REVIEW AND ANALYSIS

OF SELECTED ISSUES

FOR THE FY 2006-07 STATE BUDGET

Prepared for the
Board of Supervisors
Of the County of Santa Clara

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INTRODUCTION

Scope

The FY 2005-06 Management Audit Division work plan approved by the Board of Supervisors included hours to be expended on a review of State budget issues. Rather than the previous practice of reviewing the budget issued by the Governor in January for issues that could generate potential savings to the State and the County of Santa Clara, the Management Audit Division, at the suggestion of Supervisor Beall and with the concurrence of the Board, instead identified fiscal and operational issues related to the State and counties to be presented to State officials prior to the issuance of the Governor's budget, or soon after it is issued, during the period when the Legislature is considering legislation to enact the budget. The purpose of conducting the analysis in this manner was to provide Santa Clara County more influence over the State budget process, by making suggestions earlier in that process.

Methodology

Pursuant to the direction of the Board of Supervisors, the Management Audit Division met with Supervisor Beall and his staff, with the County Executive, the Chief Deputy County Executive and the County Budget Director, to get suggestions on topics to be researched for this review. We also met in Sacramento with staff members of the Senate and Assembly budget committees, as well as a key legislator on budget matters, again to get suggestions for potential research topics. We conducted preliminary feasibility reviews on all the topics suggested, including Internet research, research of government journals and limited interviews, and more extensive research on the six items presented in this report. This report was issued to the Board of Supervisors on December 29, 2005.

Findings

Based on these procedures, several budgetary, financial and legislative issues were identified that potentially represent cost savings, additional revenue and operational improvements for the State and counties. These issues included several opportunities to increase revenues and to reduce expenditures through procedural and policy changes in the manner in which the State conducts business. Implementation of some of the suggested changes would require legislative action. These issues are discussed in the following sections of our report.

1. Multi-Year Motor Vehicle Registration

The FY 2005-06 California Department of Motor Vehicles (DMV) budget amounts to $773 million and funds 8,265 full-time equivalent positions. The Department is responsible for the registration of all motor vehicles and boats in the State, as well as licensing of drivers and various related functions. Of this amount, $437 million, or 57 percent is budgeted for motor vehicle and vessel registration and related activities. Annually, the Department registers more than 33 million motor vehicles and one million boats and collects approximately $6 billion in fees, including about $5 billion related to vehicle/vessel registration.

States with Multi-Year Registration Programs

Pursuant to California State law, motor vehicles are required to be registered annually, while boats are registered for two-year periods. Several other states have implemented multi-year vehicle registration programs, which offer two significant benefits when compared with annual registration. These benefits include reduced workload and accelerated revenue collections. Multi-year registration would reduce the volume of registration workload by a minimum of 50 percent or more, depending on the structure of the multi-year registration program.

Based on a limited survey of other states, the following multi-year motor vehicle registration programs were identified.

Table 1

States with Multi-Year Vehicle Registration Periods

State	Vehicle Registration Period
Connecticut	2 Years
Delaware	2 Years
Idaho	2 Years
Maryland	2 Years
New Mexico	2 Years
New York	2 Years
Oregon	4 Years (New)/2 Years (Existing)
Rhode Island	2 Years

Of the eight states identified with multi-year vehicle registration programs, six have mandatory two-year registration periods, one has an optional two-year registration period, and one has a variable registration requirement ranging from two to four years.

Analysis of a Multi-Year Registration Program

The State of California could implement a multi-year vehicle registration program as used in other states that would result in two principal benefits, including: 1) an acceleration of collections which results in a one-time revenue increase during the first two years of implementation and 2) significantly reduced operating costs. Although this proposal would result in a one-time revenue increase from accelerated collections, there would be no additional cost to car owners.

Based on FY 2005-06 annual registration fees of about $5.04 billion, conversion to a mandatory two-year registration period, implemented over 24 months, would produce projected revenues as shown in Table 2.

Table 2

Projected Motor Vehicle Registration Fees
Based on a Two-Year Registration Period with Phased Implementation
(Dollars in Billions)

Calendar Year	2006	2007	2008	2009	2010
Current Revenue*	5.04	5.16	5.29	5.42	5.56
2-Yr Reg – Phased	7.95	5.28	6.06	5.85	6.81
Projected Increase	**2.91**	**0.12**	**0.76**	**0.42**	**1.25**

* FY 2005-06 budgeted revenue is projected to increase 2.5 percent annually from 2007 through 2010. Ongoing incremental annual increases relate to multi-year registration of new vehicles not previously registered.

In addition to producing a significant first year benefit of approximately $2.91 billion, the two-year registration program would provide ongoing increases in revenue between CY 2007 and CY 2010 estimated to range from $0.12 billion to $1.25 billion. As explained below, approximately $1.1 billion of the one-time increase in revenue would directly benefit the State in the first year. Implementation of a two-year registration program would also ensure a reduction in workload for the DMV Registration Division of approximately 50 percent, which should enable a significant reduction in staffing, printing, postage and other operating expenses.

The implementation of a multi-year vehicle registration program would have the benefit of accelerated revenue collections, but car owners would be required to pay the registration and in-lieu taxes two years in advance rather than one year in advance. However, the increased payment by car owners would be partially mitigated by accelerated personal and corporate federal income tax deductions on vehicle in-lieu taxes. <u>On a cost basis, there would be no additional cost to car owners, only the timing of payments to the DMV would be modified</u>.

Impact on State and Local Government

A review of current State law pertaining to vehicle registration and vehicle license fees suggests that the *one-time* increase in fee revenue resulting from this proposal would benefit both local government and the State. The fees individuals pay to operate a vehicle in California include: the motor vehicle license fee, motor vehicle registration fee, and other vehicle-related fees. The motor vehicle license fee, also referred to as the "in-lieu tax," is levied on automobiles in-lieu of a property tax. The revenue from this fee is largely distributed to cities and counties. The revenue from the motor vehicle registration fee is used by the Department of Motor Vehicles to enforce State laws pertaining to vehicles and the use of highways. As such, the additional revenue from the accelerated collection of these fees would directly benefit cities, counties, and the State.

Depending on the interpretation of Constitutional language related to vehicle license fees, the reduction in operation expenses (the *ongoing* savings) may benefit the State and/or local government. The California Constitution generally specifies that vehicle license fee revenue, above the costs of collection and any refunds authorized by law, is allocated to local cities and counties. Based on a preliminary review of the Constitution and related statute, County Counsel staff commented that this language appears to indicate that the costs of collection are to be determined on an annual basis. In other words, the vehicle license fee revenue collected in a given year is to be used to cover the costs of collecting the fees during that same year, with the remaining revenue allocated to local government. Under this interpretation, it would appear that local government alone would benefit from a reduction in the operational expenses associated with collecting the vehicle license fees.

However, alternative interpretations of this language may also be possible. For instance, the cost of collection *authorized by law* could refer to the specific dollar amount appropriated by the Legislature. Pursuant to statute, an appropriation to cover the cost of collection is currently deposited into the Motor Vehicle Account in the State Transportation Fund, and the State is authorized to transfer amounts from this account "not needed for immediate use" to the State Highway Account. Funding deposited into the State Highway Account may be used for various transportation expenditures including highway construction projects. Given this interaction between the Motor Vehicle and State Highway accounts, there may be an opportunity for the State to benefit from reduced expenses in the DMV.

Other Related Operational Efficiencies for State and County Government

Mandated Registration Renewal at 7,500 State-Licensed Emission Test Stations

The State Department of Consumer Affairs-Bureau of Automotive Repair currently licenses and monitors approximately 7,500 emission test stations throughout California. However, although the State requires all vehicles five years or older to have biennial smog tests and submit the test results to the DMV, California has not leveraged its investment in this network of private facilities to complete the registration process as has the State of Nevada. Nevada has developed software that enables the analyzer equipment utilized by the smog test stations to electronically transmit smog test results and registration data directly to its DMV registration database. Station operators collect registration fees in the form of cash, check or credit card payments in the name of the State Department of Motor Vehicles and deposit the proceeds weekly or sooner if receipts total $10,000, whichever occurs first. Emission Station operators are permitted to charge a fee of up to $10 for the registration service. Nevada DMV officials report that the program has grown continuously since the analyzer based system was implemented approximately two years ago.

If California were to implement a similar system that mandated all emission stations to provide registration renewal services, workload at DMV offices could be significantly reduced beyond that which would result from the implementation of a multi-year registration program. The extent to which vehicle owners would renew vehicle registration concurrently with obtaining the required biennial emission test would depend on the amount of a service fee, if any, that is authorized by for the emission stations to charge for providing the registration renewal service.

As noted above, depending on how current law related to the collection of vehicle license fees is interpreted, if implemented this proposal would result in savings that would benefit State and / or local government.

Approximately 362,000 unnecessary property tax bills on boats

In addition to the potential to substantially reduce the volume of annual registration processing that includes noticing, mailing, data inputting, receiving, depositing and accounting for registration payments, similar efficiencies could be realized for the collection of the in-lieu taxes on boats. Although the DMV currently collects the in-lieu taxes for the value of vehicles in addition to the vehicle registration fees, it does not do so for boats. Currently, county assessors determine the assessed value of the State's 1,100,000 registered boats and forward this information to county tax collectors who generate, mail, and collect approximately 362,000 annual tax bills. If the county assessors were required to transmit the assessed value of the State's 1,100,000 registered boats (of which approximately 362,000 are subject to unsecured property taxes) to the DMV to be added to the biennial registration notice as is done with vehicles, County tax collectors would annually be relieved of the unnecessary work related to these unsecured property tax bills as well as the associated costs.

Advantages of a Multi-Year Vehicle Registration Program

There are several advantages to implementing a multi-year vehicle registration program, which include:

- Accelerate the collection of vehicle license fee revenue, resulting in $3.03 billion in additional income for local government and the State during the first two years of implementation.

- Reduce the annual volume of registrations processed from approximately 33 million to 16.5 million or less, resulting in a reduction of State DMV operating costs by as much as $81 million annually. Depending on the interpretation of current law, this savings may benefit the State and / or local government.

- Eliminate the processing of unsecured property tax bills on vessels by the 58 county tax collectors, resulting in reduced county tax collection costs by several million dollars annually.

- Increase vehicle owner convenience by reducing the frequency of the registration process and increasing the availability of DMV registration facilities at the 7,500 emission test stations throughout California.

- Accelerated payment of motor vehicle in-lieu taxes would provide increased revenue to the State while the cost to the car owners would be partially offset through accelerated personal and corporate federal income tax deductions on vehicle in-lieu taxes.

2. Assessment of the State's Use of Electronic Filing and On-line Information Systems

As part of this review of State of California budget and policy issues requested by the Board of Supervisors, the Management Audit Division was asked to assess the State's use of on-line information and on-line filing systems for review, filing and transmission of State applications, reports, payments and other information. The theory behind this request is that increased use of electronic mechanisms for these functions, by reducing the need to process paper records, would reduce State costs, as well as making the services more convenient for the public. Internet services have proven to be popular with the public. For example, a 2000 survey by NIC, Inc., an electronic government services provider, found numerous services that substantial portions of those surveyed would perform on-line, if the capacity to do so existed. Potential on-line services include voting, reviewing police or accident reports and renewing professional licenses,

To assess the extent of such on-line services provided by the State of California, relative to other states, we reviewed the web sites of California and the next eight most populous states, Texas, New York, Florida, Illinois, Pennsylvania, Ohio and Michigan, based on July 2004 estimated populations. We generally reviewed the section of each State's web site that listed the services it provided on-line, although we also attempted to look for on-line services in other areas of each state's website. Based on this information, we constructed a matrix of on-line services provided in these states, and then reviewed California's web site, www.ca.gov, to determine if similar services were offered in this state. In addition, we reviewed the last several years worth of awards to states from the National Association of State Chief Information Officers, to identify particularly innovative on-line services provided in other states that could potentially be replicated in California.

Our review found that there were a number of on-line services routinely offered in some or all of the comparison states that are not yet available in California, as well as specific innovative uses of the Internet in other states that California may want to emulate. We found this discovery surprising, given the State's status as the home of Silicon Valley, which in turn is home to Yahoo, e-Bay, Google and other major Internet-related companies. The remainder of this section provides examples of areas where the State of California's Internet offerings fall short in comparison with other large states.

States Routinely Offer On-line Services that California Does Not Provide

Our review of web sites in the eight largest American states after California revealed a number of services several or all of those states routinely offer, but California does not. These include the following:

Recreation Licenses

All of the next eight largest states provide the ability to purchase hunting and fishing licenses on-line, and five states, Florida, Georgia, Pennsylvania, Illinois and Ohio, also allow boat registrations to be renewed on-line.

By contrast, California does not have on-line services in these areas. A pilot project to permit on-line purchase of hunting and fishing licenses was carried out in 2001 and 2002. According to the Department of Fish and Game web site, this capability is now expected to be provided as part of the Department's Automated License Data System (ALDS). However, the Department also reports that ALDS determined in November that all bid proposals received to develop such a system failed to meet requirements of the Request for Proposal. The Department now reports that bids for this project will not be due until at least December 2006, with the project not implemented until at least mid-2007. The State should review whether the on-line systems created by other States could be emulated here, rather than creating a new system from scratch.

Environmental Permitting

Three states, Florida, Illinois and Michigan, provide the ability for at least some environmental permits, such as air and water quality permits, to be requested by industrial firms on-line. In Florida, Division of Air Resource Management permits may be requested on-line, while in Illinois, selected permits from the Illinois Pollution Control Board may be requested on-line. Michigan provides the Michigan Timely Application and Permit Service, which helps businesses determine which of approximately two dozen different industrial and environmental permits are needed to do business in the state. Businesses can also apply for those permits on-line, and check the status of their application. California provides no such on-line permitting process, instead requiring business firm to download forms from the Internet to be filled out and submitted on paper.

Corrections Information

Five states, Florida, Texas, New York, Illinois and Michigan, allow information on the current status of prison inmates, such as where they are housed, the length of the sentence and other information, to be provided on-line. In addition, criminal history records for individuals in both Georgia and Michigan can be researched on-line. California provides no such access to information. The whereabouts of California Department of Corrections inmates are available only through a long distance call to the Department's Sacramento headquarters, and the Department's web site reports that an inmates full name and date of birth are required to get information, and that information on new or transferring inmates may not be updated for as long as week after their status changes.

Property Records

In Florida, property and other official records, such as deeds, judgments, liens, etc. are available on-line through a central web site for 56 of the State's 67 counties. In Georgia, property records are available for 62 of 159 counties, included Fulton County, which includes the City of Atlanta. In Michigan, digital images of subdivision maps and other records statewide are available on-line. By contrast, in California, such records are maintained at the County level, and are not available from a central web site, and usually are not available on-line at all. For example, while in Santa Clara County subdivision maps recorded since 1959 are available on-line, in neighboring Santa Cruz County maps are not available on-line, although an index is available.

Vital Records

Five states, Texas, New York, Pennsyvania, Illinois and Michigan, permit residents to purchase birth, death, marriage and divorce records on-line. Four of the state's operate the program through a contract with the firm VitalChek, which provides the ability for residents to purchase their own records while at the same time providing privacy protections to ensure that records are not fraudulently purchased. By contrast, California still requires vital records purchases be made by mail, slowing the process.

Professional Licensing

California makes far more limited use of the Internet to permit professionals who must obtain licenses from the State to apply for and/or renew them on-line. In California, only barbers and cosmetologists, dentists and dental auxiliaries, nurses, physicians, psychologists, security guards, insurance agents and brokers, real estate agents and brokers, and teachers, can renew professional licenses on-line. A myriad of other professionals from accountants to chiropractors to pest control operators, must renew by mail. By contrast, in Florida licenses in about 200 different professional categories can renew licenses on-line, as well as review the status of continuing professional education requirements needed for renewal, through a single web site. Texas, Pennsylvania, Illinois and Ohio have similar omnibus sites that allow various types of professional licenses to be renewed at a single web location, and most of the other states reviewed for this study offered more extensive license renewal capabilities on-line than California does.

Special On-line Programs that California May Want to Adopt

In addition to the programs previously identified, which are services generally provided in all states and which some states provide on-line where California does not, our review also identified a number of unique on-line initiatives being pursued by individual states that California may want to adopt. In most cases these new initiatives would require legislative changes to implement. The following examples of these innovative programs include both programs identified in our survey of the eight next largest states after California, and programs identified as innovative in other states by the National Association of State Chief Information Officers, through its annual awards.

Protect MI Child (Michigan)—Under Michigan law, Internet marketing firms are prohibited from sending messages to children containing or linking to information on products or services that are illegal under State law for children to purchase, view or participate, including alcohol, tobacco, pornography, gambling, illegal drugs or firearms. Under State law, parents of children receiving such messages may file civil lawsuits against the senders of such messages on their children's behalf, seeking actual damages or $5,000 per message, plus costs and reasonable attorneys fees. In order to effectuate this law, the State provides a web site where Michigan families can register e-mail addresses their children access for purposes of putting them out of reach of illegal marketing efforts. This web site also offers the ability for entities that serve children, such as schools, to register Internet domains that will be used to communicate with children, and pledge not to violate the law. The site also offers a method for families who receive messages in violation of the law to file complaints on-line.

EZ Voter (Arizona)—State residents are now able to register to vote on-line in Spanish or English. To register on-line, a citizen logs on to the Arizona Motor Vehicle Division's web site, and follows a five-step registration process. The on-line system compares personal information provided by the prospective voter against information previously provided in applying for a driver's license, including citizenship information, in order to verify the prospective voter's identity. Once verified, the on-line registration form, along with the citizen's digitized signature from the State's Motor Vehicle Division records database, are transmitted to the Secretary of State's election database, and to the relevant County elections office. By contrast to this process, California voters still must register using paper registration affidavits that are sent to County election offices. Arizona officials believe that EZ Voter contributed to a 2.6 percent increase in registrations from 2000 to 2002, and a 9.5 percent increase from 2002 through August 2004. They also noted that the system was particularly helpful in reducing the glut of paper registration forms that counties had to process around registration deadlines prior to each election. This dramatic deadline workload is also an issue for California county election offices. Arizona also estimates that the system saved the State the equivalent of 12 full-time employees annually, costing $420,000, and saved Maricopa County, its largest county, the equivalent of eight employees. Since Arizona's population is only estimated to total 5.7 million, versus California's 35.9 million, the potential savings and benefits of such a system in California would be substantial. Other innovative web-based voting programs exist in Texas, where address changes by voters within a County may be made on-line, and Pennsylvania, where voters can check their registration status on-line.

COMPASS (Pennsylvania)—This system, known more formally as Commonwealth of Pennsylvania Access to Social Services, provides a single Internet-based interactive application system for numerous social services for low income residents, including Medicaid, the Children's Health Insurance Program, food stamps, cash assistance, long-term care services and the Low Income Home Energy Assistance Program. The on-line application system asks only the questions needed to apply for the programs for which an applicant is eligible, and also includes a screening tool for applicants to use in determining what services they are eligible for, prior to deciding to apply. The system also permits social services recipients to submit renewal applications on-line, by being prompted for identifying information, and being asked to review and confirm previously provided demographic information and e-signing the application. The system also provides a method for Community Partners, local social service organizations who assist applicants, to have access to the application and screening questionnaire to more quickly complete applications for clients. The system also permits clients to get information on case demographics and benefit levels on-line. According to State officials, in its most recent year of operation, 45 to 55 percent of applications for the system were completed outside of the standard 9 a.m. to 5 p.m. work day, providing greater convenience for applicants. By contrast, applications for these programs in California still require applicants to apply in person at county social services offices.

Organ Donation—Both New York and Michigan provide on-line organ donor registries which residents can use to state their willingness to donate organs in the event of their death. In New York residents can register at any time, and also can register as part of renewing their driver's licenses, permitting their donor status to be printed directly on the license. California has no such donor registry, requiring residents to carry a separate flimsy paper organ donor card along with a driver's license.

3. Improving the State's Surplus Property Disposal Process

The State of California, in common with most other states and the federal government, periodically has surplus personal property that must be disposed of. This property includes vehicles, office furniture, computers and other items that are no longer of use to State government.

A review of the State's Internet site indicated that there are three general methods used to dispose of personal property:

On the third Wednesday of every month, the Office of Fleet Administration in the Department of General Services conducts an auction of surplus vehicles ready for disposal. According to the Office's website, the most recent auction, scheduled for December 21, 2005, included 99 vehicles available for purchase. The auction is held at a State lot in Davis, CA, and is conducted only in person, with winning bidders required to pay at the conclusion of bidding, and to remove vehicles within five days following the auction.

Separately, the State of California Surplus Property Reuse Program, part of the Department of General Services, has periodic public auctions of surplus personal property at its two warehouses, one in Sacramento, the other in Fullerton, CA. Until very recently, these auctions were conducted by R.L. Spear Co., Inc., a private auction and liquidation firm. According to information on that firm's website, the most recent auction of State items, conducted at the Sacramento warehouse on December 3, 2005, included several hundred desktop and laptop computers, computer monitors, printers and associated ink cartridges, telephone headsets, mailing and postage machines, letter openers, stuffed toys and novelty items, cameras and other consumer items. The auction was held in person, and public bidders were required to pay a $100 deposit, paying for all purchases with cash or a cashier's check by Monday, December 5, and removing items by Friday, December 9. Information on the State Department of General Services website indicated that subsequent auctions were held on December 14 and December 21, 2005. Because R.L. Spear's involvement was not stated regarding these sales, it appears they were handled by State staff at the Sacramento warehouse.

Lastly, the State has sold selected items through the auction website eBay, operating as the seller CaliforniaGold2000. According to 2003 media reports regarding this project, among the items sold via the website were knives and other items discarded by the federal Transportation Security Agency at five California airports. As of February 28, 2003, the San Francisco Chronicle reported that about $16,000 was obtained by the State from selling the confiscated items. In addition, the State reportedly sold a variety of items through the site in late 2004, in conjunction with a large auction of surplus items at the Sacramento warehouse. However, two searches of this e-Bay site, on November 21, 2005 and December 20, 2005, showed that the State's eBay account reported no items for sale.

A review of surplus property practices in the next eight largest states after California, based on July 2004 population, and reviews of other selected states, shows that

California is less aggressive than other states in pursuing the maximum available methods for disposing of surplus personal property. For example, seven of the eight states, the exception being Ohio, offer some or all of their surplus property for sale over the Internet. Differences among the states' approaches include the following:

- Pennsylvania, Texas, New York, Georgia and North Carolina sell some or all of their surplus personal property through an eBay account. Pennsylvania tended to sell small items such as lots of scissors, tools, knives and money clips, similar to the airport-seizure items California reportedly sold for a time. Texas, New York and Georgia have sold a broader range of items, including industrial and office equipment. Georgia's eBay account also offered half a dozen pianos for sale by auction. North Carolina operates several different eBay accounts to sell surplus state property and property seized in drug investigations. Items sold via eBay include jewelry, kitchen appliances, small tools and similar items. Also, whereas Texas, New York and Georgia require winning bidders to pick up items, Pennsylvania and North Carolina provide shipping on some or all items offered for a fee. In North Carolina, the State reported on August 2005 that it earned $23.2 million from property sales in FY 2004-05, including more than $600,000 from items sold on eBay.

- The State of Oregon sells all its surplus property via eBay using four different accounts, one for government surplus vehicles and equipment, a second with surplus, seized and recovered vehicles, a third for personal property the State is willing to ship to winning bidders, and a fourth for personal property that must be picked up from the State's Oregon warehouse. Property is offered on an as-is, where-is basis, with pictures of some items provided on the website. Unlike many states, Oregon will also accept credit card payments for bids, and will assist in making shipping arrangements. A 2004 report on Oregon's project on the website www.statelocalgov.net stated that the State had completed at least 13,600 sales transactions on its various eBay sites since December 1998, and that a chart previously provided by the State showed that in 2000, it was able to sell various types of vehicles for prices similar to the average sale price for similar used vehicles nationwide.

- Michigan, Illinois and Texas operate non-eBay web sites for on line auction of surplus property. Michigan sells all of its surplus property, included vehicles, on line at its miBid site, which is operated for the state by BidCorp.com. Illinois' primarily featured surplus computers and other office equipment. Texas has sold surplus vehicles on line through its own Lone Star OnLine.com site, which includes both state and local government surplus vehicles and seized and unclaimed property.

- In addition to its eBay site, Georgia sells vehicles on line through a separate site, www.govdeals.com, and sells large lots of items, such as a "truckload of computer monitors" including about 90 pieces, through the site www.liquidation.com.

- Pennsylvania, Texas, Ohio and Georgia continue to sell some of their surplus property through auctions, as does California. In Pennsylvania there are separate auctions for heavy equipment sold by the Department of Transportation, and for certain lots of other equipment, such as surplus canning equipment from one of the State prisons. The latter auction was conducted by AssetAuctions, a nationwide auction firm. Texas conducts periodic vehicle auctions that include a web cast so that bidders do not have to be physically present to participate. These auctions are carried out for the state by Lonestar Auctioneers, Inc. Ohio conducts auctions of surplus vehicles at a site in Columbus, with the next auction scheduled for February 2006, and also has auctions of other surplus personal property, with the next auction scheduled for January 2006. Most auctions are held in Columbus, but auctions can also be held at property sites, such aas an auction of property acquired from Summit Behavioral Healthcare in Cincinnati held in December 2005. Georgia requires agencies who choose not to sell items via the Internet to accept fax bids for items worth less than $10,000, and sealed bids for items worth more. Georgia also holds periodic auctions at three property distribution centers around the state, and at auctions at sites where property is located in selected instances.

- Florida, unlike the other states reviewed, has decentralized surplus property disposal to individual departments that own the property. Most of the surplus property appears to be sold on a state classified ad site, which provides individual listings of lots of property to be sold, and both a phone number and an e-mail address at which the agency selling the property can be contacted regarding a possible purchase. In addition to this classified ad site, Florida State University sells surplus property through six surplus auctions per year, held on the first Saturday of every even-numbered month, while the University of Florida offers Internet-based bidding on surplus items through its own web site. We note that the Florida Office of Program Policy Analysis and Government Accountability, in a 1996 audit and a 1998 follow-up report on the State's surplus property distribution system, recommended pursuing regional contracts with vendors such as auctioneers, scrap metal dealers and used furniture dealers. The 1998 report found that these contracts had not been implemented, and renewed the recommendation to do so.

Based on this information obtained regarding property disposal programs in other states, California should take actions to more aggressively market surplus personal property for sale to the public. Specifically, the State should:

Make greater use of its eBay account at CaliforniaGold2000 to sell surplus personal property, including vehicles, or provide a State website or other method for individuals to purchase personal property, other than personally attending State auctions.

The State could also consider contracting out disposal of surplus property to a private firm who would use expanded methods to market and sell surplus items, including web site sales and auctions that include a web casting capability so that bidders do not have to be physically present. In return, the contractor would receive a portion of the revenues from the sales, and be mandated to meet specific targets of sales volume.

4. Uncontrolled Growth of Indebtedness in California's 418 Redevelopment Agencies (RDA)

As of June 30, 2004, California had a total of 418 redevelopment agencies that were in the process of developing or redeveloping 771 "blighted" project areas throughout the State. To finance redevelopment activities, the Legislature has provided redevelopment agencies with the legal authority to divert growth in property taxes otherwise intended for schools, cities, counties and special districts to redevelopment agency purposes. Consequently, $145.8 billion of the assessed value of the property tax base of local government agencies throughout the State has been permanently frozen, in some cases for more than 50 years. Concurrently, the growth in assessed value in these redevelopment agency project areas, which totaled $276.9 billion as of June 30, 2004, is dedicated exclusively to redevelopment agencies (Table 1). For FY 2003-04, redevelopment agencies diverted $3.06 billion from schools and other local government agencies, an increase of $1.14 billion since FY 1999-00.

However, as quickly as redevelopment agency property tax revenues increase, agencies accelerate indebtedness to an even greater level. During the same four year period from FY 1999-00 to FY 2003-04, redevelopment agency indebtedness increased by $14.9 billion, from $45.6 billion to $60.5 billion. While statewide redevelopment agency property tax increment revenues exceeded $3 billion for the first time in FY 2003-04, redevelopment agency debt financing and other forms of indebtedness increased by $8.0 billion in just one year.

No Limits on Redevelopment Agency Indebtedness in State Law

State law limits the amount of monies cities, counties and special districts can borrow via bond issues on a long-term basis to be repaid from property taxes. Cities are limited to 15 percent of the assessed value; and counties and special districts 5 percent of the assessed value. No such limits however, are imposed on redevelopment agencies by State law[1]. Rather, State law permits each redevelopment agency governing board to set its own bonded indebtedness limits. As a result, redevelopment agency bonded indebtedness far exceeds any comparable limits set by the State for other local government agencies, even though redevelopment agency debts are paid nearly entirely from property taxes paid by some of the same local taxpayers in the cities and

[1] Prior to the passage of Proposition 13 in 1978, the State bonded indebtedness limit for cities was 15 percent of its assessed valuation, for counties and special districts the limit was 5 percent of its assessed valuation. Following the passage of Proposition 13, State law pertaining to bonded indebtedness limits for special districts was amended to conform with the new methodology of calculating the property tax levy based on 100 percent of the full cash value, versus 25 percent of the full cash value prior to Proposition 13. However, no such change was enacted for cities and counties, even though a limit of 3.75 percent of the assessed value is commonly reported on audited financial statements of cities and 1.25 percent for counties. Government Code Section 43605, enacted in 1949, continues to permit cities to levy property taxes to fund public improvements in an amount up to 15 percent of the city's assessed value. Government Code Section 29910, enacted in 1947, continues to permit counties to levy property taxes to fund public improvements in an amount up to 5 percent of the county's assessed value. Health and Safety Code Section 33645 permits redevelopment agencies to set their own limits on bonded indebtedness.

counties that are subject to a much lower debt limit than the actual debt levels incurred by their own redevelopment agencies.

Due to the disproportionate amount of redevelopment activity in a few of the large urban counties, on a statewide basis as of June 30, 2004, total redevelopment agency indebtedness, including debt service costs and other long-term debt, equaled 21.86 percent of total redevelopment agency incremental assessed value, or about six times the maximum legal limit permitted to cities (Table 2). Among the 10 most populous counties, the counties of Alameda, Santa Clara, San Bernardino, Los Angeles and Riverside had the highest levels of redevelopment activity, resulting in indebtedness ranging from 43 percent to 20 percent of total redevelopment agency incremental assessed value within each County. Depending on the interest rates at which redevelopment agencies can borrow monies, property tax increment revenues resulting from incremental increases in assessed value in redevelopment project areas can support a maximum debt limit equivalent to approximately 14 percent to 17 percent of the increased assessed value (Table 3).

As shown in Table 3, at levels of indebtedness in the 14 percent to 17 percent range (about four times the 3.75 percent adjusted legal bond debt limit for cities), virtually all property tax increment revenue has been accounted for and committed to pay debt service costs on existing indebtedness. Consequently, the risk of default exists on bonded indebtedness or other financial obligations of redevelopment agencies in counties with indebtedness in excess of 20 percent of the incremental assessed value, should either a protracted economic recession or, a decline in commercial property values occur. Some redevelopment agencies are willing to assume excessive debt exposure when left unregulated and permitted to set their own debt limits. For instance, within Alameda County, which has the highest county-wide redevelopment agency indebtedness level in the State (among the 10 most populous counties) at 43 percent of incremental assessed value, the City of Oakland Redevelopment Agency has incurred indebtedness amounting to $4.5 billion, or more than 100 percent of the $4.1 billion increase in incremental assessed value. This level of indebtedness equates to approximately $10,837 for every resident and is in addition to the debt incurred by the City itself, local school and other special districts. Although total indebtedness is defined to include interest as well as principal on debt financing and is therefore somewhat overstated when compared to maximum debt limits contained in State law, the disparity between the fiscally prudent limits included in State law and the actual indebtedness levels of several redevelopment agencies is disconcerting.

Comparatively, the redevelopment agencies of the cities of San Diego and San Francisco have incurred total indebtedness amounting to $557 per resident and $968 per resident, respectively (Table 4). Within Santa Clara County, the redevelopment agency of the City of Milpitas has incurred total indebtedness of approximately $9,516 per resident through a series of bond issues and adjustments to its own debt limit. Although its current level of indebtedness is approximately 24.2 percent of the incremental assessed value, the self-approved debt limit, which was increased twice in the past eight years, equates to about 94 percent of the June 30, 2004 incremental assessed value. The City's June 30, 2004 Comprehensive Annual Financial Report (CAFR) notes that:

> "The Redevelopment Agency is limited in the amount of cumulative tax increment that it can collect. During fiscal year 1997 the Agency amended the tax increment limitation for Project Area Number 1 from $240 million to $502 million. The limitation was subsequently increased to $2.4 billion in 2003."

Consequently, when allowed to self govern, local redevelopment agencies will incur financial obligations far in excess of prudent levels that financial resources and capacity to repay would justify, as shown in Table 2. As a result, the State Legislature should amend the California Health and Safety Code to establish limits on bonded indebtedness of redevelopment agencies as it has done for cities, counties and special districts to protect local government taxpayers against imprudent financial decisions of redevelopment agency governing boards.

<u>*Comparison of Redevelopment Agency Debt Issuance Costs*</u>

Annual redevelopment agency debt issuance costs, including the cost of underwriter discounts as reported to the State Controller by fiscal year, averaged $65,557 per million dollars during the five-year period ending June 30, 2004. These costs generally varied in relation to the total amount of debt issued annually by all of the redevelopment agencies in the State. Therefore, in FY 1999-00 and FY 2000-01, when debt issuance was low, the total cost of issuance per million dollars was in excess of $133,000. Conversely, in FY 2003-04, when redevelopment agencies issued more than $5.4 billion of debt, the total cost of issuance was reduced to approximately $31,000 per million dollars (Table 5).

In addition to reporting to the State Controller, all State, county, city, and special district public agencies, including redevelopment agencies, report debt financing transactions to the California Debt and Investment Advisory Commission (CDIAC). Based on the data reported by redevelopment agencies to CDIAC for calendar year 2004, more than 100 debt issues were placed by redevelopment agencies, accounting for approximately $2.5 billion of the $70.4 billion issued by California public agencies. Table 6 lists 98 redevelopment agency debt issues for which complete information appeared to have been reported to the CDIAC. Based on this data, the average redevelopment agency debt issue amounted to approximately $23.1 million, and had an associated debt issuance cost, including underwriter discounts, amounting to $29,473 per million dollars of debt issued.

By comparison, the State of California and State agencies issued 10 of the 12 largest issues during 2004 out of approximately 1,938 total issues. These 10 issues accounted for $22.1 billion, or nearly one-third of all of the California government debt financing in 2004. Due to the size of the large State debt issues (only four were less than one billion dollars), the State is able to minimize debt issuance costs. Although incomplete issuance cost information was reported by the State for some of its issues, it appears that the State's cost per million dollars of debt ranged from about $6,000 to $12,000, or about 30 percent of the average cost incurred on the 98 redevelopment agency issues.

Consequently, had the redevelopment agencies been able to obtain comparable cost savings on their debt issuance costs, approximately $50 million could have been saved in 2004.

Financial Oversight by a State Redevelopment Commission

Pursuant to Section 33352 of the California Health and Safety Code, the creation of every proposed redevelopment project area of every redevelopment agency in California requires the submission of a comprehensive report to its legislative body describing the need, justification, financing and many other pertinent facts for the legislative body's consideration. Sections 33645 and 33334.1 of the California Health and Safety Code describe the general requirements for a maximum amount of bonded indebtedness as contained in the redevelopment plan for each project area. Each local legislative body approves project areas and related plans by adoption of an ordinance. However, due to the widespread overuse of debt by redevelopment agencies and a general lack of oversight of RDA activities throughout the State, final approval of all new RDA project areas, including the reasonableness of financial plans and maximum bonded indebtedness limits, should require State approval to ensure compliance with the intent of State redevelopment law and to protect the State's financial credit rating.

A State Redevelopment Commission could be created to receive applications for approval of locally designated redevelopment project areas. The State Legislature, through enabling legislation, would determine the criteria to be applied to the proposed new RDA project area applications, including sufficiency of evidence to support the claim of blight, demonstrated prior effectiveness in executing and completing RDA project plans on a timely basis, demonstrated prior effectiveness in expending 20 percent of tax increment monies on low and moderate income housing, etc. Redevelopment agencies would no longer have the authority to issue tax increment bonds. Rather, all RDA bonds would be sold semi-annually by the State of California for projects previously approved by the State RDA Commission. Annual debt service payments would be made by local agencies to the State Controller from tax increment revenues. This would result in a Statewide reduction in the cost of financing for redevelopment projects, increase compliance with RDA law and establish accountability over RDA financial plans throughout the State.

Recommendations

1) Amend the California Health and Safety Code to create a State Redevelopment Commission to oversee local agency creation of project areas, ensure compliance with State law, and centralize RDA bond financing with the State Treasurer to save California taxpayers up to $50 million in bond counsel, financial consultant, mortgage banking and debt service and other bond issuance costs annually.

2) Amend the California Health and Safety Code to establish specific limits on maximum bonded indebtedness of redevelopment agencies.

3) Amend the California Government Code Sections 29910 and 43605 to reflect the maximum bonded indebtedness limits intended by the Legislature prior to the passage of Proposition 13 in 1978. Section 29910 pertaining to counties should be amended from a maximum of 5.0 percent to 1.25 percent of the assessed value in the county. Section 43605 pertaining to cities should be amended from a maximum of 15.0 percent to 3.75 percent of the assessed value in the city.

Table 1

	FY 2003-04	FY 2002-03	FY 2001-02	FY 2000-01	FY 1999-00	FY 1998-99	FY 1997-98
RDA Indebtedness:							
Tax Allocation Bonds	24,396,720,351	20,634,263,171	20,269,007,764	18,435,387,839	17,386,059,216	17,345,382,000	16,505,485,000
Revenue Bonds	2,669,644,778	2,682,759,018	2,467,655,744	2,921,383,601	2,657,340,550	2,386,127,000	2,657,282,000
Other Long-Term Debt	3,196,151,943	1,981,225,263	4,725,047,957	3,962,159,065	4,169,549,662	3,988,187,000	2,744,230,000
City/County Indebtedness	7,279,713,787	7,395,996,077	9,012,949,500	8,320,018,047	7,366,274,200	5,008,886,000	4,864,463,000
Other Indebtedness	16,249,505,558	14,842,299,163	9,043,433,548	10,226,528,730	9,758,417,885	10,639,033,000	9,878,411,000
Low-Moderate Income Housing Fund	10,184,928,247	8,074,096,918	7,351,922,849	6,969,332,745	6,574,977,580	5,583,075,000	4,904,305,000
Total Indebtedness	63,976,664,664	55,610,639,610	52,870,017,362	50,834,810,027	47,912,619,093	44,950,690,000	41,554,176,000
Available Resources	3,443,091,984	3,066,305,401	2,644,343,645	2,357,148,841	2,286,749,979	2,293,256,000	1,939,601,000
Net Tax Increment Requirement	**60,533,572,680**	**52,544,334,209**	**50,225,673,717**	**48,477,661,186**	**45,625,869,114**	**42,657,434,000**	**39,614,575,000**
Increase in RDA Debt	7,989,238,471	2,318,660,492	1,748,012,531	2,851,792,072	2,968,435,114	3,042,859,000	-482,345,000
% Increase	15.20%	4.62%	3.61%	6.25%	6.96%	7.68%	-1.20%
Avg % Increase in RDA Debt	**6.16%**						
Number of Redevelopment Agencies	418	414	413	408	409	406	403
Nuber of Project Areas	771	772	764	775	829	823	796
RDA Assessed Values:							
Frozen Base Assessed Value	145,817,497,000	136,903,483,000	133,948,705,000	125,828,312,000	117,608,177,000	112,127,724,000	103,336,981,000
Increment Assessed Value	276,929,583,325	270,378,416,765	240,721,366,742	209,287,300,737	186,960,081,000	161,925,718,000	150,076,881,000
Total RDA Assessed Value	**422,747,080,325**	**407,281,899,765**	**374,670,071,742**	**335,115,612,737**	**304,568,258,000**	**274,053,442,000**	**253,413,862,000**
Total Statewide Net Assessed Value	**2,920,017,535,000**	**2,718,652,724,000**	**2,533,132,007,000**	**2,318,931,156,000**	**2,148,212,342,000**	**2,008,272,409,000**	**1,914,836,345,000**
% Increase	7.41%	7.32%	9.24%	7.95%	6.97%	4.88%	2.86%
Avg % Increase in Statewide A. V.	**6.66%**						
% Growth in RDA Frozen Base A. V.	46.98%						
% Growth in RDA Increment A. V.	76.49%						
% Growth in Non-RDA A. V.	50.31%						
RDA A. V. as a % of Total A. V.	**14.48%**	**14.98%**	**14.79%**	**14.45%**	**14.18%**	**13.65%**	**13.23%**
Percent Net Increment Requirement to Increment Assessed Value	**21.86%**	**19.43%**	**20.86%**	**23.16%**	**24.40%**	**26.34%**	**26.40%**

Comparison of Indebtedness to Growth in Assessed Value Resulting From Redevelopment in the 10 Most Populous Counties as of June 30, 2004

County	Net Total Indebtedness (Tax Increment Required)	Incremental Assessed Value	Percent Debt to Incremental Assessed Value
Alameda	5,714,591,516	13,384,650,710	43%
Santa Clara	**4,673,913,873**	**16,555,692,046**	**28%**
San Bernardino	5,847,281,934	25,575,687,178	23%
Los Angeles	15,956,172,880	72,196,953,709	22%
Riverside	6,395,400,198	31,633,336,790	20%
Orange	3,897,264,948	24,517,950,959	16%
Contra Costa	1,656,085,491	11,026,310,816	15%
Fresno	355,588,121	2,432,809,751	15%
San Diego	3,249,337,026	22,726,443,655	14%
Sacramento	394,516,313	4,018,037,534	10%
Total	**48,140,152,300**	**224,067,873,148**	**21.48%**
Average Excl SC	**4,829,582,047**	**23,056,909,011**	**19.72%**
..her 48 Counties	12,393,419,700	52,861,709,852	23.44%
State-wide Total	**60,533,572,000**	**276,929,583,000**	**21.86%**

Analysis of Redevelopment Agency Debt Service Capacity Based on Various Interest Rates

4% Debt Financing Interest Rate:

Property Tax Increment Assessed Value		1,000,000
Annual Property Tax Proceeds		10,000
Annual Amortization cost per $1,000 on a 30-year bond @ 4.00%		57.83
Maximum Bond Capacity		172,921
Maximum Percent of Assessed Value		17.29%

5% Debt Financing Interest Rate:

Property Tax Increment Assessed Value		1,000,000
Annual Property Tax Proceeds		10,000
Annual Amortization cost per $1,000 on a 30-year bond @ 5.00%		68.05
Maximum Bond Capacity		146,951
Maximum Percent of Assessed Value		14.70%

6% Debt Financing Interest Rate:

Property Tax Increment Assessed Value		1,000,000
Annual Property Tax Proceeds		10,000
Annual Amortization cost per $1,000 on a 30-year bond @ 6.00%		72.65
Maximum Bond Capacity		137,646
Maximum Percent of Assessed Value		13.76%

Analysis of Outstanding Debt of California's 418 Redevelopment Agencies as of June 30, 2004*

City Redevelopment Agency	Statement of Indebtedness Total	Statement of Indebtedness Net	City Population	Redevelopment Debt Per Capita
]DAs in the County of Santa Clara				
ilpitas	**659,831,211**	**618,515,620**	**64,998**	**9,516**
›s Gatos	211,814,966	204,914,661	28,976	7,072
ìnta Clara	528,345,030	508,516,564	109,106	4,661
ampbell	153,996,822	147,254,267	38,415	3,833
an Jose	3,434,947,096	2,829,763,006	944,857	2,995
ınnyvale	280,542,720	277,010,128	133,086	2,081
organ Hill	39,393,232	35,301,980	36,423	969
ountain View	52,711,000	52,436,000	72,033	728
ıpertino	213,644	201,647	53,452	4
ılo Alto	0	0	61,674	0
Total/Average	**5,361,795,721**	**4,673,913,873**	**1,543,020**	**3,029**
Major California Cities				
akland	**4,488,517,817**	**4,468,263,721**	**412,318**	**10,837**
ın Jose	3,434,947,096	2,829,763,006	944,857	2,995
ın Francisco	784,807,478	773,715,705	799,263	968
ın Diego	792,631,513	727,037,719	1,305,736	557
s Angeles	1,499,757,686	1,393,813,942	3,957,875	352
ate Total - All 418 RDAs	**63,976,664,664**	**60,533,572,680**	**33,004,382**	**1,834**

'ata reported by California State Controller in the FY 2003-04 Community Redevelopment Agencies Annual Report.

Table 5

Analysis of Redevelopment Agency Debt Issuance Costs as Reported to the State Controller by Fiscal Year

	FY 2003-04	FY 2002-03	FY 2001-02	FY 2000-01	FY 1999-00	Five-Year Total
Amount of Debt Issued	5,448,771,000	2,443,107,000	2,561,975,000	1,484,356,000	1,251,154,000	13,189,363,000
Debt Issuance Costs	119,152,761	57,145,673	51,082,905	39,081,978	23,468,309	289,931,626
Cost Per $1,000,000	21,868	23,391	19,939	26,329	18,757	
Bond Proceeds	5,279,136,922	2,263,692,586	2,440,960,931	1,256,281,413	1,084,635,945	12,324,707,797
Issuance Costs Incl Discount	169,634,078	179,414,414	121,014,069	228,074,587	166,518,055	864,655,203
Percent	3.11%	7.34%	4.72%	15.37%	13.31%	
Total Costs Per $1,000,000	31,133	73,437	47,235	153,652	133,092	65,557

Analysis of 2004 Redevelopment Agency Debt Financing Costs** Table 6

SALE DATE	ISSUER	PRINCIPAL	TOTAL ISSUANCE COSTS	ISSUANCE COST PER $1,000,000
04/[illegible]/04	San Jose Redevelopment Agency	281,985,000	4,991,733	17,702
04/[illegible]/04	Los Angeles CRA Community Redevelopment Financing Authority	181,510,000	7,762,146	42,764
03/24/04	Rancho Cucamonga Redevelopment Agency	165,680,000	2,812,238	16,974
12/29/04	Pittsburg Redevelopment Agency	117,615,000	2,801,708	23,821
07/28/04	San Diego Redevelopment Agency	101,180,000	1,972,557	19,496
03/31/04	Culver City Redevelopment Agency	83,470,000	1,791,204	21,459
03/24/04	San Francisco City & County Redevelopment Financing Authority	82,960,000	2,014,401	24,282
06/08/04	Concord Redevelopment Agency	72,310,000	1,915,513	26,490
03/18/04	Stockton Redevelopment Agency*	47,000,000	1,363,764	29,016
06/08/04	San Francisco City & County Redevelopment Financing Authority	45,865,000	2,048,775	44,670
05/20/04	Hayward Redevelopment Agency	44,790,000	829,760	18,526
05/04/04	Fremont Redevelopment Agency	41,425,000	885,154	21,368
12/14/04	Riverside County Redevelopment Agency	38,225,000	937,953	24,538
12/14/04	Riverside County Redevelopment Agency	37,000,000	657,228	17,763
07/14/04	Corona Redevelopment Agency	36,910,000	1,038,503	28,136
12/14/04	Riverside County Redevelopment Agency	34,840,000	1,053,169	30,229
05/25/04	San Francisco City & County Redevelopment Agency	33,565,000	742,643	22,126
04/29/04	Hawaiian Gardens Redevelopment Agency	31,170,000	1,242,638	39,866
07/28/04	San Diego Redevelopment Agency	27,785,000	524,572	18,880
11/18/04	Manteca Redevelopment Agency	25,925,000	947,006	36,529
12/14/04	Riverside County Redevelopment Agency	24,865,000	713,605	28,699
11/30/04	Riverside Redevelopment Agency	24,115,000	570,395	23,653
05/13/04	Fullerton Redevelopment Agency*	23,640,000	1,496,418	63,300
12/15/04	Lancaster Redevelopment Agency	21,540,000	639,837	29,705
12/16/04	Cathedral City Redevelopment Agency	21,370,000	853,152	39,923
12/14/04	Riverside County Redevelopment Agency	20,240,000	580,822	28,697
06/16/04	Watsonville Redevelopment Agency	19,000,000	845,755	44,513
06/[illegible]/04	Indio Redevelopment Agency	18,855,000	511,963	27,153
02/[illegible]/04	Palmdale Community Redevelopment Agency	18,535,000	719,614	38,825
12/16/04	Pittsburg Redevelopment Agency	18,270,000	691,788	37,865
06/03/04	Highland Redevelopment Agency	17,525,000	720,937	41,138
10/27/04	Blythe Redevelopment Agency	17,500,000	421,700	24,097
1/05/04	Covina Redevelopment Agency	17,240,000	896,231	51,986
2/14/04	Riverside County Redevelopment Agency	16,715,000	509,363	30,473
07/22/04	Yuba City Redevelopment Agency	16,210,000	371,950	22,946
06/04/04	Palm Springs Community Redevelopment Agency*	14,240,000	278,527	19,559
07/08/04	Fontana Redevelopment Agency	13,685,000	335,482	24,515
1/09/04	Lancaster Redevelopment Agency	13,575,000	566,632	41,741
1/10/04	La Mirada Redevelopment Agency	13,350,000	443,029	33,186
08/24/04	Grand Terrace Community Redevelopment Agency	13,000,000	500,590	38,507
1/16/04	Atascadero Community Redevelopment Agency	12,490,000	381,417	30,538
03/31/04	Port Hueneme Redevelopment Agency	12,210,000	646,884	52,980
2/08/04	Norco Redevelopment Agency	11,250,000	522,384	46,434
09/09/04	Pinole Redevelopment Agency	11,190,000	422,461	37,753
2/16/04	Pittsburg Redevelopment Agency	10,720,000	321,817	30,020
09/30/04	El Cerrito Redevelopment Agency	10,315,000	318,662	30,893
2/15/04	Lancaster Redevelopment Agency	10,200,000	355,097	34,813
0/28/04	Los Angeles Community Redevelopment Agency	10,000,000	392,000	39,200
07/28/04	San Diego Redevelopment Agency	9,855,000	181,442	18,411
06/23/04	Indio Redevelopment Agency	9,760,000	629,093	64,456
1/05/04	Covina Redevelopment Agency	9,610,000	342,190	35,608
06/04/04	Palm Springs Community Redevelopment Agency*	9,075,000	205,543	22,649
07/28/04	San Diego Redevelopment Agency	8,905,000	169,613	19,047
07/29/04	Barstow Redevelopment Agency	8,660,000	388,621	44,875
2/16/04	Cathedral City Redevelopment Agency	8,630,000	398,531	46,180
09/[illegible]/04	Pinole Redevelopment Agency	8,395,000	300,099	35,747
03/[illegible]/04	Winters Community Development Agency	7,820,000	358,098	45,793
04/07/04	Bellflower Redevelopment Agency	7,815,000	539,669	69,056
06/08/04	San Francisco City & County Redevelopment Financing Authority	7,790,000	410,057	52,639
08/18/04	Lancaster Redevelopment Agency	7,760,000	337,036	43,432

SALE DATE	ISSUER	PRINCIPAL	TOTAL ISSUANCE COSTS	ISSUANCE COST PER $1,000,000
09/09/04	Pinole Redevelopment Agency	7,195,000	232,339	32,292
09/14/04	Santa Barbara Redevelopment Agency	7,150,000	362,707	50,728
09/30/04	El Cerrito Redevelopment Agency	6,510,000	198,093	30,429
03/17/04	El Monte Community Redevelopment Agency	6,500,000	473,401	72,83
07/28/04	Lemon Grove Community Development Agency	6,330,000	378,686	59,824
02/25/04	Hollister Redevelopment Agency	6,250,000	187,500	30,000
01/14/04	Orange Cove Redevelopment Agency	6,230,000	269,708	43,292
12/14/04	Riverside County Redevelopment Agency	6,125,000	175,663	28,680
09/29/04	Palmdale Community Redevelopment Agency	6,090,000	417,505	68,556
05/21/04	Parlier Redevelopment Agency	5,920,000	369,147	62,356
04/27/04	Westminster Redevelopment Agency	5,900,000	106,910	18,120
02/18/04	Montclair Redevelopment Agency*	5,700,000	255,607	44,843
05/14/04	Cotati Community Redevelopment Agency	5,610,000	278,120	49,576
06/02/04	San Leandro Redevelopment Agency	5,500,000	146,693	26,671
11/18/04	Manteca Redevelopment Agency	5,310,000	275,985	51,975
09/29/04	Santa Cruz Redevelopment Agency	5,245,000	277,313	52,872
12/15/04	Lancaster Redevelopment Agency	5,135,000	227,536	44,311
09/23/04	Windsor Redevelopment Agency	5,020,000	206,860	41,207
10/26/04	Upland Community Redevelopment Agency	5,000,000	186,250	37,250
11/08/04	Corcoran Redevelopment Agency	4,845,000	337,578	69,676
02/03/04	Fort Bragg Redevelopment Agency	4,830,000	202,741	41,975
06/16/04	Watsonville Redevelopment Agency	4,635,000	213,349	46,030
03/31/04	Riverside Redevelopment Agency*	4,550,000	303,680	66,743
07/22/04	Yuba City Redevelopment Agency	4,480,000	117,200	26,161
03/24/04	San Francisco City & County Redevelopment Financing Authority	4,435,000	85,068	19,181
12/08/04	Hawthorne Community Redevelopment Agency	4,225,000	296,134	70,091
07/21/04	Los Banos Redevelopment Agency	3,795,000	230,926	60,850
06/03/04	Highland Redevelopment Agency	3,690,000	185,814	50,356
04/29/04	Hawaiian Gardens Redevelopment Agency	3,360,000	100,921	30,036
09/09/04	Pinole Redevelopment Agency	3,215,000	115,866	36,039
09/23/04	Westminster Redevelopment Agency	3,100,000	67,250	21,694
03/31/04	Riverside Redevelopment Agency	2,975,000	159,761	53,701
05/18/04	Yucca Valley Redevelopment Agency	2,665,000	156,650	58,780
0/12/04	Yucaipa Redevelopment Agency	2,500,000	177,750	71,100
06/16/04	Watsonville Redevelopment Agency	2,310,000	138,725	60,054
08/11/04	Pacifica Redevelopment Agency	1,725,000	47,000	27,246
01/20/04	Tehachapi Redevelopment Agency	1,555,000	66,438	42,725
05/21/04	Parlier Redevelopment Agency	1,500,000	83,500	55,667
	Total 98 RDA Bond Issues	**2,264,240,000**	**66,733,543**	**29,473**
	Average	**23,104,490**	**680,955**	**29,473**

tes:

Total issuance costs adjusted to include discount in order to make data consistent with reporting method used by all other agencies
Data reported for calendar year 2004 by redevelopment agencies to the California Debt and Investment Advisory Commission.

5. Alternative Health Coverage for In-Home Support Services Providers Ages 65 and Over

The In-Home Support Services (IHSS) program provides support services, such as house cleaning, transportation, personal care services, and respite care to eligible, low-income aged, blind, and disabled persons. These services are provided in an effort to allow individuals to remain safely in their homes and prevent premature institutionalization.

In Santa Clara County, the program has three components performed by 1) the Social Services Agency (SSA), 2) the IHSS Public Authority, and 3) the State. SSA performs the eligibility determination, case management, and payroll functions for the program; the Santa Clara County Public Authority Board is responsible for negotiating worker wages and benefits and addressing other matters defined in law; and, the State Department of Social Services prepares and issues paychecks to IHSS workers.

Over the past several years, the IHSS program Statewide has experienced notable increases in expenditures partially driven by growth in caseload and provider costs. In his January 2005-06 budget proposal, the Governor commented that on a statewide basis, IHSS program expenditures "grew by 120 percent" between 1989 and 2004, "even though the caseload grew by only 65.3 percent." According to the administration, the relatively higher rate of growth in program expenditures was attributed to increases in IHSS provider wages and benefit costs negotiated by local government entities.

IHSS Health Care Benefits

Currently, federal and State funding is available to help pay for health insurance benefits for IHSS providers. Pursuant to the State's Medicaid plan, federal financial participation, averaging 51.5 percent, is available to pay for IHSS services, including the cost of health insurance for providers. Pursuant to State law, the State is required to pay a portion of the cost of wages and benefits for all public authority or nonprofit consortium providers. While initially the State allocated up to $0.60 per hour to cover its share of the cost of health benefits, it now allocates more per hour as long as the hourly wage exceeds a certain threshold. After accounting for the available federal and state financial participation, counties' share of cost of health care benefits is approximately 18 percent.

According to a study commissioned by the California HealthCare Foundation, as of March 2005, 24 public authorities were providing some level of health care benefits to IHSS providers. While many of the public authorities provide health, dental, and vision coverage, some offer health and dental or health-only benefit packages. Statewide, approximately 54,000 individuals (roughly 17 percent of all providers) were enrolled in health care coverage sponsored by an IHSS public authority.

In Santa Clara County, IHSS providers that work at least 35 hours per month are eligible for health, dental, and vision benefits. According to the IHSS Public Authority

of Santa Clara County, almost 3,700 providers are currently enrolled in medical coverage and over 4,000 providers are enrolled in dental and vision coverage.
The California HealthCare Foundation's study further estimates that the annual cost of health and dental benefits for IHSS providers is approximately $145.7 million, including $12.4 million for Santa Clara County. Table 1 details how the costs for medical and dental coverage are distributed among the counties, State, and federal government.

Table 1
Estimated Cost of IHSS Benefits*

	Total Cost Medical and Dental Coverage	Federal Share	State Share	County Share
Santa Clara County	$12,403,440	$6,387,772	$3,845,066	$2,170,602
All Counties	$145,717,826	$75,044,680	$45,172,526	$25,500,619

Source: "The State of IHSS Health Benefits in California: A Survey of Counties." RTZ Associates. May 2005.

Alternative Health Care Benefits for IHSS Providers Over Age 65

Medicare is a federally funded insurance program for senior citizens over age 65 and other individuals with certain diseases and medical conditions. Through this program, eligible individuals can obtain hospital, medical, and, beginning January 1, 2006, drug coverage. Most individuals ages 65 and over are automatically entitled to certain Medicare coverage if they or their spouse are eligible for Social Security payments.

In Santa Clara County and statewide, approximately 9 percent of all IHSS providers are over the age 65. Of those enrolled in benefits in Santa Clara County, roughly 6 percent are over age 65. If the State and counties were to take steps to direct these eligible individuals to enroll in Medicare in lieu of IHSS-sponsored medical coverage, a reduction in health benefit costs may be achieved for the State and counties as detailed in Table 2.

As described in the table below, there would be a reduction in benefit costs for the providers over age 65 since they would be referred to Medicare for their medical coverage. There may also be a reduction in premiums paid per IHSS provider, and subsequently the total costs paid for the remaining insured individuals. On average, individuals over age 65 tend to incur more medical costs than younger individuals. By removing the group of seniors from the insurance pool of IHSS providers, the average cost or the premium paid in each county should decline.

Table 2

Estimated Impact of Directing IHSS Providers Ages 65 and Over to Medicare

	State Savings	County Savings	Total Savings*
Santa Clara County			
Reduction in benefit costs for providers ages 65+	$214,555	$121,120	$335,674
Reduction in premiums for remaining insured*	$168,068	$94,877	$262,945
TOTAL ESTIMATED SAVINGS	$382,623	$215,997	$598,619
All Counties			
Reduction in benefit costs for ages 65+	$2,520,627	$1,422,935	$3,943,562
Reduction in premiums for remaining insured*	$1,974,491	$1,114,632	$3,089,123
TOTAL ESTIMATED SAVINGS	$4,495,118	$2,537,567	$7,032,685

*For illustrative purposes, a 5 percent reduction in premiums was assumed.

Issues for Consideration

While technically, it may be possible for counties and the State to achieve savings from efforts to direct IHSS providers over age 65 to Medicare in lieu of providing medical coverage through the public health authorities, there are additional issues that should be considered that could influence whether 1) the IHSS providers actually access this alternative health care coverage and 2) the entire amount of estimated savings is achieved.

- Existing counseling programs are available to help IHSS providers understand and enroll in Medicare coverage. Through the Health Insurance Counseling and Advocacy Program (HICAP), the California Department of Aging currently funds objective, counseling, and advocacy services for Medicare beneficiaries. Additional administrative expenditures may not be necessary to ensure this group of IHSS providers receives assistance in obtaining Medicare coverage. To the extent, however, that administrative costs are incurred for this purpose, any savings resulting from reduced IHSS benefit costs would be reduced.

- Depending on the county, the health benefit package currently available to IHSS providers may be more comprehensive and affordable compared to the coverage available under Medicare. For instance, in Santa Clara County, IHSS providers are required to pay a monthly premium of $8 for insurance that includes hospital, medical, and drug coverage. Although some assistance is available for low-income individuals, Medicare enrollees generally pay a separate share of cost each month for hospital, medical, and drug coverage that can range from $37 for drug coverage to $78 for hospital coverage.

- Currently, IHSS workers, through their representatives, negotiate labor agreements with local IHSS employers of record, generally Public Authorities. Each county Public Authority negotiates a separate agreement with different wages plus benefit structures that include health and sometimes vision, dental, holidays, sick leave and pension. The savings achieved from directing certain IHSS providers to Medicare would hinge on State legislation that supersedes any agreement negotiated at the county level that provides coverage to providers over age 65.

6. State Prison Health Expenditures

The Health Care Services Program of the California Department of Corrections and Rehabilitation (CDCR) provides mandated medical, dental, and psychiatric care to California's inmate population. For fiscal year 2005-06, the Health Care Services Program budget is approximately $1 billion, of which roughly $750 million is for medical services.

Last June, in response to deficiencies in the medical care provided to State prison inmates, a federal court ordered that a receiver take control of the State prison health care system. Pending the appointment of this receiver, the federal court appointed a correctional expert to develop immediate steps for improvement. The expert's recommendations were finalized and released last month. Among the main changes, the court has ordered the CDCR to:

- Implement recruitment and retention differentials for prison physicians, surgeons, nurses, medical officers, and clinical supervisors;

- Process applications for clinical staff within 5 days and render a decision on applicants within 10 business days; and

- Modify existing registry contracts with two firms.

Furthermore, the court has ordered that the administration designate an individual to oversee the implementation of these recommendations and update the court. The recommendations are to be implemented beginning in the current year.

State and Local Impact

Preliminary estimates developed by the Department of Finance and Department of Personnel Administration indicate that the current year impact of the court's order will be approximately $12.2 million (an amount equal to 1.6 percent of the total medical services budget). The full-year cost in FY 2006-07 is estimated to be approximately $25 million. These estimates, however, do not include the costs resulting from the recommendation that CDCR renegotiate its contracts with two registry firms.

At this point, it is uncertain how the State will address the additional expenditures resulting from the court order. More information will be available once the State budget is released on January 10. However, there are several approaches the State could take to address these additional expenditures, including accessing its General Fund reserves, or making reductions in funding for the CDCR, other State departments, or local government.

A review of local funding sources indicates that the passage of various ballot measures limits the State's ability to reduce funding for local government. Proposition 1A, passed by the voters in November 2004, prohibits the State from changing the allocation of local sales tax revenue; generally prohibits the State from shifting property tax revenue from local government to schools or community colleges; and requires that the State provide local government with replacement revenue if it reduces the VLF rate. Proposition 63, also enacted by the voters in 2004, prohibits the State from redirecting funds now used for mental health services to other purposes. The State is specifically prohibited from reducing General Fund support, entitlements to services, and formula distributions of funds now dedicated for mental health services below the levels provided in 2003–04.

Despite these initiatives, the State maintains its authority to alter the funding for health and human services programs such as In-Home Support Services, CalWORKS, and Medi-Cal. To the extent that the State attempts to offset the additional expenditures in the CDCR through reductions in these programs, local government may be impacted. For illustrative purposes, Table 1 details the impact a statewide reduction of $12.2 million could have on the funding received by Santa Clara County under different scenarios. The estimates included in Table 1 are based on current allocation methodologies related to each program area or the percentage of program participants in Santa Clara County. Therefore, if the County's statewide share of Medi-Cal costs is 3.41%, Table 1 apportioned that percent of 1) the $12.2 million for FY 2005-06 and $25 million for FY 2006-07 in projected additional CDCR medical costs and 2) any subsequent reductions in federal funding. If instead the reductions were to occur in either IHSS or CalWORKs, the potential reductions experienced by the County would be somewhat lower.

The actual impact on local government, if any, would depend on the full fiscal impact of the court's orders and the approach used by the State to cover those additional expenditures.

Table 1
County Impact of Reduction
in Health and Human Services Funding

Health and Human Services Programs	FY 2005-06	FY 2006-07
Medi-Cal	($824,465)	($1,689,478)
IHSS	($320,786)	($657,349)
CalWORKs	($464,296)	($951,426)