 1989-90 Budget Bill, projects that there will be \$178.9 million in 1988-89 General Fund deficiencies not listed in the Governor's 1989-90 budget.

To meet these deficiencies beyond those cited in the 1989-90 budget, the Governor projects a \$3 million reserve will be available as of June 30, 1989. While state revenues may increase above current projections (January revenues were \$201 million above projections but at least fifty percent of this was due to cash flow), there is no guarantee these will actually materialize and in fact the revenue may decline.

The administration has made various funding proposals to pay for some of the above listed deficiencies, including borrowing from the Motor Vehicle Account and reallocating budget priorities for 1989-90. However, borrowing from other special funds is simply a means of deferring the General Fund cost into the next fiscal year.

The only choices facing the legislature are to refuse to fund the deficiencies or realize additional revenues. Additional revenues, however, will not entirely resolve any problems because of the Gann appropriation limit and its interplay with the provisions of Proposition 98.

### III. POLICY CONSIDERATIONS AND CONCLUSIONS

State policy-makers have become increasingly concerned about the rise in recent years in the level of deficiency costs and its relationship to the rainy-day fund. Deficiency appropriations have come to nearly match the level of funds in the rainy-day reserve. Some have expressed concern that this rise represents deliberate underestimation of program workloads by the Administration in an effort to claim credit for large rainy-day fund balances, which have to be depleted late in the fiscal year to redress the problem and maintain earlier commitments. Others have complained that the Legislature has purposefully underbudgeted programs in an effort to embarrass the Administration for political advantage. Against these observations, another consideration would be the effect upon the programs themselves: does the rise in deficiencies in recent years represent reduced service to the public, unsafe conditions for program clients and government workers, closing of otherwise worthwhile programs, and delays in program startups that eventually cost taxpayers far more than would have been necessary at the front-end of program development.

Because of these considerations, the Joint Legislative Budget Committee met in public hearing on February 27, 1989, to study the issue of deficiencies with particular attention to the current year scenario. This report documents the course of those deliberations and testifies to the continuing interest of the Committee in this important aspect of the state budget.

APPENDIX I:

**HANDOUT BY THE LEGISLATIVE ANALYST/  
1988-89 GENERAL FUND DEFICIENCIES  
(FEBRUARY 27, 1989)**





# General Fund

**Table 1**  
**1988-89 General Fund Deficiencies**  
(dollars in millions)

<b>Amounts Reflected in the Governor's Budget</b>	
Statewide Deficiency Bill	\$231.9
Individual Departmental Deficiency Bills	
Education	76.9 <sup>a</sup>
Secretary of State	5.3
1988 Budget Act Authorizations	
Department of Social Services	30.6
Department of Forestry and Fire Protection	27.1
<b>Subtotal, deficiencies in the Governor's Budget</b>	<b>\$371.8</b>
<b>Deficiencies Approved by the Department of Finance Subsequent to Submission of Governor's Budget</b>	
Department of Industrial Relations	\$3.1
<b>Deficiencies Identified by Departments, Not Approved by Department of Finance</b>	
Department of Military	\$0.6
California Museum of Science and Industry	0.1
Department of Developmental Services	26.0
Department of Justice	0.2
<b>Subtotal, additional deficiencies</b>	<b>\$27.0</b>
<b>Other Current-Year Deficiencies Identified in <i>Perspectives and Issues</i>, p. 43</b>	<b>\$7.9</b>
<b>Total</b>	<b>\$409.8</b>

<sup>a</sup> To be paid out of Proposition 98 reserve, a portion of which has been set aside for this purpose.



## General Fund

**Table 2**  
**General Fund Expenditures and Deficiencies**  
1978-79 through 1989-90  
(dollars in millions)

YEAR	EXPENDITURES	DEFICIENCIES <sup>a</sup>	DEFICIENCIES AS A PERCENT OF OF GENERAL FUND EXPENDITURES
1978-79	\$16,251	\$32	0.20%
1979-80	18,534	34	0.18
1980-81	21,105	181	0.86
1981-82	21,693	164	0.75
1982-83	21,751	382	1.76
1983-84	22,869	203	0.89
1984-85	25,722	429	1.67
1985-86	28,988	359	1.24
1986-87	31,482	472	1.50
1987-88	33,342	374	1.12
1988-89	36,002 <sup>b</sup>	410	1.14
1989-90	38,010 <sup>b</sup>	--	--

<sup>a</sup> Includes statewide deficiency bill, individual departmental deficiency bills, and Budget Act authorizations.

<sup>b</sup> Estimated.

**APPENDIX II:**

**WRITTEN TESTIMONY of the EXECUTIVE DIRECTOR of the  
STATE COMMISSION on FINANCE (FEBRUARY 27, 1989)**





**COMMISSION ON STATE FINANCE**

915 Capitol Mall, Room 435  
Sacramento, California 95814  
(916) 323-5202

Gail Greer Lyle  
Executive Secretary

**MEMBERS:**

Thomas W. Hayes, Chairman  
State Treasurer  
Gray Davis  
State Controller  
Alfred E. Alquist  
State Senator  
Kenneth L. Maddy  
State Senator  
John Vasconcellos  
State Assemblyman  
William P. Baker  
State Assemblyman  
Jesse R. Huff  
Director of Finance

**PRESENTATION TO THE JOINT LEGISLATIVE BUDGET COMMITTEE  
FEBRUARY 27, 1989**

by  
Gail Greer Lyle  
Executive Secretary

THANK YOU FOR INVITING ME TO DISCUSS OUR VIEW OF THE CURRENT FISCAL CONDITION OF THE GENERAL FUND AND MORE SPECIFICALLY, THE COST PRESSURES WE HAVE IDENTIFIED WHICH WERE NOT RECOGNIZED IN THE GOVERNOR'S BUDGET PROPOSAL.

WE RECENTLY COMPLETED OUR THIRD QUARTERLY REVIEW OF THE GENERAL FUND. IN THIS REPORT, WHICH WAS RELEASED ON FEBRUARY 8, WE ESTIMATED THAT THE GENERAL FUND WOULD END THIS CURRENT YEAR WITH A RESERVE OF \$79 MILLION. THIS AMOUNT IS SOMEWHAT HIGHER THAN THE DEPARTMENT OF FINANCE RESERVE ESTIMATE OF \$3 MILLION.

IT IS PARTICULARLY IMPORTANT TO NOTE, HOWEVER, THAT OUR RESERVE ESTIMATE OF \$79 MILLION IS DEPENDENT UPON FOUR KEY ASSUMPTIONS:

(1) INCREASED REVENUES

WE ARE PROJECTING THAT GENERAL FUND REVENUES WILL EXCEED THE BUDGET FORECAST BY \$308 MILLION. THIS HIGHER ESTIMATE IS DUE PRIMARILY TO OUR ESTIMATES OF HIGHER PERSONAL INCOME AND SALES TAX RECEIPTS.

CURRENTLY, GENERAL FUND REVENUES THROUGH JANUARY ARE UP APPROXIMATELY \$194 MILLION OVER THE BUDGET ESTIMATE. THE EVENTUAL LEVEL OF CURRENT YEAR REVENUES WILL DEPEND CRUCIALLY ON THE STRENGTH OF PERSONAL INCOME TAX FINAL PAYMENTS ON 1988 LIABILITIES, WHICH ARE DUE IN APRIL. HOWEVER, YEAR-TO-DATE REVENUE RESULTS COUPLED WITH A CONTINUED STRONG ECONOMY SUGGEST A CONTINUATION OF THE UPWARD MOVEMENT OF REVENUES WE ARE CURRENTLY EVIDENCING.

**(2) ADMINISTRATION'S ACCOUNTING CHANGES NOT DISPUTED.**

OUR ANALYSIS OF THE GENERAL FUND IS CONSISTENT WITH THE ACCOUNTING CHANGES RECENTLY INCLUDED IN THE GOVERNOR'S BUDGET. IN ADDITION TO THEIR EFFECTS ON PRIOR YEAR BALANCES, THESE CHANGES RESULTED IN A NET \$80 MILLION INCREASE IN THE CURRENT-YEAR RESERVE LEVEL. WE ASSUME, THEREFORE, THAT THIS ACCOUNTING CHANGE IS IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND THAT THE NUMBERS REFLECTING THIS PROCEDURE WILL NOT CHANGE.

**(3) ADDITIONAL EXPENDITURES DO NOT EXCEED \$207 MILLION.**

WE HAVE IDENTIFIED ADDITIONAL EXPENDITURES AGGREGATING \$207 MILLION SINCE THE GOVERNOR'S BUDGET WAS ENACTED. TO SPECIFICALLY ADDRESS YOUR REQUEST, WE WILL DISCUSS IN GREATER DETAIL THESE COST ADJUSTMENTS AS WELL AS ANY NEW DEFICIENCIES IDENTIFIED SINCE OUR FEBRUARY REPORT LATER IN OUR PRESENTATION.



**(4) SUCCESSFUL RESOLUTION OF CONTINGENT BUDGET PRESSURES.**

WE HAVE IDENTIFIED AN ADDITIONAL \$106 MILLION IN BUDGET PRESSURES WHICH COULD POTENTIALLY ERODE OUR RESERVE ESTIMATE IF THE ADMINISTRATION IS UNSUCCESSFUL IN RESOLVING THESE ISSUES.

**SPECIFIC ADJUSTMENTS IN OUR FEBRUARY REPORT**

TURNING SPECIFICALLY TO A DISCUSSION OF ADDITIONAL EXPENDITURES WE HAVE IDENTIFIED OVER AND ABOVE THE GOVERNOR'S JANUARY PROJECTIONS OUR SPECIFIC ADJUSTMENTS AS NOTED ON TABLE 1 ARE:

**(a) FEDERAL MEDI-CAL AUDIT PAYMENTS (\$23 MILLION)**

OUR ANALYSIS SUGGESTS THAT MEDI-CAL SPENDING IN THE CURRENT YEAR WILL EXCEED THE GOVERNOR'S MID-YEAR ESTIMATES BY \$23 MILLION. THIS REPRESENTS AMOUNTS DUE THE FEDERAL GOVERNMENT AS THE RESULT OF MEDI-CAL OVERPAYMENTS. FUNDING FOR THIS REIMBURSEMENT WAS DELETED FROM THIS YEAR'S BUDGET BY THE GOVERNOR AND

WAS NOT RESTORED IN THE MID-YEAR REVISION. OUR REVIEW OF THIS ISSUE SUGGESTS A HIGH PROBABILITY THAT THE FEDERAL GOVERNMENT WILL DEMAND PAYMENT IN FULL OF THIS OUTSTANDING OBLIGATION DURING THIS CURRENT FISCAL YEAR. FEDERAL REGULATIONS REQUIRE THE STATE TO HONOR THIS OBLIGATION WITHIN SIXTY DAYS OF RECEIPT OF INVOICE. WE HAVE BEEN INFORMED THAT THE DEPARTMENT OF HEALTH SERVICES HAS RECENTLY RECEIVED FEDERAL REQUEST FOR PAYMENT. WE HAVE, THEREFORE, INCREASED ANTICIPATED EXPENDITURES FOR THE CURRENT YEAR BY \$23 MILLION TO REFLECT PAYMENT OF THIS CLAIM.

**(b) DEBT SERVICE ON GENERAL OBLIGATION BONDS (\$1 MILLION)**

BASED ON OUR RECENT DISCUSSIONS WITH THE STATE TREASURER'S OFFICE, WE ESTIMATE THAT DEBT SERVICE ASSOCIATED WITH CURRENT-YEAR BOND SALES WILL EXCEED THE BUDGET ESTIMATE BY \$1 MILLION IN 1988-89.

**(c) INMATE POPULATION GROWTH (\$9 MILLION)**

WE PROJECT ADDITIONAL EXPENDITURE REQUIREMENTS WITHIN THE DEPARTMENT OF CORRECTIONS TO REFLECT OUR HIGHER ESTIMATE OF CURRENT-YEAR CASELOAD GROWTH. RECENT TRENDS INDICATE THAT CASELOAD GROWTH IS OUTPACING ESTIMATES CONTAINED IN THE BUDGET AND THESE TRENDS IN ALL LIKELIHOOD WILL CONTINUE.

**(d) UNIDENTIFIABLE SAVINGS (\$50 MILLION)**

THE ADMINISTRATION'S ESTIMATE OF CURRENT-YEAR SPENDING ASSUMES \$200 MILLION IN UNIDENTIFIABLE SAVINGS. THIS REDUCTION TO TOTAL BUDGET APPROPRIATIONS IS MADE BECAUSE, INEVITABLY, ALL OF THE FUNDS APPROPRIATED FOR VARIOUS PURPOSES IN ANY GIVEN FISCAL YEAR ARE NOT FULLY EXPENDED. HOWEVER, THE LEVEL OF UNIDENTIFIABLE SAVINGS CHOSEN BY THE ADMINISTRATION APPEARS TO BE OPTIMISTIC BY HISTORICAL STANDARDS. IN ADDITION, THE 1988-89 SPENDING PLAN INCLUDES A 2% REDUCTION TO MANY OF THE STATE AGENCY BUDGETS AS A SAVINGS MEASURE IN RESPONSE TO THE PROBLEMS CREATED BY THE 1987-88 REVENUE SHORTFALL. IT IS



HIGHLY PROBABLE THAT A PORTION OF THE REDUCTIONS MADE TO BUDGET APPROPRIATIONS MAY COME AT THE EXPENSE OF UNIDENTIFIABLE SAVINGS.

THE FINAL ITEM IN TABLE 1 IS \$124 MILLION IN ADDITIONAL FUNDING ARISING FROM OUR HIGHER REVENUE ESTIMATES AND THEIR INTERACTION WITH PROPOSITION 98. UNDER THE MINIMUM FUNDING REQUIREMENTS OF THIS INITIATIVE, ABOUT 40% OF THE ADDITIONAL REVENUES WOULD AUTOMATICALLY FLOW TO K-14 EDUCATION. THUS, THIS ITEM IS A COST PRESSURE ONLY IF THE ADDITIONAL REVENUES WE FORESEE MATERIALIZE IN THE CURRENT YEAR.

AS WE PREVIOUSLY MENTIONED, OUR EXPENDITURE ADJUSTMENTS ALSO INCLUDE "CONTINGENT COST PRESSURES" WHICH, IN OUR OPINION, IF NOT SUCCESSFULLY RESOLVED BY THE ADMINISTRATION COULD WORK TO INCREASE EXPENDITURE PRESSURES BEYOND THE \$207 MILLION IN ADDITIONAL COSTS WE PREVIOUSLY NOTED. OUR CONTINGENT BUDGET PRESSURES INCLUDE:

**(1) REVERSION OF DISENCUMBERED BALANCES (\$80 MILLION)**

DISENCUMBERED BALANCES, OR UNLIQUIDATED ENCUMBRANCES AS THEY ARE ALSO KNOWN, REPRESENT FUND

BALANCES FROM PRIOR-YEAR APPROPRIATIONS THAT HAVE BEEN COMMITTED BUT NOT YET SPENT. THE GOVERNOR'S BUDGET PROPOSAL ASSUMES THAT \$80 MILLION IN UNLIQUIDATED ENCUMBRANCES FOR WHICH GOODS OR SERVICES HAVE NOT BEEN RECEIVED CAN BE ADMINISTRATIVELY REVERTED IN THE CURRENT YEAR. THIS IS A KEY COMPONENT OF THE ADMINISTRATIVE PROPOSAL TO AVOID A DEFICIT IN THE CURRENT YEAR. SHOULD THE ADMINISTRATION BE UNSUCCESSFUL IN REVERTING THESE FUNDS, THE GENERAL FUND RESERVE POSITION WILL BE NEGATIVELY AFFECTED.

**(2) HOSPITALS FOR THE DEVELOPMENTALLY DISABLED (\$26 MILLION)**

SERVICES PROVIDED BY THE STATE HOSPITALS ARE SUPPORTED FROM A VARIETY OF FUNDING SOURCES, INCLUDING THE STATE GENERAL FUND AND FEDERAL FUNDS. RECENTLY THE FEDERAL GOVERNMENT DENIED A STATE REQUEST FOR ADDITIONAL FUNDING TOTALING \$27 MILLION FOR SERVICES PROVIDED TO DISABLED PATIENTS. THE DEPARTMENT OF DEVELOPMENTAL SERVICES HAS REQUESTED ADDITIONAL STATE SUPPORT TO OFFSET THESE LOST FUNDS. WE UNDERSTAND THAT THE ADMINISTRATION IS DEVELOPING PLANS TO COVER THE SHORTFALL WITH A

LOAN FROM SPECIAL FUNDS. HOWEVER, IF THIS STRATEGY PROVES UNSUCCESSFUL, THIS EXPENSE COULD BECOME A GENERAL FUND OBLIGATION IN THE CURRENT YEAR.

SINCE OUR FEBRUARY REPORT, WE HAVE IDENTIFIED ANOTHER \$3.4 MILLION IN APPROVED DEFICIENCIES WHICH WERE APPROVED BY THE DEPARTMENT OF FINANCE DURING FEBRUARY. THESE ADDED COSTS WILL FURTHER REDUCE THE YEAR-END BALANCE.

THAT CONCLUDES MY REMARKS THIS AFTERNOON. I WELCOME YOUR QUESTIONS AND/OR COMMENTS ON ANY ISSUES REQUIRING FURTHER CLARIFICATION.



**Table 1**  
**Summary of COSF Expenditure Adjustments**  
**Fiscal Years 1988-89 and 1989-90**  
*(Dollars In Millions)*

	<b>1988-89</b>
Governor's Budget Projections	\$35,922
COSF Adjustments:	
Federal Medi-Cal Audit Payments	23
Debt Service on G.O. Bonds	1
Inmate Population Growth	9
Proposition 98 (K-14 Education)	124
Unidentifiable Savings	50
	<hr/>
<b>TOTAL ADJUSTMENTS</b>	<b>\$207</b>
	<hr/>
COSF Expenditure Total	\$36,129
Other Contingent Budget Pressures:	
Reversion of Disencumbered Balances	80
Hospitals for the Developmentally Disabled	26
	<hr/>
<b>Total, Contingent Budget Pressures</b>	<b>\$106</b>

APPENDIX III:

AGENDA of the COMMITTEE PUBLIC HEARING  
(FEBRUARY 27, 1989)

CHAIRMAN  
WILLIAM CAMPBELL

VICE CHAIRMAN  
JOHN VASCONCELLOS

# California Legislature

## SENATE

ALFRED E. ALQUIST  
ROBERT G. BEVERLY  
BILL GREENE  
MILTON MARKS  
JOSEPH MONTOYA  
NICHOLAS C. PETRIS

## ASSEMBLY

WILLIAM BAKER  
JOHN BURTON  
ROBERT CAMPBELL  
ROBERT C. FRAZEE  
WILLIAM LEONARD  
MAXINE WATERS

# Joint Legislative Budget Committee

## CURRENT YEAR BUDGET DEFICIENCIES AND SAN FRANCISCO AIDS HOSPITAL DEFICIENCIES

State Capitol, Room 112  
Sacramento, California

Monday, February 27, 1989  
3:00 p.m.

1. Elizabeth G. Hill  
Legislative Analyst
2. Gail Lyle  
Executive Director  
State Commission on Finance
3. Robert Baldo  
President, Association of Regional Centers
4. Jeff Thompson  
California Correctional Peace Officers Association
5. Ed Mendoza  
Department of Health Services
6. Dr. David Werdegar  
City/County of San Francisco
7. Jesse Huff  
Director, Department of Finance

**APPENDIX IV:**

**TRANSCRIPT of the COMMITTEE PUBLIC HEARING  
(FEBRUARY 27, 1989)**



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HEARING  
JOINT LEGISLATIVE BUDGET COMMITTEE  
STATE OF CALIFORNIA  
  
"CURRENT YEAR BUDGET DEFICIENCIES AND  
SAN FRANCISCO AIDS HOSPITAL DEFICIENCIES"

STATE CAPITOL  
ROOM 112  
SACRAMENTO, CALIFORNIA

MONDAY, FEBRUARY 27, 1989  
3:23 P.M.

Reported by:  
  
Evelyn Mizak  
Shorthand Reporter

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APPEARANCES

SENATE MEMBERS PRESENT

- SENATOR WILLIAM CAMPBELL, Chairman
- SENATOR ALFRED ALQUIST
- SENATOR MARIAN BERGESON
- SENATOR ROBERT G. BEVERLY
- SENATOR BILL GREENE
- SENATOR MILTON MARKS
- SENATOR JOSEPH MONTOYA

ASSEMBLY MEMBERS PRESENT

- ASSEMBLYMAN JOHN VASCONCELLOS, Vice Chairman
- ASSEMBLYMAN WILLIAM BAKER
- ASSEMBLYMAN JOHN BURTON
- ASSEMBLYMAN ROBERT CAMPBELL
- ASSEMBLYWOMAN MAXINE WATERS

STAFF PRESENT

- TOM BURNS, Staff Director
- GARY W. ADAMS, Principal Consultant
- TERRY PILLSBURY, Committee Secretary

ALSO PRESENT

- ELIZABETH G. HILL  
Legislative Analyst
- GAIL LYLE, Executive Director  
State Commission on Finance
- ROBERT BALDO, President  
Association of Regional Centers
- JEFF THOMPSON, Legislative Advocate  
California Correctional Peace Officers Association

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ED MENDOZA  
Department of Health Services

SAMUEL D. YOCKEY, Controller  
City and County of San Francisco

DAVID WERDEGAR, M.D., M.P.H.  
Director of Health  
City and County of San Francisco

TERRI PARKER  
Department of Finance

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The following text details the Committee deliberations only on the issue of current year budget deficiencies, which was the first of two subjects under review during the February 27, 1989 public hearing.

P R O C E E D I N G S

--oo0oo--

1  
2  
3 CHAIRMAN CAMPBELL: Good afternoon, ladies and  
4 gentlemen. We'd like to welcome you to a hearing of the Joint  
5 Legislative Budget Committee.

6 With me today are Senator Al Alquist, the Chairman of  
7 the Senate Finance Committee and a Member of the Joint  
8 Legislative Budget Committee; Senator Bill Greene, the Chairman  
9 of the Subcommittee on Health and Welfare of Senate Finance and  
10 also a Member of the Joint Legislative Budget Committee;  
11 Assemblyman Bill Baker, the Vice Chairman of the Assembly Ways  
12 and Means Committee is with us today; and Assemblyman John  
13 Burton, a Member of the Assembly Ways and Means Committee and  
14 also a Member of the Joint Legislative Budget Committee.

15 Our staff, Tom Burns, the Chief Consultant; and Gary  
16 Adams, the Assistant Consultant; and Terry Pillsbury, our  
17 Secretary.

18 The Committee will review two areas of interest today.  
19 First, we will spend some time understanding current year  
20 deficiencies. And secondly, we will review a notification  
21 provided to the Legislature by the Department of Finance on its  
22 intention to allocate \$5.7 million to the City and County of San  
23 Francisco for construction of a multidisciplinary AIDS research  
24 lab at San Francisco General Hospital.

25 The budget submitted to the Legislature by the  
26 Administration on January 10th identified some \$231.9 million in  
27 current year deficiencies. These are costs above the amount  
28



1 appropriated in the Budget Act of 1988 for various programs.  
2 Some of these include administrative costs for trial court  
3 funding, additional prison guards at our prisons, additional  
4 students at our schools, and additional Medi-Cal payments.

5 All of the deficiencies have been reported to this  
6 Committee through the normal Section 27 notification process.  
7 They have been reviewed by the Legislative Analyst as staff to  
8 the Committee and will be included in the annual deficiency bill.  
9 In addition to the deficiencies identified by the Governor's  
10 budget, staff has identified an additional \$56.6 million in  
11 deficiencies. A list of those are identified in the packets  
12 before you. The Administration's budget shows only \$3 million is  
13 available to meet these deficiencies.

14 In addition, the Administration is proposing to realize  
15 \$80 million in as yet unidentified disencumbrances of various  
16 contracts which have not been completed. Should just one of the  
17 \$56.6 million in deficiencies we have identified or the \$80  
18 million in disencumbrances not be realized, the State may well  
19 face a deficit on June 30th of 1989.

20 The purpose of this hearing is to review the information  
21 available about deficiencies and to hear from the Administration  
22 and the various programs affected so we can begin to make  
23 recommendations to the Administration on steps which may be  
24 necessary to avert a shortfall this fiscal year.

25 In addition to the discussions of current year deficits,  
26 the Committee will be reviewing a notification provided through  
27 the Section 28 process for the Administration's plan to allocate  
28

1 \$5.7 million for the AIDS Research Laboratory at San Francisco  
2 General Hospital.

3 Last year the budget included \$5.7 million for the  
4 hospital and contained intent language that an additional \$4.8  
5 million would be available during the '89-90 fiscal year. The  
6 '89-90 budget submitted by the Administration does not contain  
7 the \$4.8 million. In a letter dated January 25th, Dr. Ken Kizer,  
8 Director of the Department of Health Services, called the failure  
9 to include these funds a "technical glitch."

10 The Legislative Analyst has reviewed the Section 28  
11 notification and has brought to the attention of the Committee  
12 the fact that the additional funds are not included in the budget  
13 and has recommended some cost savings which we may wish to  
14 consider. Late Friday, the Administration submitted to the  
15 Senate Budget Committee and the Assembly Ways and Means Committee  
16 a Finance letter proposing changes in the budget to provide the  
17 additional funds. I understand some Members may have concerns  
18 about these proposed changes.

19 Because the issue of current year deficiencies and the  
20 San Francisco AIDS Hospital are really separate, I propose we  
21 spend the first part of the hearing discussing the current year  
22 deficiencies, and then discuss the San Francisco issue.

23 So, if we could begin -- excuse me. Since I made  
24 introductions, Senator Bob Beverly, the Vice Chairman of the  
25 Senate Appropriations Committee and a Member of this Committee,  
26 has arrived, and Senator Joe Montoya, a Member of the Joint  
27 Legislative Budget Committee, is also with us.

28

1 Our first witness will be Ms. Elizabeth Hill, the  
2 Legislative Analyst.

3 Ms. Hill, if you would provide us with some information  
4 on the issue of the deficiencies in the current year, and how  
5 these deficiencies might have impact on the ending balances at  
6 the end of this fiscal year.

7 And additionally, if you have any information on the  
8 Administration's planned \$80 million in savings from the  
9 disencumbrances, please let us know how that is progressing.

10 MS. HILL: Thank you, Mr. Chairman and Members.

11 We've prepared two tables that I believe you have in  
12 front of you to try to summarize the deficiency situation in  
13 1988-89. Table 1 outlines the amounts reflected in the  
14 Governor's budget. And as you see, the statewide deficiency bill  
15 is the first line there, \$232 million. That's the traditional  
16 deficiency bill that the Legislature considers each year, and  
17 these amounts have been accounted for in the Governor's budget.

18 In addition, the budget also includes two departmental  
19 deficiency bills. The one for Education that would be paid out  
20 of the Proposition 98 reserve, that's the \$77 million there under  
21 "Individual Departmental Deficiencies," and the Secretary of  
22 State, in preparing the Voter's Pamphlet for the November  
23 election, incurred additional mailing costs of \$5.3 million,  
24 which is the nature of that Secretary of State deficiency bill.

25 In addition, the 1988 Budget Act authorizes various  
26 departments to incur deficiencies. The Department of Social  
27 Services amount is for the Aid to Families with Dependent

28

1 Children program, and the Department of Forestry and Fire  
2 Protection is for emergency fire suppression costs that have  
3 already been incurred, and that's the 27.1 million.

4 Subsequent to the delivery of the budget to the  
5 Legislature on January 10th, several things have happened since  
6 that time. The Department of Finance has approved a deficiency  
7 notification for Workers' Compensation claims for the Department  
8 of Industrial Relations. That's the \$3.1 million on the table.  
9 And then there has been notification to the Legislature where the  
10 Department of Finance has not yet approved the amount, and those  
11 are summarized in the column below.

12 It's my understanding that SB 50 was approved by both  
13 Houses today, and so the \$26 million reflected in the table would  
14 be taken care of by that appropriation.

15 Finally, we identified in our Perspectives and Issues  
16 analysis \$7.9 million for purchase of services for Regional  
17 Center clients, and that's the final figure on the table,  
18 bringing the total to \$410 million.

19 If you turn to Table 2, we have tried to attempt to put  
20 the General Fund expenditures and deficiencies into some sort of  
21 perspective, looking at them since 1978-79 until the budget year  
22 '89-90. I would point out that these deficiencies are a sum of  
23 several components: the statewide deficiency bill; the  
24 individual departmental deficiency bills; as well as Budget Act  
25 authorization.

26 You see that in actual dollars, deficiencies have grown  
27 from \$32 million in 1978-79 to the estimated \$410 million that we  
28

1 just reviewed for you in Table 1. As a percent of General Fund  
2 expenditures, it's grown from two-tenths of a percent in '78-79,  
3 to a little under 1.2 percent in the current year.

4 That basically highlights for you the overview on  
5 deficiencies. With regard to your \$80 million question, we have  
6 advised both the Ways and Means Committee and the Budget and  
7 Fiscal Review Committee in the Senate that we thought, based on  
8 our review, that it was unlikely that the Administration would be  
9 able to save the \$80 million in the projection. But we have yet  
10 to see any updated figures since the budget was introduced that  
11 we've been able to review for you. So, basically our view on the  
12 80 million remains unchanged as of this date.

13 Now, depending on the Committee's preferences, I'm also  
14 prepared to talk about the AIDS building. I don't know if you  
15 would prefer that I come back up when you want to discuss that  
16 issue or cover it now.

17 CHAIRMAN CAMPBELL: We prefer you come back up on that  
18 issue.

19 MS. HILL: All right.

20 CHAIRMAN CAMPBELL: Any questions of Ms. Hill at this  
21 time?

22 ASSEMBLYMAN BAKER: Just a general question.

23 CHAIRMAN CAMPBELL: Mr. Baker.

24 ASSEMBLYMAN BAKER: Do the deficiencies look any higher  
25 or lower than the last ten years? They appear to range from  
26 about .5 to 1.5.

1 MS. HILL: I think as you see, Mr. Baker, in Table 2,  
2 that percentage has increased somewhat, but the General Fund base  
3 has also increased over the period as well, going from \$16  
4 billion to \$36 billion. That's in part why we put the percentage  
5 terms in there, just to tell you the relative position of the  
6 deficiencies over time.

7 As the General Fund budget gets bigger, when you make an  
8 estimating error or you have a caseload growth, it causes a  
9 larger expenditure.

10 ASSEMBLYMAN BAKER: But when you have a forest fire  
11 deficiency of, say, 250 million one year, it didn't seem to make  
12 a real jump.

13 MS. HILL: I'm not aware of a \$250 million forest fire  
14 deficiency, but you take last year, for instance, we did have a  
15 \$27 million one. That's included in the \$410 million.

16 ASSEMBLYMAN BAKER: Okay. Thank you. That's it.

17 CHAIRMAN CAMPBELL: Any other questions by any Members  
18 of the Committee?

19 If not, thank you very much, Ms. Hill.

20 MS. HILL: Thank you.

21 CHAIRMAN CAMPBELL: Our next witness will be Ms. Gail  
22 Lyle. Ms. Lyle is the Executive Director of the Commission on  
23 Finance. And in her February, 1989 report, she notes the State  
24 may have an additional \$207 million in deficiencies but offsets  
25 this with a projection of \$308 million in new revenues.

26 As I recall, \$125 million of this amount stems from a  
27 difference in interpretation of the provisions of Proposition 98,  
28



1 and \$50 million is in unidentified savings; is that correct,  
2 Ms. Lyle?

3 MS. LYLE: That's correct.

4 Mr. Chairman, we have prepared a testimony which will  
5 give you our view of the fiscal condition of the General Fund, as  
6 well as identify any cost pressures that are in addition to the  
7 Governor's estimates.

8 Would you prefer that we not speak to the general  
9 condition of the General Fund?

10 CHAIRMAN CAMPBELL: No, that's fine. Speak to the  
11 general condition.

12 MS. LYLE: That'll be fine.

13 We recently completed our third quarterly review of our  
14 assessment of the General Fund. And in that report, we noted  
15 that in our estimation, we would end the current year with a  
16 reserve of \$79 million. That is approximately somewhat higher  
17 than the 3 million that is cited by the Administration.

18 It's particularly important to note that our reserve  
19 estimate of 79 million is dependent upon four key assumptions.  
20 Number one, as you have alluded to, we have higher revenue  
21 projections. We estimate that General Fund revenues for the  
22 current year will be approximately 308 million above the  
23 Administration's estimate. We base this primarily on a stronger  
24 economy, which we feel will translate into stronger personal  
25 income and sales tax revenues.

26 To give you a more current year-to-date assessment of  
27 where we're looking for General Fund revenues, they are  
28

1 approximately 194 million over the budget estimate on a year-to-  
2 date basis as of January 31st of this year.

3 The next current benchmark that will give us more  
4 accurate assessments of where we look from a revenue standpoint  
5 will be in April, when we receive the final payment for personal  
6 income taxes. So, we're all very anxiously awaiting the reports  
7 that we'll receive from the Franchise Tax Board at that date.

8 Bottom line compared to the year-to-date revenue  
9 estimates and a continuation of the strong economy, we're hoping  
10 that revenues will continue to uptrend as they currently have  
11 been.

12 The second assumption that we're making to our \$79  
13 million estimate is that the Administration's accounting changes  
14 are not disputed. It's important for us to note that our numbers  
15 are based or consistent with the Governor's proposed accounting  
16 changes. We are assuming that they are in conformity with GAAP,  
17 "Generally Accepted Accounting Principles," and that the numbers  
18 as cited by the Administration that relate to those accounting  
19 changes will not change.

20 The third assumption that we're making in relation,  
21 again, to our reserve estimate assumes that the additional  
22 expenditures that we have noted above the budget estimate of 207  
23 million will not exceed that amount. Clearly to the extent that  
24 they do, we will have some adjustments to our reserve estimates  
25 that we're noting at this hearing.

26 Our last and final assumption speaks to the fact that we  
27 are assuming a successful resolution by the Administration of  
28

1 contingent budget pressures. We've identified -- and I'll get to  
2 these when I get into a specific, line-by-line, accounting of  
3 those cost pressures -- but we have identified an additional 106  
4 million in budget pressures which could potentially erode our  
5 reserve estimate if the Administration is unsuccessful in  
6 resolving those. So again, that's another assumption that we  
7 speak to.

8 If I could now turn you very briefly to the specific  
9 items as cited, at the back of your testimony, you'll notice we  
10 have a Table 1, which breaks down our assessment of additional  
11 cost adjustments. I'll walk you through these line by line.

12 The first is the 23 million in federal Medi-Cal audit  
13 payments. This represents amounts due the federal government as  
14 a result of Medi-Cal overpayments. It's important to note that  
15 funding for this reimbursement was deleted from the Governor's  
16 budget, and it was not included in the mid-year revision. We  
17 feel that there is a very high probability that these funds will  
18 be paid in the current year, based upon discussions that we've  
19 had with the Department of Health Services. Apparently they have  
20 received a federal request for payment, and according to  
21 regulations, we've been told that the federal regulations require  
22 payment within 60 days of receipt of invoice. So we, to be  
23 cautious, have put this as a cost factor in the current year.

24 You'll notice that we have increased the budget  
25 projections by 1 million in debt service on general obligation  
26 bonds. Based upon preliminary information that we received from  
27 the State Treasurer's Office, we feel that the conservative  
28

1 increase in this cost area to account for a difference in planned  
2 bond sales.

3 We're showing 9 million in inmate population growth, and  
4 this is basically our assessment of the additional cost that  
5 would be related to increases in caseload estimates for inmate  
6 population. We've had discussions with the Department of  
7 Corrections, and apparently caseload growth is ahead of their  
8 current projections. We feel that, to be conservative, we need  
9 to account for this additional cost, and we will include this,  
10 again, as an additional cost pressure.

11 I'm going to skip the Prop. 98 and come back to that.

12 The last item in terms of the Commission's adjustment to  
13 the Governor's projections are the \$50 million in unidentifiable  
14 savings. This reduction -- let me just start at the beginning  
15 and walk you through this, because it's an area that can be  
16 somewhat complex.

17 The Administration's estimate of current year spending  
18 assumes 200 million in unidentifiable savings. The reduction to  
19 total budget appropriations is made because, inevitably, all of  
20 the funds that are appropriated in any one given year will not be  
21 totally expended.

22 We took some time and went back and tracked the  
23 historical level of unidentifiable savings and found that to be  
24 true to historical trends, a range of about 150 million would be  
25 more in line with historical trends. If you take that phenomenon  
26 and couple it with the fact that your 2 percent reduction in the  
27 current year spending plan, then to the extent that there is any  
28 cutback, it will probably come from unidentifiable savings.

1           We have, as a matter of course, increased our  
2 expenditure totals by the \$50 million, which reflects our  
3 difference of 150 million and the Administration's assumption of  
4 200 million.

5           If I could turn now to the contingent budget pressures,  
6 and again, these are items that we feel, if they're not resolved  
7 in the current year, will inevitably increase the reserve level  
8 that we're citing of 79 million. We have noted two. Ms. Hill  
9 spoke to the \$80 million issue of disencumbered balances. We  
10 treat that as well as a cost pressure. We feel that to the  
11 extent that the Administration is unsuccessful in reverting these  
12 balances to the General Fund, we will have some reduction in our  
13 -- a substantial reduction, in our reserve estimates.

14           We're also citing the 26 million in hospitals for the  
15 developmentally disabled, which you're very familiar with. And  
16 to give you some background, I hope I'm not being redundant, but  
17 recently the federal government, as you're aware, denied the  
18 claim for payment to the State in the amount of 27 million.  
19 We've chosen to cite this as a contingent pressure. We've been  
20 told that the Administration is attempting to front the General  
21 Fund by borrowing funds from special accounts or special funds to  
22 subsidize this program.

23           To the extent that they are not able to create funding  
24 for this program through that methodology, then we would be  
25 looking at a contingent cost pressure, again, eroding our reserve  
26 estimates.

27

28

1           So on total, you can see we've got total adjustments, as  
2 you'd alluded to, of 207 million, and contingent budget pressures  
3 of 106 million.

4           In the area of deficiencies, we are prepared to cite  
5 approximately 3.4 million in deficiencies that have been approved  
6 by the Department of Finance since our last report was published,  
7 again, as I mentioned, in February. This clearly would, again,  
8 or will again reduce our reserve estimates by that amount. And  
9 again, that's 3.4 million in approved deficiencies.

10          That concludes my remarks. I'm open at this point for  
11 questions or any issues of clarification.

12          CHAIRMAN CAMPBELL: Thank you very much.

13          Mr. Burton and then Senator Greene.

14          ASSEMBLYMAN BURTON: Inmate population growth, is that  
15 like more people doing the same amount of time, or is part of  
16 that the penalty enhancements where so many people are doing more  
17 time, besides being more people?

18          MS. LYLE: You know, we talked to the Department, and  
19 that number reflects an increase because it really relates to  
20 estimations -- differences in estimation calculations of what  
21 inmate growth would be for the current year.

22          ASSEMBLYMAN BURTON: As a result of penal laws passed  
23 during the last fiscal year?

24          MS. LYLE: No, I think it's an actual number. They  
25 estimated that it would be at a certain level, and in fact, in  
26 talking to them as recently as last week, the actual numbers, the  
27 actual increases, are far higher than their estimates.

28



1 ASSEMBLYMAN BURTON: They estimate that both in changes  
2 in laws, either we're adding new crimes, or also there's more  
3 crimes being committed under old laws?

4 MS. LYLE: That is a part of the increase, yes.

5 ASSEMBLYMAN BURTON: Thank you.

6 CHAIRMAN CAMPBELL: Senator Greene.

7 SENATOR GREENE: Ms. Lyle, you indicated that you used  
8 the same accounting practices and procedures as the  
9 Administration, and then you made some comment as to whether or  
10 not they'd conformed with GAAP.

11 If you're using those methods, wouldn't you be able to  
12 tell whether or not they do conform to GAAP?

13 MS. LYLE: We are not mandated to make the determination  
14 of whether the GAAP treatment is correct or if certain line items  
15 are in conformity with GAAP.

16 We merely have a goal to compare apples to apples. So,  
17 if the Administration has chosen to conform certain line items to  
18 a GAAP methodology, then we do so so that we can assess the  
19 differences in their revenue and expenditure numbers on equal  
20 footing.

21 SENATOR GREENE: But your agency itself would know what  
22 the GAAP procedure is, though; would it not?

23 MS. LYLE: No, we would not.

24 SENATOR GREENE: Why wouldn't you?

25 MS. LYLE: We don't propose to be accountants.

26 SENATOR GREENE: Only because you're just collecting  
27 numbers? Well then, in other words, we could never really turn  
28

1 to you to determine whether or not the procedure was conforming  
2 with GAAP.

3 MS. LYLE: That's correct, sir, in GAAP conformity.

4 SENATOR GREENE: Now, is a million dollars enough for  
5 the needed possible or potential costs on debt service? I  
6 understand that it could maybe be about 2.3 million.

7 MS. LYLE: We met with the State Treasurer's Office  
8 about two hours ago to confirm that, because we as well had the  
9 same question. We were told that for the current year, that a  
10 million dollars would certainly be an appropriate increase to  
11 cover increased debt service costs. For the budget year --

12 SENATOR GREENE: But in the budget year, in other words  
13 in July, we're looking at -- okay, that would conform with the  
14 information I have as well.

15 MS. LYLE: That's correct.

16 SENATOR GREENE: Now you're talking about unidentifiable  
17 savings. Couldn't the Administration, or any administration,  
18 produce unidentifiable savings at any point in time that it  
19 wished because it could just hold up something, or maybe fund  
20 something at a different level than even what we have in the  
21 budget? So, unidentifiable savings, while I know they follow a  
22 pattern, but unidentifiable savings can be produced by any  
23 administration at any time; is that not correct?

24 MS. LYLE: I don't believe so. I base this on  
25 information that's been given to me on exactly what  
26 unidentifiable savings are and how they really are created.

27  
28

1           It's not up to the Administration to control the  
2 operating budgets of the various programs. At the end of the  
3 year, when their operating budgets are tallied, then the  
4 department will come up with a bottom line net number. It's not  
5 up to the Administration to control that process throughout the  
6 year.

7           SENATOR GREENE: I don't understand that statement.

8           The Administration can do anything it wants because the  
9 agencies work for the Administration. So what is it that you're  
10 saying, that it's not up to them? They can do whatever they want  
11 to do, any Administration can.

12          MS. LYLE: Well, it's been my understanding that the  
13 individual departments run their own budgets in the sense of --

14          SENATOR GREENE: Well, you know, in the normal practice.  
15 But if the Department of Finance says don't spend something, they  
16 don't spend it.

17          MS. LYLE: That's a true statement.

18          SENATOR GREENE: And I'm not complaining. I'm not  
19 making any judgment on that, but that's just a fact of life. I  
20 could be the Governor and could do it. They have the authority  
21 to do it.

22          The agencies do not control their budgets beyond any  
23 broad instructions of the Administration.

24          MS. LYLE: Uh-huh.

25          SENATOR GREENE: We have instances of it every year in  
26 the budget where that happens.

1 MS. LYLE: Well, I don't want to give you any incorrect  
2 information, so I would prefer to get the details.

3 SENATOR GREENE: Okay, but I'm sure most of the Members  
4 here would agree with me on that, if they had a reason they  
5 wanted to do it. And I'm not saying yea or nay on it. I'm not  
6 passing out opinions, but I was just talking about it as an  
7 action which is available to it.

8 Thank you very much.

9 MS. LYLE: Thank you.

10 CHAIRMAN CAMPBELL: Let me introduce two additional  
11 Members of the Committee: Assemblyman Bob Campbell, my older  
12 brother --

13 (Laughter.)

14 CHAIRMAN CAMPBELL: -- and Senator Milton Marks have  
15 joined us.

16 Mr. Campbell.

17 ASSEMBLYMAN CAMPBELL: I was going to comment that the  
18 print's probably larger because of the old Chairman we've got.

19 (Laughter.)

20 ASSEMBLYMAN CAMPBELL: Just a question on the \$23  
21 million, what percentage of that, on the last sheet where it  
22 shows the Medi-Cal audit adjustment -- I guess I should ask what  
23 percentage of that is that the total amount of monies we get from  
24 the federal government? Is that a normal amount of money we  
25 audit adjustment every year for?

26 MS. LYLE: I really don't know. I would have to speak  
27 to the department and get that information from them.

28

1 ASSEMBLYMAN CAMPBELL: I wonder if that's abnormally  
2 high: it was 2 or 3 million, and now it's 23 million?

3 MS. LYLE: We don't have that information, but I'll be  
4 more than happy to get that for you.

5 CHAIRMAN CAMPBELL: Any other Members have questions of  
6 Ms. Lyle?

7 Thank you very much. We appreciate your testimony.

8 MS. LYLE: Thank you.

9 CHAIRMAN CAMPBELL: One of the major issues which is  
10 currently being debated in the Legislature is the funding  
11 problems for regional centers for the developmentally disabled.  
12 And the Legislature passed today SB 50, which appropriated 27  
13 million to cover the final three months of this fiscal year.  
14 Since we do not have adequate funds to pay for this cost, a  
15 compromise has been developed to resolve this funding problem.

16 With us today is Robert Baldo to discuss the impact of  
17 the failure to provide the necessary funds. Mr. Baldo is  
18 President of the Association of Regional Centers.

19 MR. BALDO: Thank you very much, Senator Campbell and  
20 Members of the Committee.

21 I did have a prepared statement to make today; however,  
22 given the events that occurred this morning and this afternoon, I  
23 don't think it's appropriate or necessary for me to go into great  
24 detail with the statement but to reiterate.

25 We were expecting as a system the \$27 million from the  
26 federal government. It did not materialize, and SB 50 would  
27 restore those funds to the regional centers.

28

1           The problem with the \$27 million shortfall, of course,  
2 is that it has put us in the position as a system to advise our  
3 workers and our providers and our clients that we might be  
4 shutting down. Obviously, we're hopeful that the Governor will  
5 sign the bill so we won't have to get into that particular  
6 predicament at this particular point in time.

7           Additionally, we are projecting right now a shortfall in  
8 what's called the purchase-of-service portion of the regional  
9 center budgets that's somewhere in the neighborhood of  
10 approximately \$6 million. The Department of Developmental  
11 Services is reviewing the funding plans developed by each  
12 regional center to determine how much money that they will be  
13 able to shift from primarily the operations budgets of regional  
14 centers to what's called the purchase-of-service portion of the  
15 budget.

16           The operations budget of regional centers consists of  
17 salaries and wages and operating expense. Most of the salaries  
18 and wages which are paid to regional center staff are for direct  
19 service workers. I think it's a misconception that the  
20 operations budget of regional centers is nothing but  
21 administrative overhead. That's far from the case. Most of the  
22 money for staff goes for what we call our program coordinators --  
23 social workers, psychologists, nurses, doctors, and other allied  
24 medical and health service staff -- to provide the kind of direct  
25 service that regional centers are mandated to provide by law.

26           There are a number of mandates in the law that can only  
27 be provided by regional center staff directly and cannot be  
28



1 contracted out or provided by a vendor service to regional  
2 centers.

3 The concern that we have for next fiscal year is the  
4 fact that the Governor's budget does indicate that there is  
5 actually \$48 million in Title 19 funds that are expected to come  
6 from the federal government. We're concerned we will be in the  
7 same position we were -- we are this year, next year at this  
8 time. We believe that especially as it relates to targeted case  
9 management, that maybe that that money ought to be put into the  
10 budget as a revenue and not as a reimbursement, as we strongly  
11 suggested last year at this particular point in time.

12 I think the best I can do right now is to answer any  
13 questions that you might have regarding the regional center  
14 program, which is a complex program, I think; difficult for us to  
15 explain to all of you, and one that, obviously, that's been in  
16 the press here recently and before you as a very large issue.

17 We do serve 90,000 people in California. Our budget has  
18 grown substantially over the past number of years, but so has the  
19 number of people that we serve. I'd like to remind some of the  
20 Members who have been here for some time and been in the field  
21 for some time that in approximately 1965 and '66, when the first  
22 two regional centers were created, there were 13,000 persons with  
23 developmental disabilities in the State Hospital system. Right  
24 now there are approximately 6500. I don't know what the  
25 population growth of California has been since 1965, but I would  
26 venture somewhere in the neighborhood of 10 million people, so  
27 that the regional center system really has provided the necessary  
28

1 alternative to the community, which it was designed to do. And  
2 it was designed to meet the unique needs of the communities in  
3 which it's operating. That's why we're all different, but at the  
4 same time, have many similarities as mandated by State law.

5 I think that a major issue that has faced us for some  
6 time is the funding that's provided to the providers of services  
7 in the community. And these would be people who provide day  
8 program services, transportation, residential care and services  
9 like that, where the workers who provide the hands-on kind of  
10 service out there are really, most of them, getting minimum wage  
11 or a little bit above and very few benefits. So, that this  
12 system has almost, it seems to me, has some sort of dichotomy in  
13 the sense that in the State Hospital, which serves about 6500  
14 people, you have a group of staff who get much more in terms of  
15 dollars and benefits than do direct care workers that are vendors  
16 to regional center clients. And I think this is an ongoing  
17 problem that's going to be with us for some time.

18 We recognize the condition of the State of California,  
19 the financial condition of the State of California. We're very  
20 concerned about the potential for cannibalization in human  
21 services programs, of one human service program being pitted  
22 against the other. We do not wish to participate in that  
23 cannibalization activity, but at the same time, as President of  
24 the Association of Regional Center Agencies, I can guarantee you  
25 that I, along with the other 21 centers in the state, and the  
26 people that we serve, are going to fight for the services that we  
27 feel are rightfully ours.

28

1           And I might remind you that the Lanterman Developmental  
2 Services Act is an entitlement program which was -- actually, two  
3 years ago there was a lawsuit filed by ARC California against the  
4 Department of Developmental Services which did -- the Supreme  
5 Court did indicate at that time that this was an entitlement  
6 program. So, the services we're providing we must provide,  
7 regardless of our budget situation.

8           We do have closed-end contracts with the State of  
9 California, the Department of Developmental Services; however,  
10 the Supreme Court indicated that we have an obligation to provide  
11 services regardless of what our funding situation is, and that  
12 happens to be the situation in the current fiscal year.

13           We appreciate the opportunity to come before you today  
14 and talk to you about the regional center program. I'd be happy  
15 to answer any questions you might have.

16           CHAIRMAN CAMPBELL: Any questions? Senator Greene.

17           SENATOR GREENE: What classifications of employees do  
18 you have that are working for below minimum wage?

19           MR. BALDO: The employees I'm referring to are not  
20 employees of the regional centers, but employees who work for  
21 vendors of regional centers. And what I said was that many of  
22 them are working at minimum wage or a little bit above.

23           SENATOR GREENE: But they have contracts with vendors to  
24 provide a certain service, and what have you, and the cost is the  
25 cost of that contract and has nothing to do with what they pay  
26 their employees; is that correct?

27

28

1 MR. BALDO: No, not necessarily correct. The rates,  
2 almost all the rates in this particular system are established by  
3 the Department of Developmental Services or through the schedule  
4 of maximum allowances, so that we've got no control. We in the  
5 regional centers have no control over what --

6 SENATOR GREENE: I understand that. That's why it's of  
7 no concern to you.

8 If I'm supplying something to you, you have a contract  
9 with me to provide it for you for a certain price. Now, what I  
10 pay my employees may or may not be reflected in that contract,  
11 and that's not a matter that you need to concern yourself with;  
12 is it?

13 MR. BALDO: Well, I think it is because those workers  
14 are an integral part of the delivery system.

15 SENATOR GREENE: Do you include that? In other words,  
16 if I, as an employee of a firm that is a vendor, if I come and  
17 complain to you that I'm not making enough money, what do you do?

18 MR. BALDO: Right now there's not a whole lot I can do  
19 except to say that we understand that you're probably underpaid,  
20 and that as a system that we're going to need to address this  
21 issue and work together with the --

22 SENATOR GREENE: You do know that I hear the  
23 developmental disabilities budget on the Senate side.

24 MR. BALDO: Yes, I do.

25 SENATOR GREENE: And that has never been a part of the  
26 budget makeup. It's never even been presented to us as a part of  
27 the budget makeup. And I don't know of many kinds of services  
28

1 that you are doing business with people in, I mean, even  
2 maintenance services, the people are making more than minimum  
3 wage.

4 I'm for you and whatever, but I just do not like for  
5 people to overstate things.

6 MR. BALDO: Well, I think that --

7 SENATOR GREENE: Because that says either we're dumb or  
8 something.

9 MR. BALDO: I certainly don't think you are, and I'd  
10 just like to refer you to last year, Senate Bill 1513, which was  
11 a bill to raise rates for our community care providers. And I  
12 think that was one of the issues there in terms of costs that  
13 were calculated to pay for the direct care workers in the  
14 residential facilities.

15 CHAIRMAN CAMPBELL: Any other questions?

16 Thank you very much.

17 MR. BALDO: Thank you.

18 CHAIRMAN CAMPBELL: The next witness with us today is  
19 Mr. Jeff Thompson, representing the California Correctional Peace  
20 Officers, and almost -- almost -- a winner of the Pat Riley look  
21 alike contest at Arco Arena a couple of weeks ago, but --

22 MR. THOMPSON: What can I say?

23 CHAIRMAN CAMPBELL: -- he came in second. That was not  
24 bad, Jeff.

25 MR. THOMPSON: We try harder though.

26 Thank you, Mr. Chairman and Members.

27 Jeff Thompson with the Los Angeles Lakers here.

28

(Laughter.)

1  
2 MR. THOMPSON: Also with the California Correctional  
3 Peace Officers Association.

4 I thought people had forgotten about that contest. I  
5 wish they would.

6 We appreciate the opportunity to address the Committee  
7 today. I wanted to first start by thanking the Committee for its  
8 action of about two weeks ago. A deficiency letter was approved  
9 through this Committee to fund a portion of some \$37 million in  
10 deficiency spending for Corrections; 4 million was removed; 32  
11 million was approved.

12 We're also in the middle of working on a bill dealing  
13 with a deficiency as it relates to AIDS treatment at the Chino  
14 facility. That is Senate Bill 76, and frankly, I think some of  
15 the Members on this Committee were in the Appropriations hearing  
16 this morning which approved passage of that bill, although they  
17 did reduce some of the appropriation in it.

18 That -- frankly, that money was cut short not by the  
19 Administration but rather by the Budget Conference Committee last  
20 year. We found ourselves with about half of the staff that we  
21 needed to run that unit effectively for prisoners who have AIDS,  
22 and the approval this morning, the unanimous approval by Senate  
23 Appropriations, was greatly appreciated.

24 And I'm speaking directly for some of the staff members  
25 that have to handle that unit, in which last week had a  
26 relatively bloody little mini-riot on the unit, with AIDS blood  
27 all over the floor and all over at least one officer.

28



1           Some of you may be familiar with the -- I guess they  
2 call it an AIDS dementia that occurs to a person who  
3 psychologically can't quite handle the reality that they're  
4 dying. And it puts a person who is incarcerated in a  
5 particularly pressure kind of situation, given that their general  
6 freedoms have been taken from them due to crimes committed, which  
7 they've been duly convicted for, but the fact that they have the  
8 AIDS disease creates a certain kind of additional -- obviously,  
9 additional psychological stress on that confinement.

10           So, we have found that the program there, which has been  
11 set up to handle these kinds of inmates, needs the staffing to  
12 fully run the program. About a hundred beds are empty because of  
13 the short staffing, the short funding, and this bill, which  
14 Senator Ayala is carrying, would rectify that at least in the  
15 last quarter of this current year. The Administration has  
16 budgeted for it in the upcoming year, and we're hoping to  
17 persuade the Legislative Analyst's Office that they ought to see  
18 it our way.

19           At any rate, that's kind of the current year stuff that  
20 we're working on.

21           We are somewhat surprised, and I think I'm pleasantly  
22 surprised, to hear the State Commission on Finance say that  
23 they're about \$308 million above Department of Finance estimates  
24 on current year revenues. We're looking at, obviously, a very,  
25 very tight year; a year unlike any we've seen in a long time.

26           And in the upcoming budget year, one thing does concern  
27 us which we would like to discuss with the Committee and share  
28

1 this with you. If the revenues do continue to come in, given  
2 that the new budget year has about \$128 million of room between  
3 the spending limits that exists under Prop. 4 and the amount of  
4 revenues projected, if those revenues do go over, all of that  
5 money would be available only to one sector of public service.  
6 That concerns us. And that sector is Education, Prop. 98.

7 I'm certainly not going to quarrel with anybody about  
8 the legitimate needs that Education has for funding, but we do  
9 believe that that Proposition -- which, I might add, was somewhat  
10 controversial, one would have to admit, on the ballot because it  
11 only passed by seven-tenths of one percent -- but that that  
12 proposition does unnecessarily handcuff the Legislature in terms  
13 of shuffling the kinds of priorities that they have to be  
14 concerned with, whether it be a developmental center, or whether  
15 it be an overcrowded prison, or whether it be an overcrowded  
16 classroom.

17 But I would like to point out to the Joint Committee  
18 here, since I have two Houses in concert, that you have an  
19 opportunity to vote for a little fiscal freedom, if you will, and  
20 with a two-thirds vote under provisions of the current  
21 Constitution, the current formula in Prop. 98 could be held in  
22 abeyance and allow you at least some flexibility in terms of  
23 allocating the State's money.

24 Now, I know that's only one leg of the problem. You've  
25 got a revenue shortfall. You have an unnecessarily constraining  
26 spending limit, but you also have an unnecessarily constraining  
27 money spending formula in 98, and so we'd like to call that to  
28

1 the Joint Budget Committee's attention. Remind you that you do  
2 have some flexibility under those provisions of Prop. 98. And  
3 I'd like to see the Legislature be as equitable and as fair as it  
4 can be to all the services that it does fund across the board.

5 We're looking at, at least our little part of the world  
6 -- which, I might add, is a pretty super heated little part of  
7 the world -- we've had nothing but growth, as you know. About --  
8 just in the last five years, from 1983, when we had 35,000  
9 inmates; now at the end of '88, and of course the beginning of  
10 1989, we're looking at 75,000 inmates; more than doubled. About  
11 45,000 are on parole, which gives us a more or less a captive  
12 audience, if you will, of about 120,000 people.

13 The growth that the State Commission on Finance  
14 identified to you, which is projected at about 9 percent, I was  
15 interested to hear their comment that they believe that the  
16 population is rising faster than projections. We would concur  
17 with that. In looking at population growth over the last couple  
18 of weeks, that rate of growth looks like more on the line of  
19 about 14 percent. Given that there's been about a 5 percent  
20 budget cutback in this current year, approximately a 5 percent  
21 inflation rate, and if you look at just the obviously  
22 conservative growth estimate of about 9 percent, you're looking  
23 at about a 19 percent need in the Department of Corrections, and  
24 the budget itself funds 12.8 percent.

25 So, we're looking at a deficiency, if you will, even if  
26 you use the growth which all parties agree seems to be too  
27 conservative in that our inmate population is growing at a rate  
28

1 much faster than earlier projections in December and January,  
2 when the budget was proposed. We could be looking for additional  
3 pressures on what seems to be, on the surface -- and I think I  
4 was surprised, and you all probably were, too -- seems to be a  
5 generous budget. A 12.8 percent budget increase in Corrections,  
6 or in any department, seems generous. But when you look at the  
7 way these budget numbers fall out as far as the population  
8 increase, look at the amount of money that was absorbed or cut  
9 out of this current year, and what inflation will eat into -- and  
10 I think I'm using the same formula that Bill Honig likes to use  
11 -- we're looking at about a 19 percent need. And you're looking  
12 at about a 6.8 percent shortfall, or a 6.2 percent shortfall in  
13 terms of that amount.

14 So, to the extent that you can allow yourself a little  
15 more freedom in terms of working out the final budget numbers for  
16 this year, I would implore you to consider the two-thirds vote  
17 needed to hold 98 in abeyance. And I know that provision exists.  
18 In debates -- and I might add, we were opposed to the proposition  
19 -- but in debates with the proponents, they indicated that that  
20 was more or less their safety valve. And that if things became  
21 too tight for the Legislature to deal with in terms of meeting  
22 the vast array of public service needs, that this was there and  
23 available so that they didn't cause too much of a pinch.

24 In reading over some of the material put out by the  
25 Assembly Ways and Means Committee, that Committee identified  
26 Prop. 98 as about 25 percent of the overall budget universe  
27 problem; the other 75 percent being either a revenue issue, and I

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1 think the other issue if revenues are good is the State spending  
2 limit itself.

3 There is activity, and I'm sure you're aware of it, that  
4 is called a Project 90 Group, which addressed the Senate Rev. and  
5 Tax Committee about a week and a half ago. That group is chaired  
6 by the Cal-Tax Association, but includes a vast array of public  
7 sector groups, a lot of public sector labor interests, the  
8 medical association, health care interests and the like, and they  
9 are proposing an adjustment to the spending cap, which I think  
10 would be very important as far as the ability of the Legislature  
11 to address its stresses and its pressures in the public service  
12 arena across the board.

13 So, you've got the spending limit issue. You have the  
14 Prop. 98 guaranteed spending issue. And of course, the revenue  
15 side of things. And if there's something that could come along  
16 that would close the loop holes, if you will, we'd love to see  
17 that, and we could support that.

18 I think I've pretty much exhausted my commentary. I  
19 appreciate the opportunity to address the Committee, and I hope  
20 that you'll be able to do something with both the spending limit  
21 issue that SCA 1 will carry, and hopefully, something to do with  
22 Prop. 98.

23 CHAIRMAN CAMPBELL: Thank you very much.

24 Are there any questions? Senator Greene.

25 SENATOR GREENE: I just have one question to make so  
26 that I understand.

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1 CHAIRMAN CAMPBELL: Senator Greene, before you begin,  
2 let me introduce. We've had joining us also Ms. Maxine Waters  
3 from the Assembly, a Member of this Committee. Also joining us  
4 is Senator Mary Bergeson. And walking in right now from the  
5 Assembly is the Chairman of the Ways and Means Committee, John  
6 Vasconcellos.

7 SENATOR GREENE: Just a question.

8 You're not advocating that we take the money away from  
9 Education as earmarked by 98, are you? Is that what you're  
10 advocating?

11 MR. THOMPSON: Well, we would say that you would do  
12 yourself a favor by holding it in abeyance, and you may  
13 eventually want to give a large portion of that to Education.

14 SENATOR GREENE: You've aroused my curiosity. How would  
15 I, as a Legislator, be doing myself a favor?

16 MR. THOMPSON: Well, you have the witness before me that  
17 was representing the developmental centers. And I'm sure you can  
18 think of more examples in the health care area than I can that  
19 are underfunded. They're part of the service universe that the  
20 State funds, and certainly our population is, and it's mandated  
21 to us by the courts to handle.

22 I would just say that if you've got a very, very pinched  
23 budget, and I know you do, to the extent that you give yourself  
24 more flexibility in where you put your increases, the better off  
25 you are.

26 With Prop. 98, there is a mandated formula for spending,  
27 and it's a fairly --

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1           SENATOR GREENE: I know what it is, but the people voted  
2 that in, Jeff. The people in my district voted for it 100  
3 percent.

4           Are you suggesting to me that I take some action which  
5 is contrary to the people who elect me?

6           MR. THOMPSON: Well, 47 --

7           SENATOR GREENE: Because if I had to take a chance on  
8 all those other folks in my constituency, I hope you wouldn't  
9 hold your breath.

10          MR. THOMPSON: No, I understand your position, sir, on  
11 that point.

12          SENATOR GREENE: Because, see, all of those people --  
13 I'm not debating it, honestly. I'm considering what you're  
14 saying -- all of those people you're talking about couldn't  
15 affect my district one way or the other. And nine out of ten of  
16 them aren't even interested in it in a district like mine.

17          So, those are not the kind of people that will make an  
18 impression on me.

19          Law enforcement would even come closer nowadays, with  
20 crime being so prevalent and so much chaos and criminality going  
21 on in the communities I represent. Law enforcement would have  
22 much, much -- could potentially have much, much influence than  
23 any of those other groups, because they can't produce a vote or  
24 take away a vote in my district.

25          MR. THOMPSON: Well Senator, I raised that point only  
26 because that's what the proponents of Prop. 98 told me in debate.

27          SENATOR GREENE: I'm not trying to debate.

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1 MR. THOMPSON: I understand that point. And I  
2 understand a Member that obviously has to vote their  
3 constituency. That certainly makes sense.

4 I would suggest, though, that if 47 out of 58 counties  
5 voted it out, voted no on it, there's an awful lot of Members  
6 that, voting their constituency, they might have to go the other  
7 way.

8 I'm just saying that this is what I was told in debates,  
9 and in fact, it was in front of Teresa Hughes' committee in L.A.  
10 when Ed Foglia was saying we can hold this thing up if it's too  
11 tight. And I'm just saying let's take them at their word if it  
12 is too tight.

13 I think that the numbers seem to suggest that it is  
14 right now, and I hope the trend in revenue continues. That's  
15 certainly good news. But there's not guarantee that that will  
16 happen.

17 CHAIRMAN CAMPBELL: Mr. Baker has a question.

18 ASSEMBLYMAN BAKER: I think what you're saying is that  
19 you were told during the campaign that if there were budget tight  
20 years, such as an overcrowding of the prison system or some other  
21 problem came along, that there was a mechanism within 98 to allow  
22 a fund shift. That's what you're trying to say?

23 MR. THOMPSON: That's correct.

24 ASSEMBLYMAN BAKER: Mr. Greene's saying how could I do  
25 it. He'd have to point to that as an overriding concern.

26 MR. THOMPSON: Right.  
27  
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1 ASSEMBLYMAN BAKER: I want to compliment you on the  
2 positions that you've taken, because you certainly do have  
3 problems within your system. And I think what you're saying is,  
4 you don't want to be on the firing line when the final budget's  
5 put together to get another \$90 million chop, which is what  
6 happened last year.

7 MR. THOMPSON: That's correct.

8 ASSEMBLYMAN BAKER: You're saying in advance: watch  
9 out. We do have certain problems of overcrowding. You don't go  
10 out and recruit the people that come to you; the courts send them  
11 to you.

12 MR. THOMPSON: That's correct.

13 ASSEMBLYMAN BAKER: And you want your visibility, and I  
14 think you've done a good job getting it.

15 MR. THOMPSON: Thank you.

16 CHAIRMAN CAMPBELL: Any other questions?

17 If not, thank you very much.

18 MR. THOMPSON: Thank you, Senator.

19 CHAIRMAN CAMPBELL: Next, we're going to switch issues  
20 at this point. Liz, if you'd come back up here, and we'd like to  
21 talk about the issue of the allocation of funds to the City and  
22 County of San Francisco for the construction of a  
23 multidisciplinary AIDS research lab at San Francisco General  
24 Hospital.

25 MS. HILL: Thank you, Mr. Chairman and Members.

26 First --  
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