



pate in the State School Building Lease-Purchase program, and (2) accommodate overcrowding through the use of year-round schools.

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

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

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

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

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

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

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

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

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

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

- reflects district-specific land and construction costs; and

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

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

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

As introduced in January, the Governor's budget used a broad definition of appropriations which could count towards Proposition 98's minimum funding requirements. This definition, which was consistent with existing legislative and Department of Education policy, included both public and private child development programs. In June, a superior court decision in *CTA v. Huff*, No. 363630 (Sacramento County Superior Court, June 20, 1990), directed the state to use a narrow definition which

excludes private child development programs from the guarantee. As a result, the Governor directed that \$137 million in funding for privately-operated child development programs not count towards meeting Proposition 98 requirements. This and other adjustments reduced the Proposition 98 minimum funding guarantee by \$170 million and made \$33 million available for non-Proposition 98 programs. The *CTA v. Huff* decision is currently being appealed.

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

ASSEMBLY OFFICE OF RESEARCH

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Established in 1966, the Assembly Office of Research (AOR) brings together legislators, scholars, research experts and interested parties from within and outside the legislature to conduct extensive studies regarding problems facing the state.

Under the director of the Assembly's bipartisan Committee on Policy Research, AOR investigates current state issues and publishes reports which include long-term policy recommendations. Such investigative projects often result in legislative action, usually in the form of bills.

AOR also processes research requests from Assemblymembers. Results of these short-term research projects are confidential unless the requesting legislators authorize their release.

MAJOR PROJECTS:

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



compares the current federal excise tax rates with the rates of California and other states; discusses alcoholic beverage production and consumption figures for 1988, as well as industry employment data; provides a profile of alcoholic beverage consumers; discusses alcohol abuse and its societal costs; and summarizes legislation aimed at raising the state alcohol excise tax.

As background information, AOR reviews the history of federal alcoholic beverage regulation, which includes the Temperance Movement, the eighteenth amendment to the U.S. Constitution (Prohibition), and the twenty-first constitutional amendment. The twenty-first amendment repealed the eighteenth amendment; gave the states important powers and responsibilities regarding the production, distribution, and sale of alcoholic beverages by limiting federal powers applicable to other consumer products; and allowed the federal government to retain the power to impose a federal excise tax on all alcoholic beverages sold in the United States.

Turning to state alcoholic beverage control regulation, the report notes that, like the majority of states, California is a license state. All wholesale and retail sales of alcoholic beverages are made by private "licensees" who must obtain a license from the state as a condition of doing business. California law places all power to regulate alcoholic beverages in the hands of a single state agency, the Alcoholic Beverage Control Department (ABC), while strictly limiting local control. Although the state Board of Equalization is responsible for collecting alcohol excise taxes, ABC has exclusive jurisdiction to license and regulate alcoholic beverage manufacturing, importing, distributing, and retailing in the state. ABC may suspend, revoke, or deny a license if it determines that the granting or renewal of the license would be contrary to public welfare or morals; seize and dispose of alcoholic beverages which are held in violation of ABC rules; assess and collect license fees and occupation taxes; inspect the books and records of any licensee; and investigate violations of Fair Trade Contracts (agreements that require wholesalers and retailers to sell beverages at prices set by the manufacturer).

Regarding alcoholic beverage taxation, AOR states that the federal excise tax on imported alcoholic beverages is imposed on the importer when the beverages are imported and pass through customs, unless the beverages are placed in customs-bonded warehouses. For wine, beer, or distilled spirits produced in the United States, the tax is imposed

on the producer at the time the beverages are sold or transferred in bond. The federal excise tax rates currently range from \$00.17 per gallon on wine with under 14% alcohol content to \$15 per gallon on 100-proof distilled spirits.

California excise taxes on distilled spirits are imposed on wholesalers at the time of sale to retailers, and on wine and beer at the time the product leaves the winery, brewery, or IRS-bonded warehouse. The state excise tax on wholesale currently ranges from \$0.01 per gallon on wine of under 14% alcohol to \$4 per gallon on distilled spirits over 100 proof. California's excise taxes are the lowest in the nation on still wines, sparkling wine, and champagne; the second lowest on beer; and the fourth lowest on distilled spirits.

In 1988, the state's excise tax on alcoholic beverages produced \$128.7 million. However, if California's excise tax rates had been the same as the national average in 1988, the resulting revenue would have been \$408.9 million.

The report states that, in 1988, over one billion gallons of alcoholic beverages, mostly beer and wine, were produced in California. Although 506 million gallons, or about one-half, were exported from the state, 260 million gallons were imported for sale here. In 1988, over 818 million gallons of alcoholic beverages were sold for consumption in California.

In 1988, an average of 151,769 Californians were employed directly in industries whose primary activity relates to the production, sale, and consumption of alcoholic beverages. Fifty-two percent of direct alcohol-related employment was attributed to retail sales, both on-sale and off-sale; 24% was attributed to wine grape growers; and the remaining 24% was attributed to the manufacture and distribution of these beverages.

According to the report, in 1988, two-thirds of adults over age 14 in the nation and California consumed some alcohol: one-third of the population were abstainers, one-third were light to moderate drinkers, and one-third were heavy drinkers. Also, a 1984 national Gallup Poll found that 59% of adolescents 13-18 years old were at least occasional consumers of alcohol, and 17% had tried it at least once.

The report acknowledges various societal costs attributable to alcohol abuse, including motor vehicle accidents and fatalities, boating accidents, lost employment, health care costs, property losses, and incarceration. According to *The Sixth Special Report To Congress on Alcohol and Health* (1987), prepared by

the U.S. Department of Health and Human Services, estimated costs of alcohol abuse, nationally, were \$117 billion.

Turning to applicable legislation, the report states that during the last eleven years, 23 bills were introduced in the California legislature to affect the excise tax on alcoholic beverages. Only one of these bills—AB 2814 (Gage) (Chapter 827, Statutes of 1978)—was passed and signed into law. This bill imposed an excise tax of \$0.02 per ounce on "nonliquid distilled spirits"; unfortunately, the bill did not define "nonliquid distilled spirits."

Ready or Not, Here We Come: Training California's Emerging Workforce (June 1990). According to this report, by the year 2000, 87% of newcomers to the United States' workforce will be Asians, Hispanics, African-Americans, women returning to work, and immigrants. This emerging workforce, which will be even more predominant in California, raises issues and problems not previously experienced in this county. This report examines the composition, challenges, needs, and training opportunities of the emerging non-traditional workforce; provides a national and statewide overview of the demographic profile of the emerging workforce in light of predicted labor market demands; provides an analysis of the capacity of California's publicly funded employment and training programs to train the emerging workforce; and offers policy recommendations designed to provide California's emerging workforce with the skills and creativity needed to fulfill the complex demands required by the present and future labor markets.

The report projects that, in California, the percentage of non-Hispanic whites will drop from the 1980 figure of 66.5% to 51.4% by the year 2000; the Hispanic population will rise from 19.2% in 1980 to 29% in 2000; the African-American population will decline from 7.5% in 1980 to 6.6% in 2000; and the "Asian and Other" ethnic group will rise from 6.7% in 1980 to 13% in 2000.

According to AOR, public and private sector labor experts are concerned with the potential problem of a mismatch between the skills of California's emerging workforce and the requirements of tomorrow's jobs. According to one report, "Unless major upward mobility occurs in the occupational structure of California's minority groups, and recent immigrants in particular, the occupational requirements of a growing and changing state economy in [this] decade may not be met."

The report states that to avoid potential stagnation in economic growth, the



occupational profile of the state's minority groups must begin to change dramatically. AOR cites two principal strategies, one long-term and one short-term, to enable the emerging workforce to fulfill more successfully the skill expectations of tomorrow's economy. The long-term strategy involves significant reforms in California's educational system, to ensure that all Californians receive a comprehensive and academically sound education from preschool through post-secondary levels. The short-term strategy designed to prevent the potential mismatch between the skills of the future workforce and tomorrow's job requirements is effective employment and training programs, which become substitutes for educational failures and provide retraining for existing workers.

Regarding this short-term strategy, over \$2.9 billion (nearly \$2 billion in state funds and \$946 million in federal funds) has been proposed to fund 22 employment and training programs servicing six million clients during fiscal year 1990-91. These programs are administered by twelve state agencies—ten of which are within the Governor's jurisdiction, one under the jurisdiction of the state Department of Education, and one under the jurisdiction of the California Community Colleges.

According to AOR, California has a variety of complex employment and training programs which essentially overlap in function and target population. As a result, AOR recommends that an Assembly Select Committee (or a subcommittee of a current standing committee) on Job Training be formed to explore a variety of approaches to enable California's employment and training programs to deliver systematically the type of educational, employment, and supportive services needed to match the skills of the non-traditional workforce with the demands of the labor market needs.

AOR also recommends that California create a state Department of Employment and Job Training, which would develop an employment and job training voucher system to enable eligible individuals to have direct control over their career development plans, and create a comprehensive labor market needs data base reflecting local, regional, and statewide workforce demands.

AOR further suggests that the state create an apprenticeship training model which will provide opportunities for clients to obtain technical skills and gainful employment by combining elements of vocational education with apprenticeships.

Finally, AOR recommends that the state eliminate impediments which discourage access to employment and job training, by providing adequate supportive services (such as child care, transportation, mental health, and other social services); exploring various tax credit and tax exemption policies to encourage more involvement of private sector industry in employment and job training programs; and by creating an enhanced applied technology education model to link middle and secondary schools with community college and university programs, so that sequences of courses can be offered in applied math, science, and other appropriate subjects that lead students to greater technical proficiencies.

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:

The Drug Crisis: Treatment, Prevention, Law Enforcement (June 1990) reviews the problem of drug use in California and various options for addressing the problem, such as treatment, prevention, and law enforcement; examines then-pending drug-related legislation; and suggests a comprehensive legislative approach to address the problem more effectively.

The introduction, which notes that a March 1989 California poll cited "illegal drug use" as the number one concern of Californians, focuses on the magnitude of alcohol and drug abuse and their debilitating effects on society, such as reduced productivity, crime, and accidents. The report states that education, treatment, and early intervention would form the foundation of a solution to the current problem. For example, SOR cited a recent study which found that the costs of drug abuse to law-abiding citizens decrease approximately 20% after one year of treatment (from \$9,190 per drug abuser in the year before treatment

to \$7,379 per drug abuser in the year after treatment).

SOR then examined 65 then-pending Senate and Assembly bills, relating to topics such as perinatal substance abuse, alcohol and drug abuse services, employee drug testing, criminal penalties, and enforcement issues.

SOR also discussed a November 1990 ballot initiative related to alcohol and drug abuse. Proposition 134, the Alcohol Tax Act of 1990, would create a surtax on beer, wine, and liquor, which would be used to fund alcohol and drug prevention services, treatment and recovery services, emergency-medical and trauma-care services, community mental health programs, and enforcement, education, and training programs related to alcohol and drug abuse prevention.

SOR concluded its report with several recommended legislative priorities, such as ensuring the availability of drug treatment on demand; reducing waiting lists for drug treatment services; expanding perinatal substance abuse activities to include in-home services and residential treatment for substance-exposed women and children; implementing treatment and prevention services in prisons; increasing funds to local governments for street-level enforcement of drug laws; and continuing vigorous prosecution for all drug offenses.

Grasping at the Dream—California Housing: Who Can Afford the Price? (June 1990) reveals the startling reality that so-called state low-income housing programs provide funding, tax credits, tax expenditures, and overall preferential treatment to citizens who are least in need of assistance. *Grasping at the Dream* cites a 1990 report issued by the Office of the Legislative Analyst, which stated that the majority of beneficiaries of California Housing Finance Agency (CHFA) housing programs are not low-income households. Instead, 89% of the beneficiaries of CHFA programs are households with incomes in the "above moderate" or "moderate" range; only 11% of beneficiaries are "low" or "very low" income households. (See CRLR Vol. 10, No. 1 (Winter 1990) pp. 43-44 for a summary of the Legislative Analyst's report.)

As SOR's report indicates, the steadily growing disparity between rising housing costs and income levels increases the effect of CHFA's unbalanced allocation and distribution of resources. For instance, SOR reports that the 1970 median home price in California was only 2.3 times the median annual income. By contrast, the 1988 median home price had risen to five times the