

Commission on Manpower, Automation and Technology—Continued

The development of a comprehensive legislative package by the commission from material on hand and such new material as may be acquired during the six month period following July 1, 1966 prior to the convening of the general session of 1967 is not defined as to type, nature or subject matter. This vagueness and the limitation of the time available creates strong doubts as to the ability of the commission and its proposed new staff to realistically assemble a legislative program which will produce recommended legislation of substance.

The statement is made in the budget year program of the commission relative to providing "needed coordination" which implies they are the basic organization to direct and achieve coordination between state agencies with interests in the fields of manpower utilization and education. Coordination of this nature existed long before the creation of the commission, and is basically a responsibility of the agency administrators concerned.

There is an erroneous implication also that the commission must exist in order to constitute the State Manpower Advisory Committee. The Secretary of Labor has authority to require a state, a community, or a region to establish such committees to act as advisory bodies to assist in the implementation of the MDT Act of 1962 as amended.

Such a committee's function is that of making expert assistance available to those individuals and organizations carrying out programs under Title II of that act and it is not necessary to establish and budget for a full commission such as this to fulfill the state's responsibility in this connection with the MDT Act of 1962.

BOARD OF CONTROL		Budget page 552
ITEM 142 of the Budget Bill		
FOR SUPPORT OF THE BOARD OF CONTROL FROM THE GENERAL FUND		
Amount requested -----		\$30,301
Allocated from Tort Liability Item -----		10,788
Total -----		\$41,089
Estimated to be expended in 1965-66 fiscal year -----		39,653
Increase (3.6 percent) -----		\$1,436
TOTAL RECOMMENDED REDUCTION -----		None

GENERAL PROGRAM STATEMENT

The Board of Control consists of the Controller, the Director of the Department of General Services, and one other member appointed by the governor. Its functions are grouped under three programs:

1. Claims adjudication
2. Rulemaking
3. Miscellaneous fiscal matters

Overall agency growth is shown in Table 1.

Board of Control—Continued

Table 1
Five-year Growth—Personnel and Budget Expenditures

	<i>Man-years</i>	<i>Expenditures</i>		<i>Total</i>
		<i>General Fund</i>	<i>Tort Liability Fund</i>	
1962-63 -----	2.1	\$17,544	—	\$17,544
1963-64 -----	2.8	25,686	\$1,100	26,786
1964-65 -----	3.8	24,579	9,948	34,527
1965-66 (estimated) -----	4.3	28,865	10,788	39,653
1966-67 (proposed) -----	4.3	30,301	10,788	41,089

PROGRAM ANALYSIS AND RECOMMENDATION

1. Claims Adjudication

The board receives, processes and acts upon all claims made against the state. It approves claims arising out of tort liability for payment out of funds appropriated for that purpose. Other approved claims are referred to the Legislature. The board is now required under Chapter 905, Statutes of 1965, to specially report all approvals of tort claims and all rejected claims, excepting only claims covered by commercial insurance, to the Legislature on the first day of each calendar year. Rules and regulations governing the presentation, audit, and payment of claims are adopted.

This program contains the greatest percentage of the total board workload. The board's measure of claims workload is the total number of claims received, shown in Table 2. The totals include claims filed, and late claim and claim applications received, all of which require review.

Table 2
Claims Received

	<i>Number of claims filed</i>	<i>Late claim applications</i>	<i>Late claims received</i>	<i>Total claims received</i>
1963-64 -----	1,163	18	0	1,181
1964-65 -----	1,321	81	57	1,459
1965-66 (estimated) -----	1,490	90	60	1,640
1966-67 (estimated) -----	1,600	90	60	1,750

2. Rulemaking

The board adopts general rules and regulations governing state travel and moving expenses, meals at state agencies, valuation of employee housing, merit awards, and purchase of supplies and equipment. Rulemaking for the indemnification of private citizens injured while preventing crimes and the regulation of relocation expenses resulting from state acquisition of property have been added to the 1966-67 workload, respectively, by Chapters 1395 and 905, Statutes of 1965.

Board of Control—Continued

3. Miscellaneous Fiscal Matters

Grouped under this program are a host of miscellaneous functions, including: processing of refunds and cancellations; discharge from accountability of accounts receivable; establishing headquarters for state officials; transfer of funds between component institutions within the Department of Corrections, the Youth Authority, and the State Colleges; approval of the purchase and sales of bonds by the state; sale and disposal of unclaimed property; approval of forgery insurance; approval of payment of encumbrances against reverted appropriations from current appropriations available for the same purpose; and the merit award program. In 1966-67 the one-time processing of special appeals from counties contesting expenses allocated to them by the new Basic Health Care Act, under Section 14156 of the Welfare and Institutions Code, will be added.

The budget proposes to add 0.2 man-year of temporary help to meet increased workload, budget page 552, line 49, \$1,000.

We recommend approval as budgeted.

STATE CONTROLLER

ITEM 143 of the Budget Bill Budget page 553

**FOR SUPPORT OF THE STATE CONTROLLER
FROM THE GENERAL FUND**

Amount requested	\$4,955,809
Estimated to be expended in 1965-66 fiscal year	4,862,172

Increase (1.9 percent)	\$93,637
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TOTAL RECOMMENDED REDUCTION **\$16,392**

RECOMMENDED AUGMENTATION **\$41,729**

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	<i>Page Line</i>
Delete 2 junior counsel positions, Inheritance and Gift Tax Division	\$16,392	558	6

Summary of Recommended Augmentation

Add 3 senior real property appraisers, Inheritance and Gift Tax Division:			
Salaries and wages	\$34,560	558	13
Staff benefits	3,169	558	17
Traveling—in-state	9,000	558	24
Payment to inheritance tax appraisers for gift tax work eliminated	—5,000	558	22
Net	\$41,729		

GENERAL PROGRAM STATEMENT

The State Controller has two general areas of responsibility: Those arising from his membership on 18 state boards or commissions, the most important of which are the Board of Equalization, Franchise Tax Board, State Lands Commission, Pooled Money Investment Board and Board of Control, and those arising as the head of an operating agency.

State Controller—Continued

His responsibilities as an agency head are the subject matter of this analysis.

Organizationally, the Controller's office is composed of eight divisions, each of which handles a distinct activity or group of related activities.

The Controller regards these divisions as performing three basic programs as follows: (1) fiscal control, (2) tax administration, and (3) fiscal affairs—local government.

Each program includes two or more categories as a "subprogram" with most of the "subprograms" consisting of several "functions."

The administration division is not regarded by the Controller as a program or subprogram and in all calculations involving costs on a program basis the Controller has prorated its costs to the various "subprograms." However, no attempt has been made to allocate the man-years involved in the administration division to the various functions. It should be pointed out that in the case of the Controller's office, to prorate all costs of the administration division to the programs outlined in the foregoing does not account for the fact that some part of these costs relate to his responsibilities as a member of 18 boards and commissions, the activities of which are unrelated to the programs in question.

Our budget analysis conforms to the program format developed by the Controller's office.

Table 1 shows, for the five-year period from 1962-63 to 1966-67, the total expenditure by funds and the man-years by divisions, with the divisions arranged by program as defined by the Controller. It should be noted that the man-years for 1965-66 and 1966-67 are net after estimated salary savings have been deducted and accordingly do not represent total number of authorized positions for these years.

In 1962-63, the agency was engaged in two unusual activities: (a) The screening of unclaimed safe deposit boxes (accounting division), and (b) the integration of social security with state retirement and the adoption of the medical care program (disbursement division), which caused the staff in that year to be higher than normal. These reasons account for the fact, as indicated in Table 1, that the staff in the budget year, 1966-67, is only 2.8 man-years above that in 1962-63, but 30.6 man-years above the last actual year (1964-65).

The fastest growing divisions within this agency are inheritance and gift tax, and local government fiscal affairs. Regular workload increases are responsible for the former's position, whereas new programs resulting from legislation are causing the staff increases in the local government division. Part of this new activity is the auditing connected with the Collier-Unruh Act (1963), which is financed from the Motor Vehicle Fuel Fund.

Table 1 also shows that General Fund expenditures are increasing at a slower rate than total expenditures.

Table 1
Man-years by Program and Division and Total Expenditures by Fund, 1962-63 to 1966-67

<i>Program and Division</i>	<i>Actual</i>			<i>Estimated 1965-66</i>	<i>Proposed 1966-67</i>	<i>1966-67 Increase over</i>		
	<i>1962-63</i>	<i>1963-64</i>	<i>1964-65</i>			<i>1962-63</i>	<i>1964-65</i>	
I Fiscal Control								
A. Accounting -----	64.9	54.2	55.3	55.0	56.7	-8.2	1.4	
B. Audits -----	71.0	71.3	71.3	73.4	74.4	3.4	3.1	
C. Disbursements -----	192.0	175.0	168.0	174.0	175.0	-17.0	7.0	
Total -----	327.9	300.5	294.6	302.4	306.1	-21.8	11.5	
II Tax Administration								
A. Inheritance and gift tax -----	106.7	108.6	110.2	118.0	120.5	13.8	10.3	
B. Tax collection and refund -----	73.4	73.5	72.4	74.2	73.2	-0.2	0.8	
Total -----	180.1	182.1	182.6	192.2	193.7	13.6	11.1	
III Fiscal Affairs—Local Government								
A. Local government fiscal affairs -----	28.9	28.4	33.0	40.6	39.6	10.7	6.6	
B. Tax-deeded land -----	20.4	19.9	19.2	19.1	18.6	-1.8	-0.6	
Total -----	49.3	48.3	52.2	59.7	58.2	8.9	6.0	
Administration division -----	32.0	33.2	32.1	34.1	34.1	2.1	2.0	
Total -----	589.3	564.1	561.5	588.4	592.1	2.8	30.6	
<i>By Fund</i>								
		Expenditures (thousands)					Percentage Increase	
General -----	\$4,521.6	\$4,529.7	\$4,720.7	\$4,862.2	\$4,955.8	9.6	5.0	
M. V. Fuel -----	669.5	706.7	793.2	878.8	877.8	31.1	10.7	
M. V. Transportation -----	153.9	139.7	136.5	141.1	144.0	-6.4	5.5	
School Building Aid -----	161.4	158.4	169.1	168.1	169.0	4.7	0	
Aeronautics -----	--	--	--	14.8	40.8	--	--	
Total -----	\$5,506.4	\$5,534.5	\$5,819.5	\$6,065.0	\$6,187.4	12.4	6.3	

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State Controller—Continued

Table 2 shows the distribution of the Controller's budget on a program basis. General administration, which is the budget of the administration division, is included in this table for informational purposes, but it is not treated as a separate program in this analysis.

Table 2
Programs Budget—State Controller

<i>Programs</i>	<i>Actual</i> <i>1964-65</i>	<i>Estimated</i> <i>1965-66</i>	<i>Proposed</i> <i>1966-67</i>	<i>Percent</i>
I Fiscal Control				
A. Accounting -----	\$612,249	\$664,665	\$670,906	10.84%
B. Audits -----	682,352	734,208	741,740	11.99
C. Disbursements -----	1,868,601	1,726,913	1,735,307	28.05
Subtotal -----	\$3,163,202	\$3,125,786	\$3,147,953	50.88%
II Tax Administration				
A. Inheritance and gift taxes -----	\$1,256,854	\$1,395,103	\$1,451,124	23.45
B. Tax collection and refund -----	745,734	787,386	802,580	12.97
Subtotal -----	\$2,002,588	\$2,182,489	\$2,253,704	36.42%
III Fiscal Affairs—Local Government				
A. Local government fiscal affairs -----	\$450,197	\$538,995	\$570,629	9.22
B. Tax-deeded lands ---	203,628	217,752	215,060	3.48
Subtotal -----	\$653,825	\$756,747	\$785,689	12.70%
IV Administration -----	(\$366,439)	(\$408,199)	(\$412,688)	--
Total -----	\$5,819,615	\$6,065,022	\$6,187,346	100.00%
<i>By Funds</i>				
General -----	\$4,720,743	\$4,862,172	\$4,955,809	80.09
M. V. Fuel -----	793,246	878,770	877,764	14.19
M. V. Transportation Tax -----	136,510	141,151	144,019	2.33
School Building Aid ---	169,166	168,131	168,992	2.73
Aeronautics -----	--	14,798	40,762	0.66

Table 3 shows new positions being requested for 1966-67 as well as workload and administrative adjustments in 1965-66 and 1966-67.

Table 3
Proposed New Positions, by Program, 1966-67 and Workload and Administrative Adjustments Current and Budget Years

<i>Program</i>	<i>Workload and administrative adjustments</i>		<i>New positions</i>
	<i>1965-66</i>	<i>1966-67</i>	<i>1966-67</i>
I Fiscal Control			
A. Accounting -----	-0.5	-0.3	1.0
B. Audits -----	3.0	--	4.0
C. Disbursements -----	--	--	1.0
II Tax Administration			
A. Inheritance and gift taxes -----	--	--	7.0
B. Tax collection and refund -----	--	--	--

State Controller—Continued

Table 3—Continued

Proposed New Positions, by Program, 1966-67 and Workload and Administrative Adjustments Current and Budget Years

Program	Workload and administrative adjustments		New positions 1966-67
	1965-66	1966-67	
III Fiscal Affairs—Local Government			
A. Local government fiscal affairs	5.0	-1	5.0
B. Tax-deeded lands	-	-0.5	-
IV Administration	0.5	-	.5
Total	8.0	-1.8	18.5

ANALYSIS AND RECOMMENDATIONS

I. Fiscal Control

Program Statement. The primary objective of this program is to assure that public funds are spent only for proper purposes. Deposits into and withdrawals from the State Treasury are examined for propriety and recorded in the central control accounts. Periodically, financial statements and reports are issued reflecting the information accumulated in these accounts.

During the budget year, about 52 percent of the man-years of this agency, including the administration division, will be assigned to this program which is composed of three subprograms and eight functions. Table 4 shows these categories and the requested man-years. Due to the absence of standard allocation techniques, some supervisorial positions have been assigned to the subprograms in total rather than to the component functions. This practice is also followed in other programs.

Table 4
Proposed Man-years for the Fiscal Control Program in 1966-67

Subprograms	Functions	Man-years
A. Accounting	Supervisory-unallocated	4.0
	1. Control accounts	35.5
	2. Financial analysis	8.0
	3. Unclaimed property	9.2
	Subtotal	56.7
B. Audits	Supervisory-allocated	3.7
	1. Claim audits	37.0
	2. Field audits	33.0
	Subtotal	74.4
C. Disbursements	1. General disbursements	33.0
	2. Payroll	137.0
	3. Data processing service	5.0
	Subtotal	175.0
	Total—Fiscal Control	306.1

A. Accounting

The following summary shows the costs of the three functions in this subprogram.

Functions	1964-65	1965-66	1966-67
1. Control accounts	\$380,126	\$401,194	\$407,844
2. Financial analysis	130,701	139,239	141,811
3. Unclaimed property	101,422	124,232	121,251
Total	\$612,249	\$664,665	\$670,906
Man-years	55.3	55.0	56.7

State Controller—Continued

1. Control Accounts

The main part of this function is to maintain the control accounts covering all funds in the State Treasury. Another part is to examine all remittances covering deposits into the State Treasury to determine the legality of the receipt and its proper disposition.

Table 5 shows man-years by activity for the control account function and indicates a very close correlation during 1964-65 between estimated and actual man-years by activity even though workload was underestimated. In the budget year, the agency is requesting one additional position (accountant I, \$5,832) to handle the increased workload in the fund accounting activity.

We recommend approval of this new position, budget page 555, line 10.

Table 5
Control Account Function, Man-years and Workload Units

Activity	1964-65		1965-66	1966-67
	Estimated	Actual	Revised	Proposed
Fund accounting -----	16.50	16.41	16.98	17.50
Revenue certification -----	4.50	4.21	4.43	4.61
Claim processing -----	2.83	3.08	3.14	3.20
Transfer posting -----	2.00	2.01	2.00	2.00
Agency trust accounts -----	1.27	1.20	1.23	1.23
Clerical -----	6.78	6.27	6.36	6.46
Supervision -----	2.00	2.00	2.00	2.00
Total—man-years -----	35.89	35.18	36.14	37.00*
Workload Units (thousands)				
Fund accounting -----	29.7	31.8	32.8	33.8
Revenue certificates -----	19.8	20.1	21.0	21.9
Claim processing -----	160.0	165.0	168.2	171.5
Transfer posting -----	705.0	707.2	729.0	750.0
Agency trust accounts -----	1,163.4	1,287.2	1,345.2	1,396.3
Total—workload -----	2,077.9	2,211.3	2,296.2	2,373.5

* Does not include an adjustment for salary savings and therefore will not agree with data in Table 4.

2. Financial Analysis

The main part of this function is the preparation of the Controller's annual report and related documents. Also included is the administration of the Judges' Retirement System. Time spent on annual reports increased during 1964-65, and this new staffing level will continue during the next several years as many of the basic records are gradually converted to ADP.

Activity	Man-years		1965-66	1966-67
	Estimated	Actual	Revised	Proposed
Annual reports -----	2.74	3.85	3.67	3.67
Highway user taxes -----	.99	.52	.55	.55
Judges' retirement system -----	.88	.90	.90	.90
All others -----	3.39	2.82	2.88	2.88
Total -----	8.00	8.09	8.00	8.00

State Controller—Continued

3. Unclaimed Property

This function consists of administering the Uniform Disposition of Unclaimed Property Act and the laws relating to the estates of deceased persons.

During the current year the agency revised its estimate of the cost of publishing the names of owners of abandoned property. The original estimate was 5,000 names at a cost of \$14,500. The revised estimate is 10,000 names at a cost of \$32,500, or an increase of \$18,000. Part of this increase will be offset by a \$9,525 savings resulting from the enactment of Chapter 1350, Statutes of 1965, which revised the method of advertising escheated estates. This was recommended as a policy option in our 1965-66 Analysis, page 448, relating to escheated property.

Since 1963-64, two positions have been authorized to conduct a compliance program. However, these positions have never been filled because of pending litigation. The agency anticipates that this litigation will be settled shortly, and therefore these two positions will be established on January 1, 1967 (the equivalent of one man-year in the proposed budget).

Table 6
Unclaimed Property Function—Man-years and Workload Units

Activity	1964-65		1965-66 Revised	1966-67 Proposed
	Man-years			
	Estimated	Actual		
Processing reports -----	4.18	4.89	4.44	4.60
Screening safe deposit boxes-----	.44	.58	.32	.33
Processing claims -----	1.92	1.33	1.37	1.23
Compliance program -----	2.00	--	--	1.00
All others -----	1.65	1.24	2.12	2.09
Total man-years -----	10.19	8.04	8.25	9.25
	Workload Units			
Number of new accounts -----	15,000	19,725	16,500	17,000
Names published -----	4,500	7,109	10,000	8,000
Safe deposit boxes screened -----	1,400	2,287	1,170	1,170
Claims paid -----	2,470	629	654	589
Total workload -----	23,370	29,750	28,324	26,759

B. Audits

The following summary shows the cost of the two functions in this subprogram.

Functions	1964-65	1965-66	1966-67
1. Claim audits -----	\$323,923	\$343,739	\$346,193
2. Field audits -----	358,429	390,469	395,547
Total -----	\$682,352	\$734,208	\$741,740
Man-years -----	71.3	73.4	74.4

1. Claim Audits

This function consists of passing on the validity of expenditures before disbursement of funds from the State Treasury. The technical staff assigned to this function has remained constant since 1963-64. The

State Controller—Continued

following summary shows that workload per unit of auditing staff is increasing but no additional positions are requested.

	1964-65		1965-66	1966-67
	Estimated	Actual	Revised	Proposed
Audit positions -----	17	17	17	17
Claim schedules -----	172,633	174,464	183,522	190,863
Schedules per auditor -----	10,155	10,380	10,795	11,227

2. Field Audits

This function consists of an examination of local agency records (post audit) regarding the expenditure of state and federal funds under 14 subvention programs. It also includes the review of municipal and justice courts accounting systems and the internal audits of the Controller's office.

In 1965-65, the manpower devoted to this function consisted of 25 auditors, 1 analyst, and 4 clerical positions, for a total of 30. During the current year the analyst position was transferred to the administration division and 3 new auditor positions were added administratively to handle the workload resulting from the December 1964 floods. In the budget year the agency is requesting that the three disaster auditors be made permanent and that another position be added to audit the airport assistance program pursuant to Chapter 1768, Statutes of 1965. The Aeronautics Fund will finance the cost of this last position. Another new activity is the allocation of 0.7 man-years for the auditing of park and recreation grants provided by the bond act of 1964. Table 7 shows the areas where significant changes in staffing and workload are proposed or have occurred. The man-year figures do not include clerical positions.

Table 7
Field Audit Function—Man-years and Workload Units
Man-years

Activity	1964-65		1965-66	1966-67
	Estimated	Actual	Revised	Proposed
School building aid -----	9.00	9.77	9.00	9.00
Flood control -----	1.50	2.63	2.90	2.56
Emergency flood relief -----	.75	1.31	1.00	2.00
Federal disaster assistance -----	--	.56	2.00	.84
Airport assistance -----	--	--	--	1.00
Park and recreation grants -----	--	--	--	.70
All others -----	14.75	11.76	13.10	12.90
Total man-years -----	26.00	26.03	28.00	29.00

Workload Units

School building aid -----	547	616	547	547
Flood control -----	56	123	132	117
Emergency flood relief -----	15	23	23	45
Federal disaster assistance -----	--	18	81	34
Airport assistance -----	--	--	--	92
Park and recreation grants -----	--	--	--	16
All others -----	316	210	268	226
Total workload -----	934	990	1,051	1,077

We recommend approval of the four new auditor I positions (\$26,644), budget page 556, line 12.

State Controller—Continued

C. Disbursements

The following summary shows the costs of the three functions in this subprogram.

<i>Functions</i>	<i>1964-65</i>	<i>1965-66</i>	<i>1966-67</i>
1. General disbursements -----	\$497,544	\$455,839	\$455,296
2. Payroll -----	1,291,246	1,216,209	1,227,655
3. Data processing services -----	79,811	54,865	52,356
Total -----	\$1,868,601	\$1,726,913	\$1,735,307
Man-years -----	168	174	175

1. General Disbursements

Table 8 shows the major workload components of this function. The increase in the motor vehicle fuel tax refunds in the current year is mainly a timing change caused by a new federal method of granting similar refunds.

Table 8
General Disbursements, Workload Units, by Activity

<i>Activity</i>	<i>1964-65</i>		<i>1965-66</i>	<i>1966-67</i>
	<i>Estimated</i>	<i>Actual</i>	<i>Revised</i>	<i>Proposed</i>
Vendor disbursements -----	1,261.3	1,183.3	1,230.6	1,279.9
Veterans' educational assistance -	80.0	67.4	56.8	56.8
M. V. fuel tax refunds -----	66.0	65.5	80.0	66.7
Retirement roll payments -----	772.8	730.3	785.8	847.8
Unemployment compensation disability refunds -----	290.0	237.6	216.0	216.0
Total workload -----	2,470.1	2,284.1	2,369.2	2,467.2

2. Payroll

This agency administers the uniform state payroll system. Included in this function are the maintenance of the payroll and position rosters, the issuance of warrants, the savings bond program, and payroll deductions for a variety of reasons besides retirement and federal income taxes. The following summary shows that workload in this area is increasing at a moderate rate.

<i>Activity</i>	<i>1964-65</i>		<i>1965-66</i>	<i>1966-67</i>
	<i>Estimated</i>	<i>Actual</i>	<i>Revised</i>	<i>Proposed</i>
Savings bonds issued -----	199.4	186.4	190.1	193.9
Position transactions -----	69.3	42.1	44.2	46.5
Payroll transactions -----	1,407.7	1,452.0	1,466.6	1,481.2
Total workload -----	1,676.4	1,680.5	1,700.9	1,721.6

Table 9 illustrates the importance of the payroll function in the total usage of computer equipment in this division. These computers also are used for nondisbursing functions such as the service bureau operation (reimbursable) and fund accounting (nonreimbursable). The

State Controller—Continued

former consists of activities for other state agencies while the latter involves performing tasks for other divisions within the Controller's office. Fund accounting and similar activities probably will be placed on a reimbursable basis in the future in order to obtain more realistic cost allocations by programs.

Table 9
Distribution of Computer Machine Time
by Type of Activity, July 1965

Activity	Two 1401's		7074	
	Machine hours	Percent	Machine hours	Percent
Payroll -----	305	37.8	217	64.9
General disbursements -----	279	34.5	46	13.7
Fund accounting -----	70	8.6	27	8.2
Bank reconciliation -----	48	6.0	14	4.3
Housekeeping processes -----	39	4.8	3	0.8
Treasury trust -----	26	3.2	8	2.3
U.S. savings bonds -----	10	1.2	4	1.3
Service Bureau -----	9	1.1	4	1.3
All others -----	22	2.8	11	3.2
Totals -----	808	100.0%	334	100.0%
Number of shifts -----	2.4		2.0	

The agency is requesting one additional man-year of temporary help for this function in the budget year.

We recommend approval of this increase, budget page 556, line 79, \$6,420.

3. Data Processing Services

This function consists of providing programming and computer services to other divisions in the Controller's office and to other state agencies on a service agreement basis. The following summary illustrates the types of activities involved and the budgetary functions to which they relate.

Activity	Machine hours July 1965*	Reimbursable	Controller's budgetary Function
Fund accounting -----	97	No	Control accounts
Treasury trust -----	34	No	Control accounts
Investment accounting ---	6	No	Control accounts
Highway user ----- (a)		No	Control accounts
Unclaimed property -----	10	No	Unclaimed property
Inheritance tax -----	6	Yes	Inheritance tax
Service bureau -----	13	Yes	Other state agencies

* Both 1401 and 7074
 (a) Less than one hour

During July of 1965, the above activities consumed 14.6 percent of the machine time of the 1401 computers, and 14.4 percent of the 7074. As we mentioned previously, the agency intends to make all nondisbursing activities reimbursable in the future.

State Controller—Continued

II. Tax Administration

Program Statement. This program consists of administering and collecting inheritance and gift taxes; making refunds of gasoline taxes to certain nonhighway users; accounting for and collecting delinquencies regarding the following six taxes: motor vehicle fuel, motor vehicle transportation, insurance premium, petroleum and gas charges, and subsidence abatement charges.

During the budget year, about 33 percent of the staff of this agency, including the division of Administration, will be assigned to this program which is composed of two subprograms and four functions. Table 10 shows these categories and the requested man-years.

Table 10
Proposed Man-years for the Tax Administration Program in 1966-67

<i>Subprograms</i>	<i>Functions</i>	<i>Man-years</i>
A. Inheritance and gift taxes -----	Supervision, unallocated -----	3.0
	1. Inheritance tax -----	102.0
	2. Gift tax -----	15.5
	Subtotal -----	120.5
B. Tax collection and refund -----	1. Tax collection -----	14.5
	2. Gasoline tax refunds -----	58.7
	Subtotal -----	73.2
	Total—Tax Administration ---	198.7

A. Inheritance and Gift Taxes

The following summary shows the cost of the two functions in this subprogram.

<i>Functions</i>	<i>1964-65</i>	<i>1965-66</i>	<i>1966-67</i>
1. Inheritance tax -----	\$1,075,464	\$1,202,650	\$1,261,552
2. Gift tax -----	181,390	192,453	189,572
Total -----	\$1,256,854	\$1,395,103	\$1,451,124
Man-years -----	110.2	118.0	120.5

1. Inheritance Tax

This tax is imposed upon the succession or transfer of property upon the death of the owner. Administration of this tax is divided among four groups: (1) The inheritance tax appraisers who value the assets and compute the tax liability, (2) the probate courts which fix the tax liability, (3) the county treasurers who inventory the contents of safe deposit boxes, issue consents to transfer certain types of property, and collect the tax, and (4) the Inheritance and Gift Tax Division in the Controller's office which has the responsibility for safeguarding the state's interests.

Table 11 shows the distribution of the authorized positions in the division as of July 1, 1965, by classification, location and function.

State Controller—Continued

Table 11
Distribution of Authorized Positions in the Inheritance and Gift Tax
Division by Classification, Function and Location
July 1, 1965

<i>Region and Function</i>	<i>Legal</i>	<i>Auditing</i>	<i>Accounting & Research</i>	<i>Clerical</i>	<i>Total</i>
Headquarters					
Sacramento -----	2	--	--	1	3
Inheritance Tax					
Sacramento -----	3	3	10	15	31
San Francisco -----	6.5	5	--	10.5	22
Los Angeles -----	11.5	11	--	25.5	48
Subtotal -----	21	19	10	51	101
Gift Tax					
Sacramento -----	1	5	--	4	10
San Francisco -----	.5	1	--	.5	2
Los Angeles -----	.5	1	--	2	3.5
Subtotal -----	2	7	--	6.5	15.5
Total -----	25	26	10	58.5	119.5

In the past we have commented upon the unique feature of this division whereby each regional office has almost complete control over the inheritance (not gift) tax cases within its geographic jurisdiction. Unlike other tax agencies in California, this division did not have regular procedures whereby cases audited in the field were reviewed by the headquarters staff. This situation has been changed to some extent by the initiation of a sample review process which started in the spring of 1965. During that quarter, the supervising inheritance and gift tax examiner spent about 170 hours reviewing a selected sample of inheritance tax field audits from all three regional offices. This review consisted of an examination of audit techniques, quality of the audits, nature of requests for legal rulings and the treatment of quasi-community property. No reviews were conducted during the second and third quarters of calendar year 1965. In the fourth quarter, this position spent another 60 hours reviewing a statewide sample of amended inheritance tax cases.

New Compliance Program

Our studies of administration of the inheritance tax which is anticipated to yield \$120 million in state revenues during 1966-67, indicate that there are two main areas where the interests of the state can be jeopardized by inaccurate valuations. They are real property and closely held business interests. The Inheritance and Gift Tax Division has a mechanism for verifying the latter valuations which is an accounting task. However, Table 11 shows that this division does not have any real property appraisers on its staff, and therefore, it is not in a position to make an independent judgment concerning the accuracy of property valuations submitted by inheritance tax appraisers.

State Controller—Continued

We believe this agency should be in a position to make an independent judgment because:

1. Real property valuations constitute about 38 percent of the total value of estates (Table 12).

2. Effective appraisals of real property require a high degree of technical competence and differences of opinion as to the value of a given piece of property can exist even when the best qualified talent is employed. These differences can be magnified many times when appraisals are made by semi- or unqualified personnel.

3. Despite the fact that all inheritance tax appraisers are required to value real property, only 28 percent of the members on the panel (Table 13) had backgrounds related to real estate. The largest group on the panel consisted of attorneys (38 percent).

4. The civil service staff in this division normally accept as valid the valuations assigned by the inheritance tax appraisers. Only in very rare situations would they have information upon which to question the valuations. Even the audit review program mentioned above did not check upon property valuations.

Table 12
Distribution of Assets Subject to Inheritance Taxation *
1964-65

Type of Asset	Items	Value	
		Millions	Percent
Real Property			
Residences and apartments -----	41,881	\$680	24.0
Commercial and industrial -----	2,866	120	4.2
Lots -----	14,216	19	.7
Farms -----	8,194	143	5.1
Other (primarily deeds of trust) -----	19,791	126	4.4
Subtotal -----	86,948	\$1,088	38.4%
Tangible Personal Property -----	54,514	\$30	1.0%
Intangible Personal Property -----	479,952	\$1,716	60.6%
Total -----	621,414	\$2,834	100.0%

* Both taxable and nontaxable cases

Table 13
Occupational Background of Inheritance Tax Appraisers
1963

Occupation	Number	Percent
Attorney -----	53	37.9
Real estate -----	39	27.9
Insurance -----	9	6.4
All others -----	39	27.8
Total -----	140	100.0%

We recommend that three senior real property appraisers (one for each regional office) be added to this division's staff to conduct a two-year trial compliance program at a net cost of \$41,729 in the budget year.

State Controller—Continued

This cost is composed of the following items:

Salaries and wages -----	\$34,560
Staff benefits -----	3,169
Travel—in-state -----	9,000
Payments to inheritance tax appraisers for gift tax appraisals eliminated -----	—5,000
Net Cost -----	\$41,729

The proposed budget contains a \$5,000 item in general expenses to pay inheritance tax appraisers for valuing real property in gift tax matters. Under our recommendation, these payments would be eliminated and this workload would be assumed by the civil service appraisers.

As part of our recommendation, we suggest:

1. The civil service appraisers be assigned only to cases where the court has already determined the tax liability, but where the six-month statute of limitations has not expired.

These limitations are designed to prevent the civil service appraisers from performing the work of the inheritance tax appraisers, and to afford the division an opportunity to reopen a case if gross errors in valuation are found.

2. The civil service appraisers should conduct a random sample of the work of all inheritance tax appraisers, and an annual report comparing the valuations should be submitted to the Legislature.

3. These civil service appraisers should be under the direct administrative control of the principal inheritance tax attorney.

Agency's budgetary requests. The following seven positions are requested on a workload basis.

	<i>Budget</i>		
	<i>Amount</i>	<i>Page</i>	<i>Line</i>
3 junior counsel -----	\$24,588	558	6
1 junior economic analyst -----	6,744	558	7
1 auditor I -----	6,432	558	8
2 intermediate stenographer -----	9,336	558	9
7 Total -----	\$47,100		

We recommend that one junior counsel position be approved and two denied for a savings of \$16,392.

Two new junior counsel positions were approved in the 1965-66 budget when the agency estimated the total number of taxable inheritance tax cases at 31,605. The estimate for 1966-67 is 31,113, or a reduction in workload of 492 cases. The following summary shows these workload indicators and the number of cases per attorney.

	<i>1964-65</i>		<i>1965-66</i>		<i>1966-67</i>
	<i>Estimated</i>	<i>Actual</i>	<i>Original</i>	<i>Revised</i>	<i>Proposed</i>
Taxable inheritance cases --	27,659	28,220	31,605	29,631	31,113
Attorneys (excluding chief) -	22	22	24	24	27
Cases per attorney -----	1,257	1,283	1,317	1,235	1,152

The addition of one attorney in the budget year would provide a ratio of 1,244 cases which approximates the workload for the current and actual years.

State Controller—Continued

We recommend that the other four positions be approved.

The economic analyst will assist in the preparation of the statistical annual report and revenue estimates. This position also could be used in the selection of the sample appraisals for the compliance program that we recommended.

The number of examiner (auditor) positions assigned to inheritance tax work has not been increased since prior to 1962-63 when there were 24,619 taxable cases. We believe this position is justified on a workload basis.

The two stenographer positions are substitutes for temporary help positions which the agency has used in the actual and current years on the same type of work.

2. Gift Tax

This tax is imposed upon transfers made by gift during the lifetime of the donor and it supplements the inheritance tax. The gift tax is collected on a self-assessment basis by this division. Unlike the inheritance tax, the administration of this tax is not court oriented.

	Workload Units			
	1964-65		1965-66	1966-67
	Estimate	Actual	Revised	Proposed
Gift tax returns -----	8,901	9,204	9,848	10,537

B. Tax Collection and Refunds

The following summary shows the costs of the two functions in this subprogram.

Functions	1964-65	1965-66	1966-67
1. Tax collection -----	\$154,727	\$162,728	\$165,389
2. Gasoline tax refunds-----	591,007	624,658	637,191
Total -----	\$745,734	\$787,386	\$802,580
Man-years -----	72.4	74.2	73.2

1. Tax Collection

The following summary shows that about 86 percent of the personnel in this function are assigned to the motor vehicle transportation (truck) tax. The manpower devoted to the enforcement of this tax has steadily declined since 1958 when the tax rate was reduced.

	Man-years			
	1964-65		1965-66	1966-67
	Estimate	Actual	Revised	Proposed
Truck tax				
headquarters -----	10.5	7.5	7.5	7.5
field -----	5.5	5.5	5.0	5.0
Subtotal -----	16.0	13.0	12.5	12.5
M. V. fuel (gas) tax -----	.5	.5	.5	.5
Insurance tax -----	.5	1.0	1.0	1.0
Petroleum and gas tax -----	.5	.5	.5	.5
Total man-years -----	17.5	15.0	14.5	14.5

State Controller—Continued

2. Gasoline Tax Refunds

Claims for refund are allowed to certain nonhighway users. In the past, the peak workload period of this function occurred during the summer months when tax payers filed similar claims with the federal government. Beginning in 1966, federal gas tax refunds may be claimed only as a credit on income tax returns. This change in federal procedure will cause a shift in the timing of the workload of this function. Also, during the current and budget years state claimants will probably find it necessary to file two claims in one of these years in order to phase into the new federal cycle. This change in timing is responsible for the workload increase noted below.

Two other changes affecting this function are the result of legislation enacted in 1965 which eliminated the tax refunds to boat owners, and provided only partial refunds to noncommercial aviation users. The elimination of boat owner refunds should reduce the number of claims by about 10,000 per year.

	1964-65		1965-66	1966-67
	Estimate	Actual	Revised	Proposed
Number of claims -----	69,400	68,937	84,200	70,300
Amount refunded (millions) -----	\$14.7	\$15.9	\$17.4	\$16.8
Number of field audits-----	3,000	2,752	3,050	3,050
Staff				
Office -----	28.7	28.7	27.7	27.7
Field -----	31.5	30.5	31.0	31.0
Total -----	60.2	59.2	58.7	58.7

III. Fiscal Affairs—Local Government

Program Statement. This program consists of promoting uniformity in the duties of county auditors and tax collectors, preserving the local property tax base through the restoration of delinquent properties to the local roll, and publishing current and useful information on the financial transactions of cities, counties and special districts.

In the budget year about 10 percent of the staff of the agency will be assigned to this program which is composed of two subprograms and three functions. Table 14 shows these categories and the requested staff.

Table 14
Proposed Man-years for the Fiscal Affairs—Local Government Program in 1966-67

Subprograms	Functions	Man-years
A. Local government fiscal affairs	1. Financial reports -----	20.2
	2. Gas tax reviews -----	13.1
	3. Uniform accounting and budgeting ----	4.3
	Subtotal -----	39.6
B. Tax-deeded lands -----		18.6
	Total—Fiscal Affairs -----	58.2

State Controller—Continued

A. Local Government Fiscal Affairs

The following summary shows the costs of the three functions in this subprogram.

<i>Functions</i>	1964-65	1965-66	1966-67
1. Financial reports -----	\$313,779	\$322,193	\$324,585
2. Gas tax reviews -----	87,450	157,190	185,271
3. Uniform accounting and budgeting -----	48,968	59,612	60,773
Total -----	\$450,197	\$538,995	\$570,629
Man-years -----	33	38.1	39.6

1. Financial Reports

The main parts of this function are the collection and publication of financial reports relating to streets and roads, and the reports on school, irrigation and other special districts. The city and county reports consume less than two man-years. Table 15 shows the distribution of manpower for all functions in local government fiscal affairs.

Table 15
Local Government Fiscal Affairs, Man-years by Functions

<i>Functions</i>	1964-65	1965-66	1966-67
1. Financial reports			
Streets and roads -----	6.2	7.0	7.0
Special districts -----	7.6	7.9	7.4
Cities and counties -----	1.6	1.7	1.7
Subtotal -----	15.4	16.6	16.1
2. Gas tax reviews			
Collier-Burns -----	3.0	4.3	4.3
Collier-Unruh -----	3.7	6.8	9.3
Subtotal -----	6.7	11.1	13.6
3. Uniform accounting and budgeting			
Counties -----	1.1	.5	.5
Districts -----	.4	2.0	2.5
County budgets -----	.4	1.2	1.2
County settlements -----	1.0	.1	.1
Subtotal -----	2.9	3.8	4.3
4. Clerical			
Administration -----	6.0	6.1	5.1
Subtotal -----	8.0	8.1	7.1
Totals -----	33.0	39.6 *	41.1 *

* These figures do not include an adjustment for salary savings.

2. Gas Tax Reviews

During 1964-65, three man-years were used to audit 1,686 units of Collier-Burns workload. The increase in manpower for the current and budget years is directly attributable to the new workload level of 2,300 units.

State Controller—Continued

The Collier-Unruh Act (1963) requires audits to be made of the additional state gas tax monies and related matching funds spent by cities and counties. In the last actual year 340 projects were audited by 3.7 man-years. The Division of Highways estimates there will be 3,400 projects to process in the current and budget years. To handle this increased workload, the agency intends to rely more upon sampling techniques rather than complete audits, and they administratively established five additional auditor positions effective January 1, 1966. These five new positions are requested for continuance during the budget year.

We recommend approval of five governmental auditor II positions, budget page 559, line 6, \$42,000.

3. Uniform Accounting and Budgeting

In the budget year, one-half of a position will be transferred from the financial reports on special districts to the uniform accounting for these districts. The former activity is used as a training area for the latter. The enactment of Chapter 263, Statutes of 1965, which changed the processing of institutional billings, is responsible for the reduction of manpower in county settlements. The manpower that was released will be used to increase the review of county budgets.

B. Tax-deeded Lands

	1964-65	1965-66	1966-67
Expenditures -----	\$203,628	\$217,752	\$215,060
Man-years -----	19.2	19.1	18.6

The objective of this subprogram is to restore tax-deeded properties to the local tax rolls. To accomplish this objective, the agency advises and offers technical assistance to county tax collectors, engages in a program of encouraging the former owners to redeem the property, and rents the property during the interval before it is sold at public auction by the county tax collectors.

The agency intends to sponsor legislation in 1966 which would relieve it of the responsibility for handling tax delinquent (sold) lists. We recommended similar legislation in 1961 (SB 1441, Miller) but it was pocket vetoed by the Governor. The agency estimates that if such legislation is adopted, it could reduce its clerical staff by 2.5 positions.

IV. Administration Division

The expenditures categorized under this heading were allocated by the Controller to the various programs on the basis of personnel service costs.

	1964-65	1965-66	1966-67
Expenditures -----	\$366,439	\$408,199	\$412,688
Man-years -----	32.1	34.1	34.1

The administration division included 34.2 authorized positions for 1966-67, 16.5 for general administration and 17.7 for departmental accounting. An additional one-half clerical position is proposed for general administration for 1966-67 on a workload basis.

We recommend approval as budgeted.

STATE CONTROLLER

ITEM 144 of the Budget Bill

Budget page 553

**FOR SUPPORT OF THE STATE CONTROLLER FROM THE
MOTOR VEHICLE TRANSPORTATION TAX FUND**

Amount requested	\$144,019
Estimated to be expended in 1965-66 fiscal year	141,151
<hr/>	
Increase (2.0 percent)	\$2,868

TOTAL RECOMMENDED REDUCTION..... None

This appropriation is for the cost of collecting the Motor Vehicle Transportation (truck) Tax, the details of which are included under Item 143.

We recommend approval.

STATE CONTROLLER

ITEM 145 of the Budget Bill

Budget page 553

**FOR SUPPORT OF THE STATE CONTROLLER
FROM THE MOTOR VEHICLE FUEL FUND**

Amount requested	\$877,764
Estimated to be expended in 1965-66 fiscal year	873,770
<hr/>	
Decrease (0.1 percent)	\$1,006

TOTAL RECOMMENDED REDUCTION..... None

This appropriation is to cover the costs of administering the gasoline tax audits and gasoline tax refund functions, the details of which are included under Item 143.

We recommend approval.

STATE CONTROLLER

ITEM 146 of the Budget Bill

Budget page 553

**FOR SUPPORT OF THE STATE CONTROLLER FROM THE
STATE SCHOOL BUILDING AID FUND**

Amount requested	\$168,992
Estimated to be expended in 1965-66 fiscal year	168,131
<hr/>	
Increase (0.5 percent)	\$861

TOTAL RECOMMENDED REDUCTION..... None

This appropriation covers the auditing and accounting of the expenditures of school districts for property financed by state loans under the State School Building Aid Program. Operations of these activities are included under Item 143.

We recommend approval.

Equalization Items

147-148

STATE CONTROLLER

ITEM 147 of the Budget Bill

Budget page 553

**FOR SUPPORT OF THE STATE CONTROLLER
FROM THE AERONAUTICS FUND**

Amount requested	\$40,762
Estimated to be expended in 1965-66 fiscal year	14,798
Increase (175.4 percent)	\$25,964

TOTAL RECOMMENDED REDUCTION None

This appropriation covers the auditing and accounting connected with the new airport assistance program, the details of which are discussed in Item 143.

We recommend approval.

BOARD OF EQUALIZATION

ITEM 148 of the Budget Bill

Budget page 563

**FOR SUPPORT OF THE BOARD OF EQUALIZATION
FROM THE GENERAL FUND**

66-67

Amount requested	\$18,496,569
Estimated to be expended in 1965-66 fiscal year	17,989,121
Increase (2.8 percent)	\$507,448

Increase to improve level of service..... \$138,466

TOTAL RECOMMENDED REDUCTION \$90,168

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Business taxes			
Delete administrator III position	\$15,432	567	72
Delete 2 tax representatives	14,160	568	6
Delete 10 intermediate clerks	47,880	568	7
Property taxes			
Delete 1 senior real property appraiser	12,696	568	70

GENERAL PROGRAM STATEMENT

The board is composed of four elected members from areas known as equalization districts, and a fifth ex officio member, the State Controller. While the board establishes overall policy, each member investigates the administration, enforcement and operation of the tax programs within the district from which he is elected. The executive secretary, under the policy guidance of the board, directs the staff of this agency which is equivalent to 2,366 full-time positions in the budget year.

The board has four general areas of responsibility:

1. To administer or participate in the administration of the taxes shown in Table 1.
2. To effect intercounty equalization of locally assessed property subject to ad valorem taxation.
3. To value certain types of property, mainly those of public utilities and railroads, and then to apportion the values among local property taxing districts.

Board of Equalization—Continued

4. To serve as an appeals body from decisions of the Franchise Tax Board in personal income and bank and corporation franchise tax cases.

Table 1
Taxes Administered by the Board of Equalization
(millions)

<i>Administers</i>		<i>Participates in administration</i>	
<i>Tax</i>	<i>1964-65 Revenue</i>	<i>Tax</i>	<i>1964-65 Revenue</i>
State retail sales	\$939.7	Motor vehicle fuel	\$511.0
Local retail sales	307.3	M.V. transportation	16.3
Cigarette	74.5	Insurance	92.2
Alcoholic beverage	66.3		
Use fuel	28.6	Total	\$619.5
Private car	2.0		
Total	\$1,418.4		

Table 2 shows the board's staff and expenditures for a five-year period. A large part of the staff increases for the current and budget years, in the administration division and business tax department, is directly attributable to the enactment of AB 1, 1965 First Extraordinary Session. This table also shows that most of the expenditure increases have occurred in the General Fund sector of the budget.

Table 2
Board of Equalization's Budgets—A Five-Year Comparison
of Positions and Expenditures

<i>Division or department</i>	<i>Man-years</i>					<i>Increase— 1966-67 over 1962-63</i>
	<i>1962-63</i>	<i>1963-64</i>	<i>1964-65</i>	<i>1965-66</i>	<i>1966-67</i>	
Administration	281.7	284.9	280.2	313.8	318.0	36.3
Business taxes						
Headquarters	398.3	380.3	367.6	399.0	395.5	-2.8
Districts	1,436.8	1,458.2	1,462.4	1,484.3	1,493.2	56.4
Subtotal	1,835.1	1,838.5	1,830.0	1,883.3	1,888.7	53.6
Property taxes	148.2	148.5	149.9	155.6	159.9	11.7
Contract mapping	5.8	5.6	3.9	--	--	-5.8
Total	2,270.8	2,277.5	2,264.0	2,352.7	2,366.6	+95.8
<i>By funds</i>	<i>Expenditures (millions)</i>					<i>Percentage increase</i>
General	\$14.57	\$15.83	\$16.54	\$17.99	\$18.50	26.9%
M.V. Transportation Tax	1.04	1.00	.98	1.08	1.03	-1.1
M.V. Fuel	1.00	.98	1.04	1.04	1.09	9.3
Total	\$16.61	\$17.81	\$18.56	\$20.11	\$20.62	24.1%

Assembly Bill 1 (Chapter 2, 1965 First Extraordinary Session)

The proposed positions and expenditures attributable to this measure are treated as a separate entity in the proposed budget. In our analysis, however, these positions and expenditures will be discussed under the regular programs of the board.

Board of Equalization—Continued

This measure made three changes in the sales and use tax law effective August 1, 1965:

1. Taxpayers with taxable transactions exceeding \$17,000 for either of the first two months of a quarter are required to prepay not less than 90 percent of the state tax (3 percent of sales) for the month by the 25th of the following month. The remaining 10 percent plus the state taxes for the third month and the Bradley-Burns local sales taxes for the entire quarter are payable by the 25th of the month following the close of the quarter.

2. The state and local sales tax base was expanded to include all occasional sales of motor vehicles, boats and airplanes, except for non-business transfers between members of a family.

3. The state and local sales tax base was expanded to include certain leases of tangible personal property.

The board originally estimated that 17,000 taxpayers on a quarterly reporting basis would be affected by prepayments. However, an additional 6,000 taxpayers on a monthly reporting basis were converted to prepayments by administrative action because their taxable transactions also exceed \$17,000 per month.

The main problem the board has experienced with the administration of prepayments has been that the number of affected taxpayers fluctuates every quarter because the taxable transactions of some rise above or drop below the \$17,000 limit. As a result, the board does not have a master list of taxpayers who should receive and file prepayment forms. This absence of a list causes an excessive number of forms to be mailed in order to cover all potential taxpayers, and it complicates the identification of delinquents.

Table 3 shows that the largest part of the cost of AB 1 is attributable to prepayments. Next in magnitude is the cost of occasional sales and these figures include payments to the Division of Small Craft Harbors (\$78,495 in 1966-67) and the Department of Motor Vehicles (\$12,000 in 1966-67) for their assistance in the enforcement of this tax on boats and motor vehicles. The estimated cost of the leasing provisions is minor at this time, but it probably will increase in the future.

Table 3
Estimated Administrative Costs of and Revenues from AB 1*

	<i>Prepayments</i>	<i>Occasional sales</i>	<i>Leasing</i>	<i>Total</i>
1965-66 Revenues (millions) -----	\$100	\$7.3	\$10.0	\$117.3
Administrative costs				
Gross -----	\$234,950	\$331,744	\$11,196	\$577,890
Bradley-Burns reimbursements ---	--	—85,363	—6,228	—91,591
Net cost -----	\$234,950	\$246,381	\$4,968	\$486,299
Positions -----	32.8	29.0	1.0	62.8

Board of Equalization—Continued

Table 3—Continued
 Estimated Administrative Costs of and Revenue from AB 1*

	<i>Prepayments</i>	<i>Occasional sales</i>	<i>Leasing</i>	<i>Total</i>
1966-67 Revenues (millions) -----	--	\$8.5	\$13.5	\$22.0
Administrative costs				
Gross -----	\$279,035	\$283,752	\$9,824	\$572,611
Bradley-Burns reimbursements ----	--	-87,708	-2,993	-90,701
Net cost -----	\$279,035	\$196,044	\$6,831	\$481,910
Positions -----	31.8	29.0	1.0	61.8

* Chapter 2, Statutes of 1965 First Extraordinary Session.

In the fall of 1965, the Department of Finance authorized the board to employ 50.8 headquarters positions to administer AB 1. The proposed budget provides for the employment of 12 additional clerical positions in the district offices, effective January 1, 1966. Seven of these clerical positions will be for the Los Angeles district, two for the San Bernardino district, and one each for the San Diego, Sacramento and out-of-state districts.

Table 4 shows all of the proposed new positions for the budget year. The AB 1 positions are the same as the current year except for the deletion of one programmer assigned to prepayments in the EDP unit of the administration division. Our comments on the justification for these positions will be contained in the next part of the analysis.

Table 4
 Board of Equalization—Proposed New Positions, 1966-67 Budget
Assembly Bill 1

	<i>Prepay-ments</i>	<i>Occasional sales and leasing</i>	<i>Other</i>	<i>Total</i>
Administration				
Legal -----	--	--	2	2
EDP -----	5	3	6.5	14.5
General services -----	0.8	1	1.7	3.5
Subtotal -----	5.8	4	10.2	20.0
Business taxes				
Headquarters administration -----	--	--	1	1
Audit -----	2	1	--	3
Compliance -----	--	7	--	7
Files -----	3	7	2	12
Office -----	12	8	-3.5	16.5
Districts -----	9	3	12.2	24.2
Subtotal -----	26	26	11.7	63.7
Property taxes				
Administration -----	--	--	3	3
Intercounty equalization -----	--	--	1.5	1.5
Assessment standards -----	--	--	1	1
Valuation -----	--	--	-1	-1
Subtotal -----	--	--	4.5	4.5
Total -----	31.8	30.0	26.4	88.2

Board of Equalization—Continued

Program Budget Summary

Table 5 shows our estimate of the distribution of the board's total budget on a program basis. Expenditures for AB 1 are included in these totals and assigned to the regular programs (administration and sales taxes) rather than being treated as a separate entity. Administration expenses are not allocated to other programs even though over a million dollars in this category consists of rent for all offices of the board including those for business and property taxes. This lack of allocation understates the true costs of the business and property tax programs.

Business taxes are divided into six subprograms which are tax related.

The contract mapping program has been discontinued and the minus amounts shown in Table 5 represent reimbursements for past services.

Table 5
Board of Equalization Expenditures by Programs, All Funds

		Thousands of dollars		
<i>Programs</i>		<i>1964-65</i>	<i>1965-66</i>	<i>1966-67</i>
I	Administration -----	\$3,932	\$4,428	\$4,554
II	Business taxes			
	a. Sales tax -----	10,565	11,340	11,636
	b. Cigarette tax -----	485	514	525
	c. Alcoholic beverage taxes -----	186	198	202
	d. M.V. use fuel tax -----	639	642	673
	e. M.V. fuel tax -----	195	196	205
	f. M.V. transportation tax -----	794	872	832
	Subtotal -----	\$12,864	\$13,762	\$14,073
III	Property taxes -----	1,757	1,931	2,002
IV	Contract mapping -----	3	—10	—10
	Total -----	\$18,556	\$20,111	\$20,619

ANALYSIS AND RECOMMENDATIONS

Administration

Program Statement. This program consists of providing executive, staff and support services to the entire board. Also included is the assessment of the insurance tax and the processing of appeals from the Franchise Tax Board.

In the budget year, about 13 percent of the manpower of the board will be assigned to this program which is composed of three subprograms. Table 6 shows these categories, the proposed staff and the total budget of the administration division including the portions attributable to AB 1.

Board of Equalization—Continued

Table 6
Administration Program—Positions and Expenditures

Positions	1964-65	1965-66	1966-67
1. Executive -----	19.3	21	21
2 Staff services			
Legal -----	30.6	35	35
Internal audit -----	4.8	5	5
Personnel -----	10.5	12	12
Administrative analyst -----	8.4	9	9
Subtotal -----	54.3	61.0	61.0
3. Administrative services			
Supervision -----	5.8	6	6
Fiscal office -----	29.2	30	30
Statistics -----	7.6	8	8
E.D.P. -----	85.8	107	112.5
General services -----	66.6	72.3	72.3
Temporary help, overtime, etc. -----	11.6	12.5	14.2
Subtotal -----	206.6	235.8	243.0
Total -----	280.2	317.8	325.0
Salary savings -----	---	-4.0	-7.0
Equivalent man-years -----	280.2	313.8	318.0
<i>Expenditures (thousands)</i>			
General Fund -----	\$3,540	\$4,016	\$4,142
M.V. Transportation Tax Fund -----	191	210	200
M.V. Fuel Fund -----	201	202	212
Total -----	\$3,932	\$4,428	\$4,554

Executive

This subprogram consists of the board members, their deputies, the executive secretary, the tax service specialist and related clerical positions. No change in the level of service is proposed.

Staff Services

The activities of the legal, internal audit, personnel, and administrative analyst units constitute this subprogram. About half of the legal staff's time is spent on hearings, appeals, petitions, and claims for refund. Included in this activity are about five man-years devoted to Franchise Tax Board appeals. In the current year, one legal position and a supporting clerk were established administratively to help reduce the backlog of appeal cases, and to provide assistance in connection with the hearings on a federal proposal (HR 11798—89th Congress) which would substantially limit the board's authority to collect use taxes from out-of-state sellers. These two positions are also requested for the budget year and we recommend approval on a workload basis.

No change in the level of service is proposed for the other three units.

Administrative Services

This subprogram consists of five units which provide staff support for the entire agency. The activities of these units include budgetary

Board of Equalization—Continued

development and control, statistical reports, data processing services and such general services as cashiering, mailing, and supply. One of the incidental tasks of the statistical unit is the preparation of the board's assessment of the gross premium and retaliatory taxes on insurance companies. Table 7 shows that 9.8 new positions are requested in the budget year for the support of AB 1. *Based upon a review of the actual workload statistics that are available at this time, we recommend that these positions be approved.*

This table also shows that 8.2 additional positions are being requested on a regular workload basis. Four of the 6.5 keypunch operators are substitutes for a like number of clerical positions in the business tax department that will be abolished. Two of the other keypunch positions are requested to assist in the conversion of the valuation division's workload to data processing. The remaining half of a position, plus the intermittent and temporary help are based upon normal workload increases. *We recommend approval of these 8.2 positions.*

Table 7
Proposed New Positions in Administrative Services
1966-67

Unit	AB 1	Other	Total	Amount	Budget	
					Page	Line
Tabulating (E.D.P.)						
Supervisor E.D.P. -----	1	--	1	\$10,968	565	71
Programmer II -----	2	--	2	27,108	565	72
Computer operator -----	2	--	2	12,864	565	73
Keypunch operator -----	2	6.5	8.5	44,066	565	74
Junior intermediate clerk --	1	--	1	4,560	565	75
Subtotal -----	8	6.5	14.5	\$99,566		
General services						
Variotypist -----	1.0	--	1.0	\$5,556	565	77
Overtime -----	.8	.5	1.3	6,000	565	78
Intermittent help -----	--	1.0	1.0	4,000	567	11
Temporary help -----	--	.2	.2	1,200	567	12
Subtotal -----	1.8	1.7	3.5	\$16,756		
Total -----	9.8	8.2	18.0	\$116,322		

Business Taxes

Program Statement. This program consists of administering the state and local retail sales taxes, the cigarette tax, alcoholic beverage taxes, the motor vehicle use fuel (diesel) tax, and participating in the administration of the motor vehicle fuel (gasoline) and motor vehicle transportation (truck) taxes.

In the budget year about 80 percent of the manpower of the board will be assigned to this program which is composed of six subprograms. Table 8 shows these categories and the distribution of staff. The man-year figures in this and all subsequent tables in this section may not always agree with budgetary figures because of differences in handling vacation time and accounting for personnel loaned temporarily to other organizational units. These manpower figures are based upon

Board of Equalization—Continued

the board's time reporting system which allocates positions according to the time spent on the subprogram or function, not according to where they were organizationally assigned.

Table 8
Distribution of Staff in the Business Tax Program

Subprograms	Man-years		
	1964-65	1965-66	1966-67
a. Sales taxes -----	1,610.0	1,672.4	1,677.1
b. Cigarette tax -----	8.6	8.8	8.8
c. Alcoholic beverage taxes -----	21.1	21.1	21.3
d. Use fuel tax -----	71.3	71.9	72.1
e. Gasoline tax -----	18.2	18.3	18.3
f. Truck tax -----	90.5	91.0	91.3
Total -----	1,819.7	1,883.5	1,888.9
<i>Expenditures (thousands)</i>			
General Fund -----	\$11,236	\$12,052	\$12,362
M. V. Transportation Tax Fund -----	794	872	832
M. V. Fuel Fund -----	834	838	879
Total -----	\$12,864	\$13,762	\$14,073

Headquarters. The board is requesting an administrator III position as a special staff assistant to the assistant executive secretary. Chart number 1 shows the relationship of the proposed position to the other staff and line personnel in the headquarters office.

The board states that the duties of the proposed position will be to:

1. Consult with industry representatives on tax problems,
2. Act as a coordinator between the headquarters' sections and the chief of field operations,
3. Help develop programs to administer law changes, and
4. Direct special studies.

We recommend disapproval of the proposed administrator III position \$15,432, budget page 567, line 72.

Our basic reason for opposing this position is that we believe the suggested duties should be performed by the unit personnel (e.g. auditing and compliance) rather than by a special assistant. For example:

1. Most industry problems will be either audit or compliance oriented and therefore they should be handled by the supervisor or technicians in these units.
2. When problems involve more than one unit, the board typically assigns a committee from the affected units to study the problem. This committee arrangement achieves coordination.
3. Both the audit and compliance organizations have planning units which can develop programs to administer law changes and conduct special studies.

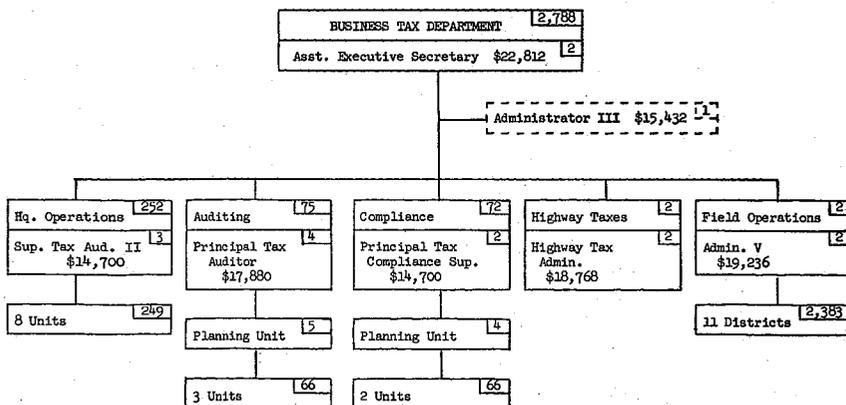
State and Local Sales Taxes

Administration of these and all other business taxes consists of two functions, auditing and compliance. The latter includes the registering

Board of Equalization—Continued

January 1, 1966

Chart 1



Note: When the diagrams in this chart have two parts, the top half refers to the organization unit, while the bottom half shows the title and salary of the head of that unit. The number in the corner of each box refers to the personnel in that unit or section.

of new taxpayers, changing records to indicate a different address or ownership, closing out of an account, processing returns, and collecting delinquent taxes.

Table 9 shows the distribution of man-years between these two functions. Auditor positions constitute about 80 percent of the staff which is devoted to auditing, and clerical support comprises the other 20 percent. Auditors spend less than 2 percent of their time on compliance work.

Table 9
Administration of State and Local Sales Taxes

<i>Man-years of staff</i>	1964-65	1965-66	1966-67
Audit -----	819.9	828.9	825.9
Compliance -----	790.1	843.5	851.2
Total -----	1,610.0	1,672.4	1,677.1
<i>Expenditures (thousands)</i>			
Audit -----	\$7,879	\$8,416	\$8,609
Compliance -----	6,922	7,394	7,564
DMV charges -----	466	359	377
SCH charges -----	--	89	78
Total -----	\$15,267	\$16,258	\$16,628
Local reimbursements -----	-4,702	-4,918	-4,992
Net cost—state -----	\$10,565	\$11,340	\$11,636
<i>Workload</i>			
Active permits -----	386,944	395,900	406,000
Audits -----	35,102	35,200	35,300

Board of Equalization—Continued

The sales tax audit workload has been at a constant level for the last several years and the board proposes no significant changes for either the current or budget years. Table 10 compares the productivity of the field audits, by district office, for a five-year period.

Table 10
Net Revenue per Dollar of Cost From the Sales Tax Field Audit Program

District	1960-61	1961-62	1962-63	1963-64	1964-65
Los Angeles	\$1.81	\$1.90	\$1.82	\$1.59	\$1.74
San Bernardino	1.52	1.40	1.77	1.61	1.99
Marysville	1.53	1.34	1.71	1.61	2.04
San Francisco	1.33	1.30	1.39	1.05	.75
San Jose	1.99	1.35	1.26	1.27	.87
Oakland	1.15	1.80	1.22	1.40	1.42
Santa Rosa	1.17	1.19	1.16	.98	1.14
Sacramento	1.15	1.49	1.15	1.27	1.39
San Diego	2.16	1.03	.95	.56	1.15
Fresno	1.21	1.08	.95	1.13	1.21
Total in-state	\$1.61	\$1.60	\$1.53	\$1.35	\$1.49
Out-of-state	4.47	3.48	2.80	4.62	5.53
Total	\$1.80	\$1.78	\$1.65	\$1.65	\$1.86

The board conducted a new time reporting study during the first six months of 1965 to ascertain what portion of the compliance staff's time was devoted to different activities, and based upon the results, to establish workload and staffing standards for the district offices. The results of this study are not available at this time. However, a special test check made in October of 1965 indicates that the field compliance staff is divided roughly as follows: registration, 22 percent; closeouts, 10 percent; collections, 9 percent; travel, 10 percent; supervision, 10 percent; and general office, 16 percent. The remaining time was divided among training, advisory activities, handling of returns, etc.

The board is requesting 40 new positions in the headquarters office of the business tax department to administer AB 1. Twenty-three of these positions will assist in the administration of the tax on occasional sales. The other 17 will be assigned to prepayments.

Based upon a review of the actual workload statistics that are available at this time, we recommend that these 40 positions, \$223,764, be approved, budget page 565, lines 81 and 82, and budget page 566, lines 7 to 21.

For the district offices, the board is requesting that 12 clerks (\$52,126) which were established administratively effective January 1, 1966, be made permanent in the budget year. The board contends that these clerks also are needed to administer AB 1, but we do not agree. In our opinion, these clerks were added for normal workload increases.

However, we recommend that these 12 clerks be approved, budget page 566, line 24, because they were assigned to district offices (primarily in southern California) which have experienced workload increases.

Board of Equalization—Continued

The board is now requesting that 12 additional positions (two tax representatives and 10 clerks) be added on a normal workload basis for basically the same district offices. *We recommend that these 12 positions be denied for a saving of \$62,040, budget page 568, lines 6 and 7.*

The addition of the 12 clerks mentioned above should be sufficient to handle past workload increases. We cannot recommend any additional compliance positions for the district offices unless they are justified by acceptable staffing standards based upon the time reporting survey that was made during the first half of 1965.

The following table shows the remaining workload positions which the board is requesting for the headquarters office of the business tax department:

Position	Amount	Budget	
		Page	Line
2 Intermediate clerks -----	\$9,576	567	74
0.5 Senior account clerk -----	2,778	567	76
0.2 Temporary help -----	1,000	568	8
2.7 Total -----	\$13,354		

These positions appear to be justified on a workload basis, therefore, we recommend approval.

Cigarette Taxes

This tax is collected by the sale of cigarette tax stamps or meter impressions to cigarette distributors. The sales are made through branch offices of the Bank of America, which receives about \$18,000 as a service fee. The board purchases the tax stamps from a vendor at an estimated cost of \$402,000 in the budget year.

Table 11 shows the manpower and related expenditures of this sub-program. However, these expenditures do not include the 2-percent discount which is granted to distributors for affixing the tax stamps or meter impressions. The discount will amount to about \$1.6 million in the budget year.

Table 11
Administration of Cigarette Taxes

Man-years of staff	1964-65	1965-66	1966-67
Audit -----	2.1	2.2	2.2
Compliance -----	6.5	6.6	6.8
Total -----	8.6	8.8	8.8
<i>Expenditures (thousands)</i>			
Audit -----	\$18	\$25	\$25
Compliance -----	57	81	80
Bank charges -----	15	18	18
Tax stamps -----	395	390	402
Total -----	\$485	\$514	\$525
<i>Workload</i>			
Number of distributors -----	261	260	260
Audits -----	10	12	12

Board of Equalization—Continued
Alcoholic Beverage Taxes

Included in this category are the excise taxes on beer, wine and distilled spirits. Table 12 shows the manpower, expenditures and workload of this subprogram.

Table 12
Administration of Alcoholic Beverage Taxes

<i>Man-years of staff</i>	1964-65	1965-66	1966-67
Audit -----	7.6	7.6	7.6
Compliance -----	13.5	13.5	13.7
Total -----	21.1	21.1	21.3
<i>Expenditures (thousands)</i>			
Audit -----	\$63	\$67	\$68
Compliance -----	123	131	134
Total -----	\$186	\$198	\$202
<i>Workload</i>			
Number of accounts -----	1,738	1,730	1,730
Audits -----	156	160	160

Motor Vehicle Use Fuel Taxes

This tax consists of a 7-cent-per-gallon levy on diesel fuel used to propel motor vehicles on the highways. Table 13 shows the manpower, expenditures and workload of this subprogram.

Table 13
Administration of Motor Vehicle Use Fuel Taxes

<i>Man-years of staff</i>	1964-65	1965-66	1966-67
Audit -----	18.5	18.7	18.6
Compliance -----	52.8	53.2	53.5
Total -----	71.3	71.9	72.1
<i>Expenditures (thousands)</i>			
Audit -----	\$167	\$168	\$176
Compliance -----	472	474	497
Total -----	\$640	\$642	\$673
<i>Workload</i>			
Permits -----	19,294	20,275	21,300
Audits -----	885	900	900

Motor Vehicle Fuel Taxes

This levy is more commonly known as the gasoline tax. It is imposed upon the manufacturer or importer of gasoline. There are about 1,480 taxpayers subject to this levy, but nine major oil companies account for almost 90 percent of the taxes. The State Controller participates in the administration of this tax by collecting delinquencies and refunding the tax to certain nonhighway users.

Table 14 shows the board's manpower and expenditures for this subprogram.

Board of Equalization—Continued

Table 14
Administration of the Motor Vehicle Fuel Taxes

<i>Man-years of staff</i>	1964-65	1965-66	1966-67
Audit -----	8.5	8.6	8.6
Compliance -----	9.7	9.7	9.7
Total -----	18.2	18.3	18.3
<i>Expenditures (thousands)</i>			
Audit -----	\$101	\$101	\$106
Compliance -----	94	95	99
Total -----	\$195	\$196	\$205
<i>Workload</i>			
Licenses -----	1,577	1,535	1,480
Audits -----	61	60	60

Motor Vehicle Transportation Tax

This levy is more commonly known as the "truck" tax. Vehicles using the highways to transport persons or property for hire are subject to this tax. The State Controller also participates in the administration of this tax by collecting delinquencies.

Table 15 shows the board's manpower and expenditures for this subprogram.

Table 15
Administration of the Motor Vehicle Transportation Tax

<i>Man-years of staff</i>	1964-65	1965-66	1966-67
Audit -----	27.9	28.0	27.9
Compliance -----	62.6	63.0	63.4
Total -----	90.5	91.0	91.3
<i>Expenditures (thousands)</i>			
Audit -----	\$257	\$282	\$269
Compliance -----	537	590	563
Total -----	\$794	\$872	\$832
<i>Workload</i>			
Licenses -----	26,481	27,000	27,500
Audits -----	1,192	1,200	1,200

Property Taxes

Program Statement. This program consists of (1) advising and assisting county assessors to promote uniform local property tax assessment practices throughout California, (2) conducting sample appraisals in the counties and trending the results of past appraisals to ascertain if a proper degree of intercounty equalization exists, (3) assessing public utility and railroad properties and then apportioning the values among the counties, and (4) assessing and collecting property taxes on private railroad cars. Table 16 shows the distribution of positions in the property tax department among these subprograms. In this analysis, the private car tax is treated as a part of the valuation of state-assessed properties.

About 7 percent of the board's manpower is devoted to the property tax program.

Board of Equalization—Continued

Table 16
Distribution of Positions in the Property Tax Program

Subprograms	Positions		
	1964-65	1965-66	1966-67
Administration	6	6	9
Intercounty equalization	56.6	60.1	60.6
Assistance to assessors	30.2	31.5	32.5
Valuation of state-assessed property	57.1	61.8	61.8
Total positions	149.9	159.4	163.9
Salary savings	—	—3.8	—4.0
Equivalent man-years	149.9	155.6	159.9
<i>Expenditures (thousands)</i>			
General Fund	\$1,757	\$1,931	\$2,002

Administration

This unit consists of the assistant executive secretary for property taxes, one senior statistician who selects the sample appraisals and performs the trending operation for intercounty equalization, an administrative assistant, and three clerical positions. The agency is requesting three additional positions for this unit in the budget year.

The first position is a senior real property appraiser who would be the "property tax evaluator," or a type of internal auditor for the property tax department. The board states that the position is needed to:

1. Test check and evaluate the appraisals made by the field staff in the intercounty equalization and valuation divisions, and
2. Ascertain if all segments of the staff are following the same policies and standards.

We concur with the agency's contention that the reviews of the appraisals made by the 28 field appraisers in the valuation division need strengthening. At present these appraisals are reviewed mainly by the crew chiefs and to a very limited extent by the deputy of the division. However, these additional reviews do not constitute sufficient workload to justify a full-time position.

Field appraisals made by the staff in the intercounty equalization division are currently subject to extensive review. These appraisals are reviewed first by the crew chiefs, then by two staff experts (working part time on this function) and finally the problem cases are reviewed by the deputy of the division. Many of these appraisals also are discussed with the county assessors, where they receive a very extensive review.

The only remaining line division in this department is assessment standards, and under existing procedures there would be very little workload for the proposed position.

Therefore, we cannot recommend approval of the senior real property appraiser \$12,696 on a workload basis, budget page 568, line 70.

The other two new positions are an assistant statistician and a supporting clerk. These positions will be used to:

Board of Equalization—Continued

1. Improve the intercounty equalization trending techniques, and
2. Perfect a statistical method for using sales analysis to update the intracounty assessment roll.

Both of these activities are highly desirable. Intercounty equalization ratios are being used not only for their original purpose, but also for the distribution of school equalization aid, the repayment of school construction loans, and in local assessment equalization hearings. An improvement of the trending techniques will make the results more reliable. This method of obtaining improvement is very inexpensive compared to an alternative which would be to require sample appraisals in every county on a two-year cycle. The alternative would increase the cost of this program by about \$450,000 per year.

Under existing procedures, it takes a county assessor from 4 to 10 years to physically reappraise all of the property within the county. With our rising property values, these time lags create serious inequities in intracounty equalization. Marin and Orange Counties are experimenting with a statistical technique whereby sales data would be used to annually update parts of the assessment roll in lieu of field appraisals. If this technique can be perfected, there would be a substantial improvement in intracounty equalization at a very modest cost to the counties in the initial years, and the potential for significant administrative savings in future years.

We recommend approval of the assistant statistician \$9,036 and the senior typist clerk \$5,688, budget page 568, lines 71 and 72.

Intercounty Equalization

Activities in this subprogram consist of three phases: (1) the surveys made by the field appraisers to determine the ratio of locally assessed tangible property to full cash value, (2) the trending of past ratios to determine the relationship for the current year, and (3) any action the Board of Equalization may take to equalize these assessments among the counties by raising or lowering the assessment roll in one or more counties. Our budgetary comments will be confined to phase one.

By law, the board is required to make appraisal surveys in each of the 58 counties at least once every three years. On the average, 300 appraisals are made in each county. Table 17 shows that an estimated 5,817 appraisals will be made in the budget year. To make these appraisals, the board estimates that 35.3 man-years of direct time, and another 9 man-years of indirect time will be needed. The latter category consists of preparing the necessary paperwork prior to making the appraisals and having conferences with the county assessors on the appraisal results.

Board of Equalization—Continued

Table 17
Distribution of Staff by Type of Activity in the Intercounty
Equalization Subprogram

Type of activity	Man-years		
	1964-65	1965-66	1966-67
1. Direct appraisal time			
a. Residential	16.0	17.2	16.5
b. Rural	8.2	7.2	8.6
c. Commercial	5.6	6.3	5.8
d. Industrial	2.8	2.7	2.5
e. Timber	1.4	1.4	1.2
f. Petroleum and other7	.3	.7
Subtotal	34.7	35.1	35.3
2. Indirect appraisal time	9.0	9.0	9.0
3. Supervision and clerical	11.9	13.1	13.1
4. Instruction and training	1.5	1.5	1.5
Total man-years	57.1	58.7	58.9
Add salary savings	-.5 ^a	1.4	1.7
Equivalent positions	56.6	60.1	60.6
Number of appraisals	5,898	6,091	5,817

^a Consists of overtime by appraisers and temporary help borrowed from other units.

In the current year, the board transferred an assistant real property appraiser from the valuation division and converted it to an associate property-auditor appraiser for this division. This position was used to make a more thorough investigation of the accounting records (inventories and equipment) of business firms in the sample. The agency requests that this position be made permanent in the budget year.

We recommend approval of the associate property-auditor appraiser, \$10,968, budget page 568, line 75.

The agency also is requesting 0.5 man-years of temporary help to perform some of the clerical functions in the field which precede the appraisals. *We recommend approval.*

Assistance to Assessors

Activities in this subprogram fall into three categories: (1) publication of materials such as the assessors' handbook which has statewide interest and benefit, (2) training conferences and schools which supplement the activities of the local assessors who have the primary responsibility in this field, and (3) special assistance which consists of helping individual assessors on particular problems.

The publication category also includes the surveys made of county assessors' offices to determine the adequacy of procedures, employee practices and equipment. These surveys have the characteristic of management advice rather than a compliance study. Table 18 shows that one position was allocated to this work during 1964-65 when surveys were completed for Humboldt and Placer Counties.

A part of the special assistance category consists of reviewing property tax exemption claims submitted by the local assessors. During

Board of Equalization—Continued

1964-65, this division also assisted certain county assessors in the reappraisal of property damaged by the December 1964 floods.

Table 18 shows the distribution of the technical staff by categories. These figures do not include the time of the division chief or the clerical staff. Also, no adjustment has been made for salary savings.

Table 18
Distribution of the Technical Staff in the Assistance
to Assessors Subprogram

Activity	Positions		
	1964-65	1965-66	1966-67
1. Publications			
a. Assessors' handbook and research studies	5.61	6.02	6.03
b. County surveys	.91	1.10	1.10
Subtotal	6.52	7.12	7.13
2. Training	5.17	5.09	5.32
3. Special assistance			
a. Exemptions	1.07	.93	.93
b. Flood relief	.59	--	--
c. All other	4.99	5.25	6.40
Subtotal	6.65	6.18	7.33
4. Administration and in-service training	4.33	4.28	4.38
Total technical staff	22.67	22.67	24.16

The agency is requesting one new associate timber and range land appraiser in the budget year to handle the increased workload resulting from the enactment of Chapter 1847, Statutes of 1965. This measure requires timber maturity boards (consisting of a representative of the county assessor, the State Board of Equalization, and the Division of Forestry) to review the property tax exemptions granted to immature timber after the expiration of the 40-year constitutional exemption period. The agency estimates that the number of board hearings will increase from 3 to 15 per year, and since each meeting requires about 20 days, the added manpower requirement is equivalent to one full position. The maturity board activity is part of special assistance category in Table 18.

We recommend approval of one associate timber and range land appraiser, \$10,440, budget page 569, line 7.

Valuation of State-assessed Properties

These activities relate mainly to public utility and railroad properties. This division also assesses and collects the state tax on "private cars" which are railroad cars used in California but not owned by the railroad companies. Table 19 shows that only 4 man-years will be used to compute the unit values of state assessees, but that 13 man-years will be required to allocate these values to the local taxing districts. Field appraisals are made of both unitary (e.g., property which is part of the public utility system) and nonunitary (e.g., oil wells owned by a railroad) properties.

Board of Equalization—Continued

The work in code areas consists of maintaining maps of the entire state showing 19,000 geographic areas of uniform total tax rates created by 5,371 revenue districts.

The private car tax will require about 3.7 man-years to administer, and a large part of the work is clerical.

Table 19
Distribution of Personnel by Type of Activity in the Valuation
of State-assessed Property Subprogram

Activity	Positions		
	1964-65	1965-66	1966-67
1. Valuation of state-assessed property			
a. Computing unit values	3.6	4	4
b. Assessment allocation and preparation of board roll	11.6	13	13
c. Field appraisals	18.1	20	20
Subtotal	33.3	37	37
2. Maintenance of code areas	15.1	15.5	15.5
3. Private car tax	3.5	3.7	3.7
4. Administration and training	5.2	5.6	5.6
Total positions	57.1	61.8	61.8

POLICY OPTIONS

During the past year there has been renewed interest in improving the level of property tax assessment practices throughout California. Suggestions for improvement have been incorporated into several legislative proposals, and recommendations have been advanced by the Board of Equalization, the Association of County Assessors, and others. However, to obtain lasting reform, attention must be given to some of the organizational defects in our present system, such as: (1) the uneconomical size of certain assessment units, (2) the lack of auditor-appraisers in certain counties, (3) the low salary levels and recruitment standards in many counties, and (4) the absence of any technical qualifications for the position of county assessor. These defects and suggestions for obtaining improvement are discussed hereafter.

1. *Twenty-five counties have nine or less real property appraisers assigned to their assessors' offices.*

Three counties (Alpine, Mariposa and Sierra) have no appraisers and the county assessor personally performs the assessment function. Fifteen counties have five or less real property appraisers and seven counties have from six to nine. Practically all of the counties in this category (23 out of 25) do not have a civil service or merit system for hiring and retaining their appraisers.

In many of these counties, the present workload may not justify a larger staff. However, a small staff has certain inherent weaknesses, such as:

A Essential work may be left undone because of staff vacancies.

B Little opportunity is available for specialization and advanced training.

Board of Equalization—Continued

- C The weaknesses of a subaverage employee are magnified because his work cannot readily be absorbed by other employees.

Our solution for the problem of uneconomical assessment units is to allow a county either to:

- A Contract with another county to perform its assessment function, or
B Permit two or more contiguous counties to form a special assessment district which would perform the assessment function for all the counties in the district.

Both of these suggestions probably require a law change.

Under either proposal, the county boards of supervisors would retain control over the assessment function through their actions as the local equalization board.

Since these proposals are permissive rather than mandatory, the potential for improvement exists, but the probability for significant consolidations in the immediate future is unlikely.

2. *Sixteen counties do not have an auditor-appraiser (personal property) in their assessors' offices, and 12 other counties have only one such position.*

Auditor-appraisers work primarily on the assessment of inventories, equipment and other types of personal property of business firms. The absence of such positions in the counties raises serious questions as to the quality of the personal property assessments. Also, when a county has only one such position, it is very unlikely that the financial records of business firms in that county are ever subject to a postaudit, especially when the records are not physically located in the county.

Our suggestion for solving this staff deficiency is to have the counties contract with the Board of Equalization to perform postaudits on personal property of business firms, both when the records are located in a county other than where the assessment was made, and especially when they are located outside of California. The contracting counties would reimburse the board for the cost of these audits.

Since the Board of Equalization has offices throughout this state, and in New York and Chicago, it probably could conduct these postaudits at less expense than the counties. By engaging in this work, the board would be in a position to establish uniform standards for the assessment of personal property, and it would gain valuable information that could be used in its intercounty equalization function.

3. *The salaries and qualifications for journeyman real property appraisers in most counties are substantially below those required for employment with the Board of Equalization.*

For the position of journeyman appraiser (assistant level), the Board of Equalization requires one year of appraisal experience at the junior level in state service, or two years with a county assessor's office, or three years of outside appraisal experience. In addition, the

Board of Equalization—Continued

board requires an educational background equivalent to a college education. The board's salary range for the assistant level starts at \$650 per month. Many of the metropolitan counties have similar qualification requirements and comparable salaries. However, the following table shows that there are seven counties where the starting salary is over \$200 per month less than the state's and there are 28 other counties where the difference is between \$100 and \$200 per month. In many of these counties, a high school diploma is the only educational requirement.

**Range of Starting Salaries for Journeyman Real Property
Appraisers in County Assessors' Offices
1965-66**

<i>Starting salary per month</i>	<i>Number of counties</i>
\$600-\$700 -----	8
550- 600 -----	10
500- 550 -----	14
450- 500 -----	14
400- 450 -----	7
Not reported -----	2
No appraisers -----	3
Total -----	58

Since a journeyman appraiser must perform the same type of work regardless of the size of the county, there should be general uniformity in salaries in order to obtain standardization of qualifications. Many counties obviously have sacrificed qualifications in order to reduce their personnel costs.

Since basic improvement in local assessment practices is mainly contingent upon raising the qualification standards of local appraisers, we suggest that:

A The Board of Equalization be given the power to establish minimum educational and experience qualifications for local appraisers, and

B The law be amended to provide that county appraiser salaries cannot be less than 90 percent of those paid for comparable work in state service. This 10-percent leeway allows for difference in the cost of living among counties.

4. *Provide that the office of county assessor shall be appointive rather than elective.* The county boards of supervisors would be given the power of appointment, and the power of removal for cause, but the eligible candidates would be limited to those who have been certified as technically competent by the State Board of Equalization.

The purpose of this suggestion is to raise the position of county assessor to a professional status. In time, it would also tend to improve the caliber of appraiser positions in these offices, because a professional assessor would be more inclined to require high standards of his employees.

Equalization

Items 149-150

Board of Equalization—Continued

The county assessors have the responsibility of placing all property subject to taxation on the local roll, and determining its value. The assessors are administrators, not policy making officials. As such, there is no more justification for having these positions elective than there is for having the county counsels, the health officers, or the directors of public works, elective.

BOARD OF EQUALIZATION

ITEM 149 of the Budget Bill

Budget page 563

**FOR THE SUPPORT OF THE BOARD OF EQUALIZATION
FROM THE MOTOR VEHICLE TRANSPORTATION
TAX FUND**

Amount requested	\$1,032,256
Estimated to be expended in 1965-66 fiscal year.....	1,082,256

Decrease (4.6 percent) \$50,000

TOTAL RECOMMENDED REDUCTION None

ANALYSIS AND RECOMMENDATION

The Board of Equalization assesses and the State Controller collects the 1.5 percent gross receipts motor vehicle transportation license tax on for-hire truck operators. This appropriation is to cover the board's cost of administering the tax, the details of which are included under Item 148.

We recommend approval as budgeted.

BOARD OF EQUALIZATION

ITEM 150 of the Budget Bill

Budget page 563

**FOR SUPPORT OF THE BOARD OF EQUALIZATION
FROM THE MOTOR VEHICLE FUEL FUND**

Amount requested	\$1,090,134
Estimated to be expended in 1965-66 fiscal year.....	1,040,134

Increase (4.8 percent) \$50,000

TOTAL RECOMMENDED REDUCTION None

ANALYSIS AND RECOMMENDATION

The Board of Equalization assesses and the State Controller collects the motor vehicle fuel (gasoline) tax. The board assesses and collects the use fuel (diesel) tax. This appropriation is to cover the board's cost of administering these two taxes, the details of which are included under Item 148.

We recommend approval as budgeted.

DEPARTMENT OF FINANCE

ITEMS 151 and 152 of the Budget Bill

Budget page 572

FOR SUPPORT OF THE DEPARTMENT OF FINANCE
FROM THE GENERAL FUND

Amount requested	\$3,985,366
Estimated to be expended in 1965-66 fiscal year	3,146,342
Increase (26.7 percent)	\$839,024
Increase to improve level of service	\$939,100

TOTAL RECOMMENDED REDUCTION

\$611,928

	Summary of Recommended Reductions		
	Amount	Budget Page	Line
Audits Division:			
12 new positions	\$111,012	575	59
Office of Planning:			
Program augmentation	156,800	574	59
2 existing intermediate stenographer positions, salary supplement, page 344, line 56	10,676	575	15
Add 1 librarian	-6,120		
Economic Development Agency:			
Program augmentation less one associate business development specialist position, \$10,440 recommended for approval	339,560	574	31

GENERAL PROGRAM STATEMENT

The Department of Finance has general supervision over all financial policies of the state. The director is directly responsible to the Governor and assists in formulating and administering administration policy. In both organizational and program terms, the Department of Finance is subdivided into six sections. These sections, with positions and expenditures over a four-year period, appear in Table 1. Each section is treated in more detail in subsequent narrative. It might also be noted that prior to October 1963 the Department of Finance was directly engaged in the various service and housekeeping functions of state government. The newly created Department of General Services has assumed these responsibilities.

Table 1
Department of Finance—Expenditures and Filled Positions
1963-64 to 1966-67, by Operating Units

Expenditures:	1963-64	1964-65	1965-66	1966-67
1. Executive office	\$281,533	\$265,129	\$266,827	\$287,152
2. Audits Division	1,120,445	1,183,846	1,285,825	1,426,505
3. Budgets Division:				
Workload	880,061	1,023,737	1,168,862	1,245,396
Augmentation	--	--	--	82,300
4. Office of Planning:				
Workload	470,531	1,162,185 ¹	1,022,009 ¹	410,511
Augmentation	--	--	--	268,875 ²
5. Program and policy	67,963	127,589	144,927	148,592
6. Economic Development Agency:				
Workload	195,490	195,167	8,336	--
Augmentation	--	--	--	350,000
Total	\$3,016,023	\$3,957,653	\$3,896,786	\$4,219,331

Department of Finance—Continued

Table 1—Continued
 Department of Finance—Expenditures and Filled Positions
 1963-64 to 1966-67, by Operating Units

Filled Positions:	1963-64	1964-65	1965-66	1966-67
1. Executive office -----	9.6	13.2	14	14
2. Audits Division -----	111.9	112.3	114	124
3. Budgets Division:				
Workload -----	86.7	91.3	104.6	108.6
Augmentation -----	--	--	--	6.0
4. Office of Planning:				
Workload -----	22.5	27	32.8	32.2
Augmentation -----	--	--	--	16
5. Program and policy -----	8.7	10	10	10
6. Economic Development				
Agency:				
Workload -----	11.8	12.9	0.2	--
Augmentation -----	--	--	--	22
Total -----	251.2	266.0	275.6	332.8

¹ Includes federal funds in 1964-65 of \$356,611 and \$630,944 in 1965-66. No federal funds are provided in the workload budget, 1966-67.

² Includes \$112,075 in federal funds.

ANALYSIS AND RECOMMENDATIONS

1. Executive Office

The executive office of the Department of Finance provides administrative direction and coordination for the Department of Finance, which in turn exercises overall supervision over the financial matters of the state. Among other things, the department is charged with the preparation, justification and presentation of the Governor's Budget. Because of the department's considerable fiscal responsibility, corollary policy responsibility, and the director's membership on numerous boards and commissions, the impact of the Department of Finance decisions is far reaching.

Properly speaking, the executive office does not represent an independent program, but because of data limitations there is no realistic manner in which to identify costs section by section. Therefore, for the purposes of this analysis, the director's office is treated as a separate program.

The proposed budget for the executive office for the 1966-67 fiscal year is as follows:

Authorized positions -----	12
Proposed new positions -----	2
Proposed expenditures -----	\$287,152

Both proposed new positions are clerical positions which were established administratively during the current year. One position assists the deputy director in Washington, D.C., and one position provides receptionist services for the executive office and maintains the Sacramento office of the World Trade Center Authorities Coordinating Council. The cost of this position will be 50 percent reimbursed by the council.

We recommend approval of this program as budgeted.

Department of Finance—Continued

2. Audits Division

The Audits Division of the Department of Finance has the statutory responsibility under Section 13294 of the Government Code to “. . . examine the books of the several state agencies as often as the director deems necessary . . .,” an activity which accounts for about 70 percent of its workload. The remainder consists of a variety of activities including audits of district and county fairs, State Treasury cash and security counts, supervision of school district audits, review of University of California accounts and assistance to other agencies such as the State Board of Control, Budget Division of the Department of Finance, Horse Racing Board, Attorney General, State Controller, etc.

The authorized staff, exclusive of that authorized during 1953-54 through 1956-57 for accounting services, which activity has since been transferred elsewhere, has been as shown in Table 1, from 1953-54 to 1966-67.

Table 1
Authorized Positions for Audit Activities, Division of Audits, 1953-54 to 1966-67

	<i>Auditors</i>				<i>Total</i>
	<i>Number</i>	<i>Change from prior year</i>	<i>Clerical</i>	<i>Temporary help and overtime</i>	
1953-54	106	---	9	---	115
1954-55	102	-4	9	---	111
1955-56	97	-5	8	---	105
1956-57	87	-10	8	---	95
1957-58	87	---	8.5	1.1	96.6
1958-59	87	---	7.5	1.1	95.6
1959-60	87	---	7.5	1.1	95.6
1960-61	93	+6	6.5	0.5	100
1961-62	108	+15	6	0.5	114.5
1962-63	109	+1	6	0.5	115.5
1963-64	109	---	6	0.5	115.5
1964-65	109	---	6	0.5	115.5
1965-66 (est.)	110	+1	6	0.5	116.5
1966-67 (prop.)	121	+11	6	0.5	127.5

The decrease of four auditor positions between 1953-54 and 1954-55 was due to “anticipated increased effectiveness due to changed and improved procedures” (1954-55 Budget, page 437).

Of the decrease of 16 positions (15 auditor and 1 clerical) between 1954-55 and 1956-57, 5 were dropped because of the creation by the Legislature of the office of the Auditor General, effective 9/7/55, while the remaining 11 were dropped because of action of the 1955 Legislature in amending Section 13294 of the Government Code to require audits of state agencies by the Department of Finance once every two years instead of once each year as previously. (1956-57 Budget, page 446).

Six auditor positions were added in 1960-61 because of workload increases, 15 were added in 1961-62 and 1 in 1962-63 for a like reason.

One position was added administratively during 1965-66 to serve on the Department of Water Resources task team formed to reevaluate and possibly redesign the department's accounting system and is not proposed for continuance during the budget year.

Department of Finance—Continued

Twelve new auditor positions are proposed for 1966-67.

Table 2 shows gross expenditures for the Audits Division from 1957-58 through 1966-67, expenditures for comparable activities from 1953-54 to 1956-57 not being readily available.

Table 2
Total Expenditure, Division of Audits, 1957-58 to 1966-67

	Total man-years of filled positions	Direct appropriations	Reimbursements for auditing services	Total expenditures
1957-58 (actual) -----	96.3	\$729,067	\$56,148	\$785,215
1958-59 (actual) -----	92.1	727,463	37,103	764,566
1959-60 (actual) -----	91	757,901	24,240	782,141
1960-61 (actual) -----	93.7	794,912	55,884	850,796
1961-62 (actual) -----	101.4	854,742	106,097	960,839
1962-63 (actual) -----	107.8	1,006,324	50,280	1,056,604
1963-64 (actual) -----	111.9	1,120,445	53,420	1,173,865
1964-65 (actual) -----	112.3	1,183,846	54,878	1,238,724
1965-66 (est.) -----	114	1,285,825	63,000	1,348,825
1966-67 (prop.) -----	124	1,426,505	63,000	1,489,505

The Audits Division classifies its activities into five general categories and indicates in its budget justification that for the years 1962-63 through 1965-66 its total man-years of authorized auditor positions, including 0.5 man-years of overtime, will be distributed as follows:

	Staff
1. Regular state agency post audits -----	77
2. Auxiliary audits -----	15
3. Administrative and staff functions -----	6
4. Assistance to other agencies -----	6
5. Reimbursable services -----	5.5
Total -----	109.5

It indicates that activities in the last four categories are expected to remain static during 1966-67 but is proposing an increase of 12 positions for the first category, as follows:

	No.	Amount	Budget	
			Page	Line
Supervising state financial examiner II -----	1	\$12,096	575	55
State financial examiner III -----	5	49,740	575	56
State financial examiner II -----	6	49,176	575	57
Total -----	12	\$111,012		

We recommend disapproval of these positions for reasons stated in the sections which follow.

The need for these positions is justified by calculations which are based on a formula which relates workload indicators for 1961-62 to comparable indicators for 1965-66, since post audits by definition are performed after the fact, and indicators for 1961-62 would determine the workload for 1962-63, while those for 1965-66 would determine the workload for 1966-67. This formula takes into consideration gross state expenditures and state revenues, adjusted to a constant-dollar

Department of Finance—Continued

basis, and number of state employees, after excluding from all categories those relating to local assistance and the University of California.

The three factors are weighted as follows, in calculating the basic index of increase:

	<i>Percent of increase</i>	<i>Relative weight</i>	<i>Adjusted index of increase</i>
Expenditures -----	46.5%	53%	24.6%
Revenues -----	37.9	31	11.7
Number of employees -----	23.8	16	3.8
Total -----		100%	40.1%

The basic index so calculated shows an increase of 40.1 percent for 1965-66 over 1961-62 which is discounted one-third, leaving 26.7 percent. This percent of increase, applied to the 77 existing positions for regular state agency audits gives an increase of 21.

This is further reduced by nine on the assumption that an estimated increase of 23 in the internal audit staffs of seven state agencies will have the net effect of reducing the work which the staff in Finance would otherwise be required to do by the equivalent of nine man-years of audit time.

The reason for the one-third discount factor is stated in the report, dated November 30, 1965, to the Assembly Subcommittee on Standards, Procedures and Reporting (Appendix Part I, page 25), as follows:

“The growth in expenditures, revenues, and number of state employees should not result in proportionate growth in audit staffs, particularly in a large staff organization. Specialization, flexibility in assigning staff, rotation of assignments, greater training capacity, and better promotional opportunities in a sizeable organization produce increased efficiency—therefore audit staff should not be increased in a direct ratio with growth of state government. These capabilities cannot be precisely measured but we have estimated their effect by the application of a one-third (33 $\frac{1}{3}$ %) discount to the relative change calculated by formula.”

In commenting to this office upon certain aspects of the proposed staffing formula for the Department of Finance auditor staff the Auditor General makes the following observations which raise a doubt in our minds on the appropriateness of giving any significant weight to such factors as increased expenditures in a formula for determining the size of an internal audit staff such as that of the Department of Finance.

“Internal auditing is a control activity which is primarily concerned with the effectiveness of controls over the recording of accounting and financial data. Therefore, the program should be designed to test the effectiveness of controls provided by established procedures. Tests of procedures necessarily include a limited examination of transactions. The time required to review control procedures and to make a test of transactions should not vary in

Department of Finance—Continued

direct proportion to the volume of transactions as is presupposed in the staffing formula presented by the Audits Division.

“If the Audits Division finds in its review that controls are deficient, recommendations should be made for the improvement in those controls to eliminate the deficiencies. As the volume of transactions increases in any given agency it should be possible to improve the controls over transactions within the agency to the point where the controls might be described as ideal. At this point a minimum of work by the internal audit group is required. In theory, as the internal audit group is successful in improving internal controls, the internal audit group is reducing its own audit requirements and should be able to reduce the size of its staff to an irreducible minimum upon which increases in volume of transactions should have little or no effect. In other words, to be considered successful an internal audit group should be able to hold the size of its staff down instead of increasing it with the increase in the size of agencies audited or with the increase in the volume of transactions.”

Two other matters raise questions in our mind about relating a formula to increased expenditures.

In the programmed man-years of time for state college audits, for example, shown in the November 20, 1965, presentation to the Assembly Subcommittee on Standards, Procedures and Reporting, identical time, 0.4 of a man-year, is programmed for nine state colleges with annual expenditures ranging in size from \$3.4 million for Hayward and \$4.9 for Chico to \$12.2 million for San Diego and \$15.4 million for San Jose, which would appear to indicate that volume of expenditures has very little to do with audit time required.

The other is the fact that the use of scientific random sample techniques, such as those used by the Army Audit Agency and Price Waterhouse & Co. provide a means for securing adequate coverage of a constantly increasing volume of transactions with little or no increase in the size of the sample required to give satisfactory results.

The agency further points out in the same November 30, 1965, presentation with respect to internal audit units in other departments: “The impact of changes in these units on the staff requirements for regular state agency audits must also be considered in the formula,” a statement with which we agree.

Table 3, which is compiled from information on pages 28 and 32 of Part I of the Appendix to the Report to the Assembly Subcommittee on Standards, Procedures and Reporting, dated November 30, 1965, indicates the size and growth in the internal audit staffs in other state agencies. The nine man-years shown in column (4) are the only ones regarded by the Department of Finance as affecting its workload. Here again, this is a judgment factor, and if all 23 of the increased positions had been offset, the entire increase in the Finance staff otherwise calculated by the formula would have been nullified.

Department of Finance—Continued

The formula uses authorized staff for 1962-63 as the base, for the reason that no increases in staff on a workload basis have been authorized since that time. This assumes that the level of service at that time was appropriate and that the current level is not, even though increases of three auditors were requested for 1963-64 and six for 1964-65, both of which were denied by the Legislature.

Table 3
Authorized Internal Auditing Positions, by State Agencies
1962-63 and 1966-67

	(1)	(2)	(3)	(4)
	1962-63	(Estimated) 1966-67	Increase	Offset against finance staff increase
Department of Public Works -----	19	26	7	2
Department of Employment -----	9	12	3	0.5
Department of Water Resources -----	6	11	5	4
State Compensation Insurance Fund-----	3	7	4	0.5
Department of Motor Vehicles -----	5	5	--	--
Board of Equalization -----	4	5	1	0.5
Department of Professional and Vocational Standards -----	3	3	--	--
Department of Parks and Recreation --	0	2	2	0.5
Department of Agriculture -----	1	1	--	--
State Controller -----	1	1	--	--
Department of California Highway Patrol -----	0	1	1	--
All others -----	--	--	--	1
Total -----	51	74	23	9

Assuming that the formula is valid we believe it should be related to the level of service authorized by the Legislature for 1965-66 rather than the 1962-63 level.

Another factor which seems to have been overlooked entirely in the calculation of the formula is the possible effect of the 1965 change in the law regarding frequency of audit (Government Code Section 13294).

Between September 7, 1955, and September 16, 1965, Section 13294 read as follows:

“The department shall examine and expert the books of the several state agencies, at least once every two years, and as often as the director deems necessary.”

Chapter 1090/1965, in effect September 17, 1965, amended Section 13294 to read as follows:

“13294. The Department of Finance shall examine the books of the several state agencies as often as the director deems necessary, taking into consideration the work done by other auditors, including the internal auditors of the various state agencies, so that duplication of auditing effort may be minimized.”

Department of Finance—Continued

As the result of the change in the law in 1955 reducing the mandatory frequency of audit from one year to two years, 10 auditor positions were dropped from the then existing audits division staff of 97, a cut of 10 percent. Under the new law audits could be made at less frequent intervals than every two years, if the director so desired.

There is nothing in the budget presentation to indicate that serious consideration has been given to reducing the frequency of audit in certain areas below the two years formerly required nor that adequate consideration has been given to the mandate now contained in the law to avoid needless duplication of audit activities, including those of the Auditor General.

We are not sure at this point whether a rigid formula, such as that proposed, is an adequate substitute for professional judgment in determining the size of a professional staff such as that in the Division of Audits.

Regardless of how the size of the staff is determined the basic question is the level of service appropriate for the activity, and in our view this has never been satisfactorily determined.

The Price Waterhouse Report to the Joint Legislative Budget Committee in 1954 on Accounting and Auditing for the State of California recommends three levels of auditing in state government. It states on page A-41:

“Within the state activities proper, the initial strata will relate to internal auditing, that within a department. The next level of auditing will lie within the Department of Finance; it will encompass a broader field which will include review of the departmental internal auditing. Perhaps the terms departmental internal auditor and state internal auditor or some similar titles will be used to denote these positions.”

It further recommends, on page A-42, the use of the term auditor general for the auditor responsible to the Legislature as “. . . denoting the top level of auditing . . .” in state service, which would include (p. A-41) review of the work to be performed by auditing carried on within the executive branch.

Legislation establishing the office of Auditor General (Chapter 1699/1955) now incorporated in Government Code Section 10500 refers specifically to auditing in the executive branch of state government as “internal auditing.” We have never seen a comprehensive definition of “internal auditing” in terms of the specific activities which it should encompass by auditors for the Department of Finance.

The Auditor General has raised questions from time to time regarding the need for the extent of certain work now being carried on by the Department of Finance, which in our view have never been satisfactorily answered, and we believe these questions should be resolved.

Section 10500 of the Government Code reads in part as follows (emphasis added):

Department of Finance—Continued

“The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of state government, for the use of both the *executive* and *legislative* branches of the state government in establishing a sound fiscal and administrative policy for the government of the state.”

In view of this it would appear to be the intent of the Legislature that work of the Auditor General should play a part in the overall audit effort in state government, taking into consideration needs of the executive as well as the legislative branch.

We are in agreement with the three level concept for state auditing as set forth in the Price Waterhouse report but have never been satisfied that the proper scope of each level and the appropriate interrelationships among them have been clearly defined or understood by all parties involved, and until these are better clarified we cannot recommend any increase in staff for the audit unit in the Department of Finance.

A difference of opinion has existed for some time between the Auditor General on the one hand and the Department of Finance on the other as to whether internal auditing can be most effectively carried on by staff responsible to the agency administrators or the Department of Finance. In an attempt to resolve this difference a pilot study will be conducted during the calendar year 1966 in the Transportation Agency by a staff consisting of 10 auditors and a supervisor from the Department of Finance plus internal auditors from the Department of Public Works, the Department of Motor Vehicles and the Department of the Highway Patrol. This staff will be directly responsible to the agency administrator of the Transportation Agency during the course of the audit.

Evaluation of Results of Pilot Audit

The agency administrator, the Audits Division, and the office of the Auditor General will submit reports expressing their opinions on the effectiveness of the operation of the pilot audit and recommendations as to the continuation of the operation on a permanent basis or as to termination of the operation. These reports are to be made to the Senate Finance Committee, the Assembly Committee on Ways and Means, and the Joint Legislative Audit Committee, or to subcommittees of these committees. These committees will determine on the basis of these reports whether the experiment will terminate, or will continue on a permanent basis by proposing legislation transferring the internal auditing function and personnel from the Audits Division to the Transportation Agency.

3. Budget Division

Budget division, budget page 576, line 74, and augmentation to the budget division, budget page 573, line 49. As indicated above the budget division of the department appears in two sections of the Department of Finance budget. One presentation deals with continuing workload, the other with proposed program augmentations

Department of Finance—Continued

and corresponding increases. This new presentation is representative of the change in format incorporated in this year's Governor's Budget; it is also indicative of continuing emphasis on program budgeting. While retaining line item control and review, this presentation focuses attention on new and expanding programs facilitating policy as well as conventional review. We believe, however, that it is also of interest to present existing and proposed programs as a unit for purposes of legislative review. The following table indicates the total request for the budget division for the 1966-67 fiscal year.

Budget Division		
<i>Existing program (Budget page 576, line 74)</i>	<i>Positions</i>	<i>Total proposed expenditures</i>
Positions authorized -----	101	--
Positions administratively established during 1965-66 and proposed for continuance -----	2.6	--
Proposed new positions (workload basis) -----	5.5	--
Total -----	109.1	\$1,245,396
<i>Program augmentation (Budget page 578, line 49)</i>		
Positions proposed for conversion to program budgeting ---	6	82,300
Grand total proposed for budget division 1966-67 fiscal year -----	115.1	\$1,327,696

Continuing workload for the budget division primarily includes preparation, presentation and administration of the State Budget. Under this main program fall a number of subactivities: population and price level forecasts, revenue and expenditure estimates, and assistance in the formulation of the administration fiscal and program policy. The staff of the budget division participates in the legislative budget hearings in defense of the Governor's Budget and analyzes all legislative measures with fiscal implications. Special studies and reports are prepared at the direction of the Legislature, Governor, Director of Finance, and agency administrators.

Program Budgeting

If California is to adopt program budgeting there is urgent need for executive leadership in providing guidelines for its development and implementation. A few of the more obvious are: (1) uniform terminology must be agreed upon; (2) programs must be identified and defined; (3) decisions must be made as to the extent and need for revision of the existing state accounting system to provide data on a program basis, with particular reference to the need for expansion of cost accounting techniques; (4) interrelationship between the program approach and existing controls over number and class of positions authorized must be worked out; (5) the extent of the detail required for adequate legislative review and evaluation of requests must be determined.

Department of Finance—Continued

We believe that the proposed increase in staff is probably the minimum needed to provide the leadership necessary to implementing any conversion to program budgeting and recommend approval as budgeted. We also recommend that this staff work closely with appropriate legislative committees and staff agencies in development of its approach to program budgeting.

5. Office of Planning

The primary function of the State Office of Planning, as embodied in its first general circulation report (Progress Report, May 1963), is to produce a development plan which

“... is a process for furnishing executive and legislative decision makers at the state level with a reliable, consistent, and comprehensive body of information about statewide and regional development trends, problems and potentials. This information can then be used by the Governor and the Legislature in identifying and describing the areas of state responsibility in the overall development process, and in framing appropriate policies and programs from state action in these areas. ...”

The second major function of the Planning Office is to administer and coordinate current planning at the level of local jurisdictions. Organizationally the office has been divided into two major sections: the local planning assistance section and the advance planning section.

During the current year the office has been redivided into subsections which do, however, conform to the broader historical organizational pattern.

As indicated in our discussion of the budget division, this year's budget presentation distinguishes between continuing program activities and expenses and program augmentations. Thus, the proposed expenditures for the Office of Planning appear in two places in this year's budget. In the interests of legislative review we believe that a summary presentation of continuing operations and proposed augmentation is useful. The following table indicates the total proposed expenditures for the Office of Planning:

	<i>Positions</i>	<i>Expenditures</i>
Continuing operations -----	34	\$410,511
Augmentation—General Fund -----	15	156,800
Federal funds -----	—	112,075
	<hr/>	<hr/>
Total proposed -----	49	\$679,386
Percent increase -----	44.1%	65.5%

Since the creation of the office in 1956, General Fund moneys and federal moneys have been made available in the amounts indicated in Table 1.

Department of Finance—Continued

Table 1

	<i>General Fund</i>	<i>Federal appropriations</i>	<i>Total</i>
1956-57 -----	\$16,530	---	\$16,530
1957-58 -----	30,371	---	30,371
1958-59 -----	52,304	---	52,304
1959-60 -----	51,746	---	51,746
1960-61 -----	82,340	---	82,340
1961-62 -----	128,917	---	128,917
1962-63 -----	210,694	\$139,336	350,030
1963-64 -----	261,980	208,551	470,531
1964-65 -----	361,649	856,611	1,218,260
1965-66 (estimated) -----	360,758	630,944	991,702
1966-67 (proposed) -----	567,311	112,075	679,386
Total -----	\$2,124,600	\$1,947,517	\$4,072,117

It is also noteworthy that various state agencies have contributed staff time for Phase II alone in an amount valued at \$731,344 (this covers the period of March 1964 to March 1966). Direct and indirect expenditures are approaching the \$5 million mark.

Thus, by any measure, a substantial amount of state and federal funds have been spent on the activities of the State Planning Office.

In light of these rather substantial expenditures, the progress of the Planning Office in implementing its primary function should be carefully assessed. The office's main responsibility is the preparation of the state development plan as indicated in the office's statement of purpose:

The State Office of Planning in the Department of Finance is a staff agency responsible through the director to the Governor and the Legislature for the undertaking of studies the physical, economical and social implication of California's growth and development and the recommendation of long-range policy alternatives in these spheres. The office is currently engaged in the preparation of the state development plan program. This is the most ambitious state undertaking of its kind.

That this is indeed, "the most ambitious state undertaking of its kind" is demonstrated by the history of the development plan:

Phase I of the plan was due in October 1963.

Phase II was due in December 1964.

No development plan has been produced. No "recommendation of long-range policy alternatives" have yet been made. The plan is now proposed for completion in September 1966.

As well as failing to plan properly for the state development plan, it should also be noted that last year the Office of Planning failed to meet its statutory responsibility as detailed by the Legislature in the offices enabling legislation. Section 65015.9, Government Code, states that,

Prior to the convening of each session of the Legislature there shall be prepared a report on the state development plan, which

Department of Finance—Continued

report shall be printed as a public document and shall be prepared, printed, and transmitted to the Governor and the Legislature in the manner provided in this article. The report shall describe the current status of the plan together with revision and extensions thereof.

Copies of the report were not distributed until March 31, 1965. If it was the intent of the Legislature that planning information would be valuable in budget review, and the formulation and review of legislation, the plan has not been available for that purpose.

The only document at our disposal is the "California Development Plan Program, Progress Report and Summary Interpretation of Phase I Studies," mentioned earlier. As well as being less than perfectly timed, the booklet represented little more than an apparently hurried and demonstrably unsuccessful effort to meet a deadline already passed. The narrative portion is contained in less than 30 pages and those 30 pages include no less than 5 full-page maps or tables and 15 half-page tables or photographs. Thus, the "Summary Interpretation of Phase I Studies" was, indeed, a summary. More importantly, the report represented not a series of answers but questions. Eight basic areas were discussed in the report with relation to the following:

1. The growth syndrome
2. The urban states
3. The price of growth
4. Poverty
5. Changing way of life in California agriculture
6. Control of California's destiny
7. Special regional problems
8. Unused resources

The treatment accorded each of the eight areas is nearly identical: statistical and descriptive material, readily available from standard reference sources, was compiled and presented in narrative and tabular form. While such a presentation may be, in certain circumstances, useful, it is hardly consistent with the results that might reasonably be expected from a staff of experienced professionals.

In addition, there exists in the Office of Planning four vacant professional positions; this situation is a continuation of a vacancy factor we commented upon in our last analysis. In 1963-64 there were 6.5 vacant positions of 29 authorized and 10 positions were vacant at the time of the analysis last year. This continual high vacancy factor substantially distorts the proposed ratio of secretarial to professional positions; the effect of this is a higher ratio than is required. As well, the office is requesting \$8,000 for contractual library services to be supplied by the State Librarian. The State Librarian reports that such contract services are not usually available. Nevertheless, we believe that two secretarial positions could be effectively abolished and replaced with one full-time librarian.

Department of Finance—Continued

We should also like to point out that while we are not interested in belaboring an issue which was in substance agreed to by all parties concerned last year—namely that the Office of Planning through the 1964 calendar year exhibited serious and pronounced deficiencies and inadequacies—we do believe that the present status of the state development plan, not now due until next fall, indicates that no new programs should be undertaken at this time.

In addition, while in principle we believe that it is both appropriate and necessary for the state to engage in the kind of planning related to problem-solving which has been assigned the planning office, we have serious reservations about the adequacy and completeness of existing methods and implementation. In conjunction with the information discussed earlier, Webster's definition of "plan" is revealing: "a method of carrying out a design; a method of doing something; a detailed program of action; an orderly arrangement of parts of an overall design or objective." No such plan exists, and apparently no such plan or specific method to bring the development plan into being currently exists.

Until the state development plan—the initial responsibility of the planning office—is complete and has received legislative approval we believe that the workload of the planning office should not be increased.

We recommend that the requested program augmentation, budget page 574, line 59, not be authorized, for a net saving to the General Fund of \$156,800.

We recommend that two existing intermediate stenographer positions be abolished, for a gross saving of \$10,676, budget page 575, line 15, and that a position of librarian I be established for a cost of \$6,120 for a net saving to the General Fund of \$4,556.

5. Program and Policy Office

The program and policy office acts as a consultative office to the Governor's office, evaluates programs and policies of state government, and assists in the formulation and development of the Governor's legislative program. The staff is composed of one chief, seven consultants, and two clerical positions. No increase in staff or expenditures, other than normal cost increases, is proposed.

We recommend approval as budgeted.

6. Economic Development Agency

The Economic Development Agency, as historically constituted and operated, was deactivated during the last general session due to legislative disapproval of its budget request. In broad outline the Economic Development Agency had been charged with the promotion of California commerce, industry and agriculture and was directed to encourage its development and expansion. The agency, with varying emphasis, has been charged with research and report preparation, client assistance, compilation of economic "intelligence" and responding to inquiries regarding the California business climate.

Unfortunately, no approach tried so far has met with demonstrable success. Since its creation, the agency has expended the following amounts:

Department of Finance—Continued

	<i>Positions</i>	<i>Expenditures</i>
1959-60 ¹ -----	13.1	\$215,670
1960-61 -----	13.6	203,850
1961-62 -----	10.6	139,107
1962-63 -----	10.8	177,033
1963-64 -----	11.8	195,490
1964-65 -----	12.9	197,167
1965-66 ² -----	.2	8,336
Total -----		\$1,136,653
1966-67 (proposed) -----	22	350,000
Grand total -----		\$1,486,653

¹ Reflects nine months of operation.² Emergency funds for terminal pay and rent due under lease arrangement.

No quantitative measures are provided to indicate the relative success of the agency's past operations, yet a new and larger Economic Development Agency is proposed for the budget year. As has been the case historically, we find no basis for measuring economic benefits reflecting the proposed agency's impact or effectiveness. Our prior review concluded that the program as carried out did not reflect reasonably effective use of a professional staff such as was budgeted.

Furthermore, there has been no showing of an existing or incipient need for the kind of functions proposed for the agency short of one minor operation; workload information is available showing the number of industrial inquiries answered during the period July 9, 1965, and December 22, 1965. The following table has been supplied by the Department of Finance; column 2 has been added by our office as a workload projection:

Industrial Inquiries Answered and Other Industrial Correspondence Handled Since EDA Became Inactive July 9, 1965		
<i>Type of inquiry answered</i>	<i>Number</i>	<i>Workload as projected by Legislative Analyst's office</i>
1. Considering establishment of plant in California-----	22	50
2. Supplemental and followup information to Item 1-----	18	40
3. General inquiry on industrial development-----	5	10
<i>Other industrial correspondence handled</i>		
4. Miscellaneous letters and memos relating to industrial development -----	16	35
5. Memos relating to previous industrial inquiries-----	3	6

It is noteworthy that the accomplishments enumerated in column 1 were completed by one individual, the deputy director in charge of planning, working part time. Also, the statistical abstract has been prepared by the financial and population research section in the budget division without benefit of an Economic Development Agency. Of the total workload of the agency—either as historically constituted or as proposed—only this workload information exists.

Department of Finance—Continued

Four additional functions which would represent about 95 percent of the proposed budget enjoy no such justification. These functions include:

1. Research and reports
2. Information
3. Local assistance
4. Business assistance

We believe that legitimate inquiries are due a timely and informative response. An activity of this type would appear to require, at most, no more than one professional position under the direction of the existing deputy director position organizationally responsible for economic development.

We recommend approval of one associate business development specialist, budget page 574, line 15, \$10,440, and related expenses to be determined by the Department of Finance.

We also recommend that this position be assigned to the executive office and receive clerical support from the additional clerical position approved for that office.

We recommend deletion of the remaining 21 positions proposed, and related expenses, budget page 574, line 32, \$339,560.

DEPARTMENT OF FINANCE

ITEM 153 of the Budget Bill

Budget page 572

**FOR SUPPORT OF DEPARTMENT OF FINANCE
FROM THE FAIR AND EXPOSITION FUND**

Amount requested -----	\$121,890
Estimated to be expended in 1965-66 fiscal year -----	119,500
	<hr/>
Increase (2 percent) -----	\$2,390

ANALYSIS AND RECOMMENDATIONS

This item is for the cost of auditing district and county fairs as mentioned under Item 152.

We recommend approval as budgeted.

**Department of Finance
STATE LANDS DIVISION**

ITEMS 154, 155, and 156 of the Budget Bill

Budget page 579

**FOR SUPPORT OF THE STATE LANDS DIVISION
FROM THE GENERAL FUND**

Amount requested -----	\$1,410,789
Estimated to be expended in 1965-66 fiscal year -----	1,155,261
	<hr/>
Increase (22.1 percent) -----	\$255,528

Increase to improve level of service ----- \$117,969

TOTAL RECOMMENDED REDUCTION ----- \$36,956

State Lands Division—Continued

Summary of Recommended Reductions		<i>Budget</i>	
	<i>Amount</i>	<i>Page</i>	<i>Line</i>
Continuing Operations			
<i>U.S. v. California No. 5 Original:</i>			
Delete one intermediate stenographer -----	\$5,688	583	51
Increase temporary help -----	-1,000	583	51
Program Augmentation			
Administration:			
Delete the following positions			
1 Associate mineral resources engineer -----	10,440	581	37
1 Drafting aid II -----	5,832	581	38
1 Civil engineering technician II -----	8,196	581	41
1 Junior civil engineer -----	7,800	581	42
Other recommendations:			
We recommend that a thorough study be made of the state's sequential leasing program.			

GENERAL PROGRAM STATEMENT

The State Lands Division of the Department of Finance provides staff support to the State Lands Commission. The commission, composed of the Lieutenant Governor, the Controller, and the Director of Finance, has the general responsibility for the administration of state school lands, tide and submerged lands, swamp and overflowed lands, and the beds of navigable rivers and lakes. The commission has the authority, as provided by law, to sell, lease, dispose or provide for the extraction of minerals, oil and gas from these lands. The division administers and implements the policies established by the Legislature and the commission.

The State Lands Division has two major programs, the management of state lands and the development of mineral resources, especially oil and gas, on state lands. The program which produces the most revenue to the state is the development of mineral resources on state lands. Table 1 shows the revenues from these programs.

Table 1
Revenues From State Lands

	<i>Land sales and leases</i>	<i>Mineral resources</i>	
		<i>Oil and gas</i>	<i>Other</i>
1962-63 -----	\$787,653	\$50,033,453	\$131,070
1963-64 -----	956,522	62,274,590	122,148
1964-65 -----	449,021	67,776,049	345,231
1965-66 (est.) -----	763,000	63,884,400	347,000
1966-67 (est.) -----	803,000	69,206,500	347,000

The division is reorganizing by dividing functions between engineering and revenue and management. The Legislature, in the 1965 Regular Session, approved an assistant executive officer for revenue and management. In addition, a separate unit has been created to administer the Long Beach tideland development.

Tables 2 and 3 give some indication of the division's growth since 1962-63. Table 4 is a summary of the staff proposed for 1966-67 as presented in the budget.

State Lands Division—Continued

Table 2
Personnel Growth

	1962-63	1963-64	1964-65 Actual	1965-66 Authorized	1966-67 Requested
Executive, legal, and administrative services	29.9	33.0	32.5	36.0	36.0
Development of mineral resources	49.9	61.6	63.5	74.6	87.6
Land management	37.4	36.5	38.9	47.2	53.2
	117.2	131.1	134.9	157.8	176.8
Salary savings (estimated)				-9.0	-6.0
				148.8	170.8

Table 3
Expenditures

	General Fund support	Reimbursements	Total expenditures
1962-63	\$1,066,755	\$71,084	\$1,137,839
1963-64	1,297,011	273,609	1,570,620
1964-65	1,028,443	570,861	1,599,304
1965-66 (estimated)	1,155,261	753,235	1,908,496
1966-67 (proposed)	1,410,789	848,797	2,259,586

Table 4
Summary of Proposed Staff 1966-67

	Authorized positions	Workload and administrative adjustments	Proposed new positions	Total
Existing programs as shown in budget:				
Administration	126.8	--	1	127.8
Long Beach operations	17	9	--	26
U.S. v. California No. 5, original	4	-2	1	3
Program augmentation:				
Support (administration)	--	--	9	9
Reimbursement (Long Beach)	--	--	11	11
Total	147.8	7	22	176.8

ANALYSIS AND RECOMMENDATIONS

Executive, Legal, and Administrative Services

This program includes those functions which are not at this time directly assignable to a specific program. Personnel in these functions are as follows:

	1964-65 Actual	1965-66 Authorized	1966-67 Proposed
Executive	4	7	7
Legal	2.6	3	3
Administrative services	25.9	26	26
Total	32.5	36	36

The division is requesting \$15,000 for the budget year to cover the costs of special assistance by the Attorney General's office in handling

State Lands Division—Continued

a backlog of legal matters. This is proposed as part of the Support Program Augmentation, budget page 581, line 47. The division has submitted evidence indicating a definite need for these services.

We recommend approval of \$15,000 for Attorney General services, budget page 581, line 47.

Development of Mineral Resources

The most important aspect of this program is the leasing and overseeing of state lands for the production of oil and gas. Under this program state land, particularly tide and submerged land, is evaluated to select areas appropriate for leasing and existing leases are controlled and accounted for. Chapter 138, Statutes of 1964, First Extraordinary Session, gave the division increased responsibilities with regard to the development of the new East Wilmington oil field at Long Beach. Table 5 indicates the allocation of staff on the various activities of the mineral resources program.

Table 5
Mineral Resources

	Man-years		
	1964-65 <i>Actual</i>	1965-66 <i>Authorized</i>	1966-67 <i>Proposed</i>
Sequential leasing:			
Geological evaluation	3.0	3.0	5.0
Reimbursable inspectors	7.2	3.6	3.6
Administration of oil and gas leases.....	41.0	43.0	43.0
Administration of other mineral resources	2.0	2.0	2.0
Long Beach oil and gas development (not including civil engineers)	11.3	23.0	34.0
Total	63.5	74.6	87.6

1. Sequential Leasing

The Cunningham-Shell Tidelands Act of 1955 (Section 6871 of the Public Resources Code) gave the State Lands Commission the authority, with certain exceptions, to lease for the extraction of oil and gas tide and submerged lands and the beds of navigable rivers and lakes when it is in the best interest of the state. In 1958 the commission initiated a "sequential leasing program" whereby leases on potential oil bearing tideland property are offered on a continuous basis at the rate of approximately five per year. Table 6 indicates the magnitude of the sequential leasing program.

Table 6
Sequential Leasing

	Number of leases	Value of bid bonus
1958-59	5	\$55,555,974
1959-60	—	—
1960-61	3	10,905,111
1961-62	3	6,655,518
1962-63	6	21,167,654
1963-64	5	33,781,572
1964-65	4	34,108,012
1965-January 1966	2	5,014,180

State Lands Division—Continued

In order to determine locations for potential oil and gas development, the division evaluates confidential data resulting from explorations performed under a state permit. A list of parcels with estimated revenues is then prepared. Parcels are selected for leasing from this list.

The division has three men assigned to this program, a petroleum geologist, an assistant mineral resources engineer, and a junior oil and gas engineer. These men spend approximately 65 percent of their time on the sequential leasing program. Reimbursable inspectors are added as necessary for the exploration phase of this program.

The division is requesting an associate mineral resources engineer and a drafting aid II position for the budget year.

We recommend disapproval of one associate mineral resources engineer and one drafting aid II, budget page 581, lines 37 and 38, \$16,272.

The associate mineral resources engineer and drafting aid II are requested to accelerate the evaluation of data for the sequential leasing program, and, in addition, the engineer is to act as an "understudy" for the present petroleum geologist. We doubt the wisdom of providing an "understudy" to a position which is responsible for highly valuable and confidential data and which, upon retirement or resignation, will be filled by standard civil service procedures. Aside from this, however, we have serious reservations about an accelerated sequential leasing program.

Out of 27 parcels offered since 1961, 10 parcels received only one bid or no bid. On those parcels receiving more than one bid, the second bidder consistently bid substantially below the successful bidder.

The division has informed us that an increased amount of time is necessary to evaluate potential lease parcels since the number of highly valuable parcels is declining. They have also said that the areas and number of parcels recommended for leasing fluctuate with the budget requirement for cash bonus payments. We do not think that budget requirements determine the best oil leasing program for the state.

We recommend that a thorough study be made of the state's sequential leasing program.

2. Administration of Oil and Gas Leases

The mineral resources section of the State Lands Division is responsible for gauging, testing and calculating royalties on oil and gas leases. This section also performs engineering studies pertinent to the administration of these leases.

The proposed distribution of the staff for the budget year is shown in Table 7.

State Lands Division—Continued

Table 7
Distribution of Staff for Administration of Oil and Gas Leases

	<i>Engineers</i>	<i>Production inspectors and oil gaugers</i>	<i>Audit and account- ing personnel</i>	<i>Total</i>
Los Angeles -----	11	--	4	15
Huntington Beach -----	--	12	4	16
Santa Barbara -----	--	11	1	12
Sacramento -----	--	1	--	1
Total -----	11	24	9	44

The state had 33 producing leases in 1964-65. The royalties received from these leases are shown in the following summary.

<i>Year</i>	<i>Royalty</i>
1962-63 -----	\$16,728,843
1963-64 -----	17,795,529
1964-65 -----	19,429,433
1965-66 (est.) -----	20,000,000
1966-67 (est.) -----	20,000,000

An additional oil gauger for Santa Barbara was approved by the 1965 Legislature on the basis of workload for the current year. No changes are anticipated in the budget year.

3. Administration of Other Mineral Resources

The division administers exploration permits and leases on state lands for mineral resources such as sand and gravel, clay, asbestos, borates, geothermal steam and others. Most of the revenue comes from permits for sand and gravel. The mineral resources section spent approximately two man-years on this program in 1964-65. No change is anticipated in the current or budget years.

4. Long Beach Oil and Gas Development

Oil and gas has been produced from the Long Beach tidelands since 1939. Chapter 138, Statutes of 1964, First Extraordinary Session, was enacted to provide for the development of the remaining portion of the Long Beach tidelands known as the East Wilmington field. This field is expected to be the second largest crude oil reserve in the United States with gross sales estimated between \$2.5 and \$4 billion.

All necessary documents for the development of the East Wilmington field were executed effective April 1, 1965. The successful bidders agreed to pay the city 96.25 percent of the net profits.

Chapter 138 also permits the state to commit an adjacent parcel, the Alamitos Beach Park Lands, to the unit. On December 9, 1965, the State Lands Commission received bids on this parcel. The successful bidder agreed to pay the state 96.25 percent of the net profits plus an over-riding royalty of 23.677 percent on the first six million barrels. An agreement with the successful bidder is expected to be signed in March of 1966.

As of January 6, 1966, there were 24 producing wells and 6 injection wells in the East Wilmington field. Daily production was around 12,000

State Lands Division—Continued

barrels. The development plan for 1966 calls for 119 wells and an expenditure of approximately \$50,000,000.

Chapter 138 revised the 50-50 distribution of oil revenues between the city and the state. The city will now receive 50 percent of the oil revenues until December 31, 1968, and thereafter an amount not to exceed \$9 million per year with lesser amounts after 1980. It is estimated that the state will receive 85 percent of the oil revenues under this arrangement. The state will receive 100 percent of the revenues from the Alamitos Beach Park Lands. The following summary shows the revenue to the state from the Long Beach tidelands.

	1964-65 <i>Actual</i>	1965-66 <i>Estimated</i>	1966-67 <i>Estimated</i>
Existing production	\$9,231,575	\$9,877,900	\$13,200,000
East Wilmington (bid bonuses and advance royalties)	5,000,000	9,000,000	6,000,000

The amount of revenue to the state from the production of oil from the Long Beach tidelands will depend on a number of factors: (1) the amount of oil produced; (2) the costs of production by the field contractor; (3) the costs of administration by the city; (4) the costs of administration by the state; (5) the expenditures for subsidence control; (6) the price of the oil; and (7) the allocation of the oil.

Under the law expenditures by the city for administering oil and gas operations and for subsidence amelioration and the state's costs for administering the provisions of Chapter 138, Statutes of 1964, First Extraordinary Session, and Chapter 29, Statutes of 1965, First Extraordinary Session, are deducted from the oil revenue. The remaining oil revenue is to be divided equally between the city and the state until December 31, 1968. The state's expenditures for Long Beach are shown in the budget as a reimbursable item. The effect however is to reduce the state's revenue from this source by one-half the expenditure. After December 31, 1968, the state's revenue will be reduced by 100 percent of the expenditures for administration, on the assumption that there will be sufficient revenues to pay Long Beach its maximum share, which appears likely in view of revenues from existing developments.

The Legislature approved a \$250,000 augmentation to implement Chapter 138 during the current year. Total expenditures for state administration of the Long Beach oil and gas development are shown in Table 8.

Table 8
Long Beach Administration

	1964-65 <i>Actual</i>	1965-66 <i>Estimated</i>	1966-67 <i>Proposed</i>
Personal services	\$152,943	\$278,186	\$412,565
Operating expenses	20,283	42,101	65,156
Equipment	1,344	13,632	12,247
Contract services	100,000	100,000	100,000
Attorney General services	--	--	20,000
Auditor General's costs	41,413	40,000	40,000
	<u>\$315,983</u>	<u>\$473,919</u>	<u>\$649,968</u>

State Lands Division—Continued

It is our understanding that certain adjustments will be made in the expenditures for 1965-66 because of the difficulties in establishing additional positions. No changes in total expenditures are expected; however, contract services will be increased by \$45,000. An additional expenditure for administrative overhead is included in the state lands administration budget. This amount is estimated to be \$130,000 in the budget year.

The expenditures for Long Beach operations include the costs of three civil engineers assigned to insure compliance with the terms of the trust. Since these men have nothing to do with the development of oil and gas, we did not include them in personnel assigned to this program. They are discussed under trust-related activities.

At present the state has the following staff in Long Beach, exclusive of the three civil engineers previously mentioned.

- 6 Mineral resources engineers
- 6 Auditors
- 2 Clerical

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The division is creating a separate unit to administer all of the Long Beach tidelands. This unit will include the existing staff plus the following positions which will be established during the current year, and are shown as workload and administrative adjustments as identified in Table 9.

Table 9
New Long Beach Positions Established in 1965-66

<i>Position</i>	<i>Number</i>	<i>Amount</i>	<i>Budget</i>	
			<i>Page</i>	<i>Line</i>
Manager, Long Beach operations-----	1	\$20,196	582	77
Assistant manager-----	1	18,324	582	78
Chief reservoir engineer-----	1	16,620	582	79
Chief geologist-----	1	15,066	582	80
Engineering geologist-----	1	13,662	582	81
Waterflood engineer-----	1	15,066	582	82
Electronic data processing engineer-----	1	12,696	582	83
Secretary I-----	1	6,120	583	11
Senior stenographer-----	1	5,280	583	12
Total-----	9	\$123,030		

As of January 31, 1966, none of these positions had been filled. The division is proposing 11 additional positions as shown in Table 10 for the budget year at a salary cost of \$9,452. These, with related costs, are included in the total program augmentation, of \$128,456, shown on budget page 581, line 68, which is to be reimbursed from oil revenues.

State Lands Division—Continued

Table 10
Proposed New Positions for Long Beach
Under Program Augmentation

Position	Number	Amount	Budget	
			Page	Line
Chief petroleum engineer -----	1	\$13,992	581	55
Unit and equity engineer -----	1	13,332	581	56
Petroleum production engineer -----	1	12,096	581	57
Petroleum drilling engineer -----	1	12,096	581	58
Mechanical engineer -----	1	12,096	581	59
Geological draftsman -----	2	13,488	581	60
Engineering aid II -----	2	11,664	581	61
Intermediate clerk -----	1	4,344	581	62
Intermediate file clerk -----	1	4,344	581	63
Total -----	11	\$97,452		

We recommend approval of these positions as budgeted.

Chapter 138 has increased the role of the state with respect to the development of the East Wilmington field. Though the city remains the operator of the field, the city must submit the plans of development and operations covering no more than one year to the State Lands Commission for approval.

The plans will contain an itemized budget of expenditures relating to the exploration, development and operation of the oil field. Under the net profits agreement these expenditures will be deducted before the state receives its share of the profits. Therefore, after December 31, 1968, the state will be paying approximately 96 percent of the costs for development and operations, on the assumption that Long Beach will receive \$9 million, as explained previously.

Since the interests of the state do not necessarily parallel either the city or the field contractor, the state must be able to provide an independent evaluation of the plans of development and operation in order to achieve the maximum return to the state. The approval of the plans for development and operations is the most important control by the state.

The state must also make an independent evaluation of subsidence data. The problems of subsidence at Long Beach are well documented; however, the actual cause is uncertain. The city, as operator of the field, may implement any measure, including the curtailment of production, in an effort to control subsidence. Under the law the state will pay the majority of the costs related to subsidence control or amelioration. Any curtailment of production will have a direct effect on state revenues.

The state, after January 1, 1968, will control the votes on the equity committee which decides all matters relating to the establishment of equity formula factors and tract assignments of oil and gas produced from the East Wilmington field. The state has a singular interest in making critical evaluations of oil field data in order to maximize the allocation of oil and gas to the state.

We agree with the division and their consultants that the proposed positions are necessary to protect the state's interest at Long Beach.

State Lands Division—Continued

These positions will give the state an independent evaluation of data in critical areas without duplicating efforts in the day-to-day operations of the field.

Management of State Lands

The management of state lands includes selling, leasing, issuing of easements, and maintaining records. The division provides the technical services to the Attorney General with regard to state land litigation, and administers tideland trusts granted by the state. Table 11 indicates the staff allocated to the various activities of this program.

Table 11
Management of State Lands

	Man-years		
	1964-65 Actual	1965-66 Authorized	1966-67 Proposed
Administration	6.9	8.8	10.2
Land sales and leases	11.7	16.4	16.4
Engineering	14.4	16.0	20.0
Trust related activity	3.0	3.0	3.0
<i>United States v. California No. 5</i>	2.9	3.0	3.0
Total	38.9	47.2	53.2

1. Administration

This particular aspect of the land management program includes the maintenance of records, title research, and investigation of trespasses. The division estimates 6.9 man-years for these services in 1964-65 and 8.8 man-years for the current fiscal year. Two additional positions are requested for the budget year.

The division proposes to establish an associate title officer and a special investigator for the budget year.

The associate title officer has been requested to do historical research for litigation regarding state lands. A temporary assistant title officer (0.7 man-years) was used in 1964-65 and the same is anticipated in the current year. This temporary position will be discontinued in the budget year. Workload growth is summarized as follows:

	1963-64 Actual	1964-65 Actual	1965-66 Estimate
Cases pending at beginning of fiscal year	121	123	140
Cases received during fiscal year ..	68	31	40
Cases closed during fiscal year	66	14	40

In addition the division has received complaints from the Attorney General's office on delays in information necessary in response to quiet title actions in which the state is involved.

We recommend approval of an associate title officer, budget page 582, line 19, \$8,196.

A special investigator has been requested to secure the necessary information for eliminating trespasses on state lands. The division estimates that an investigator will be able to increase state leasing revenue

State Lands Division—Continued

by approximately \$10,000 each year. We feel there is adequate justification to establish this position for a trial period.

We recommend approval of one special investigator, budget page 581, line 35, \$7,080, for one year only.

2. Land Sales and Leases

The division is authorized to sell vacant state school lands if such sales are determined to be in the best interest of the state. A moratorium on sales pending a policy review was in effect from May 1960 until December 1964. As of November 6, 1965, the division had processed 72 new applications for the purchase of school lands. The total appraised value of these lands was \$904,442. The value of the lands sold was \$122,782. The cost for appraising these lands is charged to the applicant. Appraisal fees collected during this same period amounted to \$8,239.

The division also processes leases for grazing and agriculture. There are 66,204 acres under lease for these purposes. Annual rental is approximately \$2,000.

A separate section within the division processes leases for commercial and recreational purposes. This section has a continuing backlog of work because of the difficulties in filling their established positions. The division is now studying ways to remedy this situation.

No new positions are requested for the budget year.

3. Engineering

A civil engineering section does surveying, mapping, boundary research and writing of legal descriptions for the division.

Two reimbursable positions have been added administratively for the current year. These positions will be discontinued in the budget year.

The division is proposing to create an additional survey party by adding these three positions to the present five-man survey crew and dividing this into two four-man parties.

	<i>Budget page</i>	<i>Line</i>
1 Assistant Civil Engineer -----	581	40
1 Instrument man -----	581	43
1 Engineering aid II -----	581	44

A partial listing of surveys to be accomplished follows:

	<i>Number of months required by a four-man party</i>
1. Legislative grants of sovereign lands which must be surveyed, monumented, mapped and recorded before becoming effective -----	7
2. Long Beach—in accordance with Chapter 138, Statutes of 1964, First Extraordinary Session -----	1
3. Clear Lake—as requested by Chapters 58 and 77, Statutes of 1964, First Extraordinary Session -----	12
4. Eagle Lake—for issuance of commercial and recreational leases -----	18
5. Sacramento-San Joaquin delta area—for determining state claims to gas royalties -----	36

State Lands Division—Continued

We recommend approval of three positions to create an additional survey party as budgeted.

The division is also proposing these positions to provide office support for the additional survey party.

	<i>Budget page</i>	<i>Line</i>
2 Civil engineering technician II -----	581	41
1 Junior civil engineer -----	581	42

We recommend disapproval of one of the two civil engineer technician II positions and the junior civil engineer position, for a saving of \$15,996.

The division submitted backlog estimates showing 517 months backlog for a four-man survey party, and 402 man-months for office time. This would indicate that only 0.8 of a position was required to support one survey party.

4. Trust Related Activity

The division administers all rights and powers remaining to the state regarding granted tide and submerged lands. This includes determining that the grantees adhere to the terms of the granting acts. A specific example is Long Beach where Chapter 138, Statutes of 1964, First Extraordinary Session, and Chapter 29, Statutes of 1956, First Extraordinary Session, specifically outline the terms of the trust. Also, recent granting acts require specific improvements within 10 years of the effective date of the grant.

We have shown only three man-years for this activity. These are the three civil engineers assigned to Long Beach. A more accurate accounting would have to include the time spent by the engineering section to survey the trusts, audit time, and other administrative time. In addition, one of the duties of the newly created associate economic analyst is to check on local compliance with the terms of trust agreements.

We feel that the role of the state with regard to tideland trusts is unsatisfactory. Even where specific statutes apply, such as Chapter 138, we do not feel that the interests of the state are being met. This problem is now under active study by the Joint Legislative Committee on Tidelands.

5. United States v. California No. 5 Original

The purpose of this litigation is to determine offshore boundary of lands under the jurisdiction of the state. The Supreme Court's decision on May 17, 1965, generally upheld the claims of the United States. A petition for rehearing failed. A Supreme Court decree is expected early in 1966 laying down the general criteria for boundary determination and reserving jurisdiction in case of further disagreement between the two parties.

The expenditures for the *U.S. v. California No. 5 Original* are shown separately in the budget and are summarized in Table 12.

Franchise Tax Board

Table 12
Expenditures U.S. v. California No. 5 Original

	1964-65 <i>Actual</i>	1965-66 <i>Estimated</i>	1966-67 <i>Proposed</i>
Personnel services -----	\$27,470	\$23,852	\$31,374
Attorney General services -----	52,624	60,000	60,000
Operating expenses -----	996	3,920	6,500
Equipment -----	--	175	--
Total expenditures -----	\$81,090	\$87,947	\$97,874
Personnel -----	2.9	3	3

The division abolished the administrative assistant and the junior assistant counsel positions and administratively established an engineering position during the current fiscal year. The division proposes to continue the engineer as a new position for the budget year, and to reclassify the existing civil engineering associate as a land surveyor. This would create the following staff:

- 1 Senior civil engineer
- 1 Land surveyor
- 1 Intermediate stenographer

We feel that this program is important enough to justify two engineers. However, we do not think that full-time clerical help is required. This position is vacant at the present time.

Therefore, we recommend approval of a senior civil engineer, budget page 583, line 64, \$12,396.

We recommend the deletion of an intermediate stenographer, \$5,688, and an increase of \$1,000 for temporary help, for a saving of \$4,688.

FRANCHISE TAX BOARD

ITEMS 157 and 158 of the Budget Bill

Budget page 585

**FOR SUPPORT OF THE FRANCHISE TAX BOARD
FROM THE GENERAL FUND**

Amount requested -----	\$12,440,966
Estimated to be expended in 1965-66 fiscal year -----	11,709,358

Increase (6.2 percent) ----- **\$731,608**

Increase to improve level of service ----- **\$345,063**

TOTAL RECOMMENDED REDUCTION ----- \$54,780

RECOMMENDED FOR SPECIAL REVIEW ----- 225,900

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Delete 1 Administrative assistant -----	\$9,948	587	18
Delete 1 Assistant counsel -----	9,480	587	20
Delete 1 Intermediate stenographer -----	4,668	587	22
Delete 1 Associate personnel analyst -----	9,948	587	25
Delete 2 Auditor II's -----	16,392	587	72
Delete 1 Junior-intermediate typist-clerk -----	4,344	587	73

Recommended for Special Review

	<i>Analysis</i>	<i>Page</i>
Work Measurement and Controls Program -----	225,900	589 29

Franchise Tax Board—Continued

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is charged with the administration of the state's personal income and bank and corporation tax laws. Together, these taxes will yield about \$866.4 million in 1965-66 which is about 34.8 percent of all General Fund revenues. This represents an increase of \$40 million over 1964-65.

The Franchise Tax Board consists of the Director of Finance, the State Controller, and the Chairman of the State Board of Equalization. With the exception of the appointment of the executive officer, the adoption of rules and regulations, and the setting of the tax rate for banks and financial corporations, the exercise of all agency powers has been delegated to the executive officer.

Prior to October 1, 1965, the agency was organized into two divisions, administration and operations. It is now reorganized into four major units under a plan taking effect on that date. The new units, including total permanent positions now allotted under the reorganization, are as follows: Legal, 30 positions; Operations, 988 positions; Data Processing, 85 positions; and Programs, 44 positions. The main features of the reorganization are the shifting of certain administrative services to operations control, the development of a programs and planning staff free from line operations, and the upgrading in emphasis of legal and electronic data processing services. In addition, the former position of assistant executive officer in charge of administration has been freed to function as a deputy to the executive officer. The administration-operations terminology is now used for budgetary purposes only. Los Angeles and San Francisco regional offices, incorporating within them 12 branch offices throughout California, and out-of-state offices in New York and Chicago have been retained within the Operations Division.

The personnel of the agency, including temporary help, are geographically distributed as shown in Table 1. The largest percentage increase in manpower over five years has occurred in the Sacramento headquarters and Los Angeles region. Table 2 shows the general classification of agency personnel as well as the change in reliance upon various types over a five-year span.

Table 1
Five-year Growth in Authorized Positions, by Location
1962-63 to 1966-67

Location	1962-63	Proposed 1966-67	Increase	
			Number	Percent
Sacramento -----	929.6	1,022.6	93.0	10.0
Los Angeles region -----	209.5	230.5	21.0	10.0
San Francisco region -----	131.8	128.8	-3.0	-2.3
Out-of-state -----	42.0	42.0	--	--
Totals -----	1,312.9	1,423.9	111	8.5

Franchise Tax Board—Continued

Table 2
Changes in Number of Authorized Positions, by Type
1962-63 to 1966-67

Type of position	1962-63	1966-67	Increase	
			Number	Percent
Management and staff	10	20	10	100.0
Legal-investigatory	21	23.5	2.5	11.9
Auditors	312	314.5	2.5	0.8
Collectors	45	59	14	31.1
Technicians-clerks	657	775	118	18.0
Temporary help	267.9	231.9	-36	-13.4
Totals	1,312.9	1,423.9	111	8.5

The growth of the agency as a whole can be appreciated from examining the indices of number of returns filed as an indication of workload, total agency budget expenditures, and net revenues received, for the past five fiscal years, together with projections for the current and budget years, as shown in Table 3. Of the total number of personal income tax returns filed, about 80 percent are taxable returns involving a greater workload per return than nontaxable returns.

In the printed budget the staff of the agency as proposed for 1966-67 is presented by organizational units, as follows:

Unit	Proposed personnel changes			
	Presently authorized	Admin. adjustments	New	Total
Administration	220.5	-8.7	22.5	234.3
Operations	814.8	--	22.5	837.3
Los Angeles region	218.5	--	7	225.5
San Francisco region	126.8	-1	1	126.8
Subtotal	1,380.6	-9.7	53	1,423.9
Work measurement and controls program	--	--	19	19
Total	1,380.6	-9.7	72	1,442.9
Estimated salary savings	-----			-32
Net man-years	-----			1,410.9

This staff is engaged in the following five programs as identified by the agency and our office.

I. *Administrative services*—consists of staff for departmental management, legal counsel, and planning activities.

II. *Taxpayer self-assessment*—activities related to helping taxpayers to understand and voluntarily comply with the tax laws.

III. *Enforcement*—activities designed to compel those individuals and organizations who do not voluntarily comply with the filing, payment and submission of information requirements of the tax laws, to do so, as well as enforcement of criminal sanctions in certain cases of noncompliance.

Table 3
Indices of Agency Growth, 1961-62 Through 1966-67

<i>Fiscal year</i>	<i>Total PIT* returns filed (to nearest thousand)</i>	<i>Percent increase over prior year</i>	<i>Total B & CT* returns and thousand) estimates filed (to nearest</i>	<i>Percent increase over prior year</i>	<i>Total revenue (in millions)</i>	<i>Percent increase over prior year</i>	<i>Agency's budget</i>	<i>Percent increase over prior year</i>
1961-62 -----	4,743,000	--	110,000	--	\$589.9	--	\$8,389,095	--
1962-63 -----	4,869,900	2.6	113,000	2.4	633.3	7.4	9,340,300	11.3
1963-64 -----	5,046,000	3.6	118,000	4.4	797.8	26.0	10,318,217	9.4
1964-65 -----	5,152,000	2.1	123,000	3.9	826.4	3.6	10,984,185	7.5
1965-66 (est.) -----	5,327,000	3.4	260,000	111.9	866.4	4.8	11,709,358	6.6
1966-67 (est.) -----	5,521,000	3.6	272,000	4.6	942.0 ¹	8.7	12,440,966	6.3
Avg. annual increase --	157,000	3.3	32,000	29.3	70.4	11.9	810,374	8.2

* PIT refers to personal income tax while B & CT refers to the bank and corporation franchise tax.

¹ Exclusive of \$143 million from recommended tax changes.

Franchise Tax Board—Continued

IV. *Tax determination*—activities which insure the accuracy of tax computations contained in taxpayer returns through mathematical and audit procedures.

V. *Work Measurement and Control*—a proposed program in which an outside consultant would guide a staff of agency analysts in establishing continuing work standards and maintaining agency staffing consistent with acceptable productivity.

The presentation in our analysis follows the foregoing program format, except that the electronic data processing activity, which affects all programs, and the costs of which have been prorated among the programs, is discussed separately at the end of the analysis.

Expenditures and personnel man-years applied to these programs for the past, current, and budget years are given in Table 4. The man-years for the current and budget years are net after deducting salary savings and accordingly do not represent total authorized positions for these years.

Table 4
Man-years and Estimated Expenditures (in Thousands) by Programs
1964-65 to 1966-67

Program	Actual 1964-65	Estimated 1965-66	Proposed 1966-67	Change from 1965-66	Percent of total 1966-67
I. Administrative services:					
Expenditures -----	\$745	\$788	\$865	\$77	7.0
Man-years -----	78	78	82.3	4.3	
II. Taxpayer self-assessment:					
Expenditures -----	3,043	3,248	3,400	152	27.3
Man-years -----	404	403	422	18	
III. Enforcement:					
Expenditures -----	3,343	3,565	3,724	158	29.9
Man-years -----	472	468.6	477.6	9	
IV. Tax Determination:					
Expenditures -----	3,854	4,108	4,226	118	34.0
Man-years -----	405	405	410	5	
V. Work Measurement:					
Expenditures -----			226	226	1.8
Man-years -----			19	19	
Totals:					
Expenditures -----	\$10,985	\$11,709	\$12,441	\$731	100.0
Man-years -----	1,359	1,355.6	1,410.9	55.3	
Electronic data processing -----	(\$936)	(\$1,020)	(\$1,017)	(\$-3)	

PROGRAM ANALYSIS AND RECOMMENDATIONS

Table 5 lists the proposed new positions for 1966-67 by class and organizational unit and also identifies the positions by program. These positions are discussed in connection with the programs to which they relate in the sections which follow.

As this is written no information is available as to the details of the 19 positions requested for the proposed new work measurement and controls program proposed on budget page 585, line 7, at a total cost of \$225,900, which will be the subject of a supplemental presentation by this office.

Franchise Tax Board—Continued

Table 5
Proposed New Positions 1966-67 by Program and Organizational Unit

Class and organizational unit	Positions by program							Budget	
	Total	I	II	III	IV	V	EDP	Amt.	P. L.
<i>Administration</i>									
Executive:									
Administrative assistant II	1	1						\$9,948	587 18
Legal:									
Assistant counsel	1.5			1.5				14,220	587 20
Junior counsel	1				1			8,196	587 21
Intermediate stenographer	1			1				4,668	587 22
Program:									
Associate systems analyst	1	1						9,948	587 24
Associate personnel analyst	1	1						9,948	587 25
Intermediate account clerk	1	1						4,344	587 26
Junior intermediate typist-clerk	1	1						4,344	587 27
Data processing:									
Key punch operator	8						8	35,616	587 29
Junior-intermediate stenographer	1						1	4,560	587 30
Junior-intermediate clerk	2						2	7,512	587 31
Temporary help	3						3	12,660	587 32
<i>Operations</i>									
Auditor III	0.5			0.5				4,974	587 71
Auditor II	4			4				32,784	587 72
Junior-intermediate typist-clerk	3		1	2				13,032	587 73
Temporary help	15		15					57,836	587 74
<i>Los Angeles Region</i>									
Auditor I	5				5			32,160	588 25
Tax representative	2			2				12,864	588 26
<i>San Francisco Region</i>									
Junior-intermediate typist-clerk	1			1				4,344	588 62
Subtotal	53	5	16	12	6		14	\$283,958	589 8
Work measurement and controls program	19					19		NA	589 29
Total	72	5	16	12	6	19	14		

I. Administrative Services Program

The objective of this program is to provide general management, legal, statistical and other staff services for the agency.

Table 6
Administrative Services Program, Personnel and Costs in Thousands

Service	Actual 1964-65		Estimated 1965-66		Proposed 1966-67		Percent cost increase over 1965-66
	Man-years	Costs	Man-years	Costs	Man-years	Costs	
Executive	4	\$81	4	\$84	5	\$98	16.7
Legal	9	114	9	122	9	124	1.6
Planning and staff	53	452	53	471	57.3	530	12.5
Electronic data processing overhead	10	98	10	111	10	113	1.8
Total	76	\$745	76	\$788	81.3	\$865	9.8

Franchise Tax Board—Continued

Prior to the reorganization, these services were performed by the executive officer and his immediate staff together with elements from the former administration division. Under the reorganization, planning and staff services are vested in a programs division directly responsible to the executive officer. Most of the personnel in this new division had similar responsibilities in prior years, but under the reorganization, they will function strictly in a staff capacity free from line responsibilities. Table 6 shows the component services within this program.

1. Executive Services

The ultimate power to make decisions and formulate agency policy defines this subprogram. Four man-years, including the executive officer and assistant executive officer, and two secretarial positions, are devoted to these tasks.

The board is requesting a new administrative assistant II position (\$9,948) to relieve the assistant executive officer of administrative details, thus freeing the latter to concentrate on policy matters.

This request is clearly one for an increased level of executive services. We believe it lacks justification for the following reasons:

(1) The reorganization has increased the available amount of time for decision making and policy formulation by the executive group. Prior to reorganization, the assistant executive officer was charged as a full-time duty with the direction of the Administration Division, totaling 260 positions. Under the present organization, he no longer has direct supervisory responsibilities over the division, but instead has been freed to act as a deputy executive officer.

(2) One of the functions of the new Program Division is to provide the executive position with help in matters of policy.

It would be premature at this time to conclude that these sources of assistance would be inadequate to increase executive service to a satisfactory level, even assuming a need to so increase it were demonstrated.

We recommend that one administrative assistant II position, budget page 587, line 18, be deleted for a reduction of \$9,948.

2. Legal Services

The Legal Division now reports directly to the executive officer. The portion of its work relating to this program is its role of acting as legal advisor to the executive officer on all matters of general application. However, those activities of the Legal Division which are clearly attributable to other programs, including special investigations, exempt organizations, and protests and appeals, are charged to such other programs and may be found in the discussion of other major programs to follow.

3. Planning and Staff Services

One of the main purposes of the reorganization was to draw together in one organizational unit all personnel responsible for research and planning, and for the formulation and evaluation of department policies and programs. The functions of this subprogram are probably best

Franchise Tax Board—Continued

defined by listing sections within the Program Division: Audit program, compliance program, budget, methods and organization, personnel and training, research and statistics, and executive stenographic services. To these should be added the section within operations which performs the department's fiscal accounting.

The board is requesting the addition of one associate personnel analyst, one junior-intermediate typist-clerk to be used as a personnel roster clerk, one associate systems analyst, and one junior-intermediate account clerk position for research and statistics.

We recommend disapproval of the associate personnel analyst (\$9,948), budget page 587, line 25.

The position of personnel officer was established in 1963-64 to handle all nonroutine personnel functions of the agency. The agency has failed to demonstrate adequate workload growth for the personnel officer to justify an assistant for him. It has similarly failed to show a clear need for an increase in the level of service.

The agency contends that the addition of one junior-intermediate typist-clerk as a personnel roster unit clerk is required by present workload. Workload increase will not justify the position. However, it appears that the position can be justified as an increase in the level of service to bring the board into line with the statewide ratio of one roster clerk to 250 employee positions, a standard accepted by the Department of Finance. The additional position would reduce the board's ratio in the budget year from 1/285 to 1/237. Additional weight should be given to the fact that there are many more appointments and separations of employees than in other state agencies because of the greater use of temporary help. *We recommend that one junior-intermediate typist-clerk position be approved.*

We recommend that one associate systems analyst position be approved as budgeted. The position is based upon the need for a specially trained person to serve as a clearing house for management decisions involving the planning, implementation, and operation of electronic data processing programs and services. The many potential uses of electronic data processing should be evaluated on a cost and functional basis with competing methods of processing by an individual thoroughly trained in data processing methods and management, but removed from the influence of data processing line supervision.

We recommend approval of one intermediate account clerk position to be used in the research and statistics section on the basis of workload increase. This will eliminate the present use of three months permanent personnel overtime and six months of temporary help funds, represented by a reduction of 0.7 of a temporary help position.

II. Taxpayer Self-assessment Program

The dual objectives of this program are the efficient processing of returns, remittances, and claims voluntarily submitted by taxpayers and the maximum understanding of the provisions of tax laws and procedures for self-assessment by individuals and organizations. Table 7 shows the man-years and expenditures of this program, including electronic data processing services.

Franchise Tax Board—Continued

Table 7

	Taxpayer Self-assessment Program			Increase Over 1965-66	
	Actual 1964-65	Estimated 1965-66	Proposed 1966-67	Amount	Percent
Man-years -----	404	404	422	18	4.5
Expenditures -----	\$3,042,749	\$3,247,576	\$3,399,565	\$151,989	4.7
Returns Filed:					
Personal income tax --	5,151,940	5,327,000	5,521,000	194,000	3.6
Bank and corporation tax -----	122,691	260,000	272,000	12,000	4.6
Total returns filed --	5,274,631	5,587,000	5,793,000	206,000	3.7

1. Processing of Returns, Remittances, and Claims

The routine processing of returns, remittances, and claims for refund are mandatory workload items which largely depend upon the number of eligible taxpayers. Table 7 shows an estimated increase of 3.7 percent in total filings, or 206,000 returns, over the estimate for the current year. Most of this work is performed by temporary help personnel hired during the peak months of March through August.

a. Preparation and distribution of forms. The board receives a mailing list of taxpayers from the Internal Revenue Service which it uses to mail returns and instruction booklets to potential California taxpayers. This is basically a machine function utilizing magnetic tape information. An increase from 20 to 21.5 man-months of temporary and overtime help is asked for this function. *We recommend approval.*

b. Receipt and initial processing of returns and remittances. The Receipts and Classification unit, formerly the Cashier Unit, operates within the Operations Division. It receives all mail, returns, and remittances, separates the remittances promptly for deposit, and sorts the matter into necessary categories for later delivery to units within the Operations Division for use in the enforcement and tax determination programs. A total of 628 man-months of temporary help will be used in conjunction with 20 permanent positions on hand in 1965-66. An increase of 25 man-months of temporary help for 1966-67 is justified on the basis of the expected workload increase, and *we recommend approval. We also recommend approval of a request for nine additional man-months of temporary help for use in the Service and Supply Unit, which lends support to the function.*

Processing of overpayments and late payments requires the services of the Tax Ledgers unit in establishing and maintaining taxpayer accounts. Fifty-six permanent positions and 101 temporary help man-months are expected to be used in the current year. A slight increase of four man-months of temporary help is requested by the board, and appears justified on the basis of workload increase. *We recommend approval.*

c. Filing and storage of returns. Distinct from initial processing, this process categorizes and stores in an accessible place all taxpayer returns. The board is requesting the addition of one permanent junior-

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intermediate typist-clerk and two temporary clerical positions to handle existing workload. *We recommend approval of these positions.*

d. Claims. Taxpayer claims for refund, credit, or abatement are processed by the Claims and Review section of the Operations Division. This function covers claims initiated by the taxpayer acting without reference to any agency activity. Claims resulting from auditing activity of the board are part of the tax determination program.

2. Taxpayer Services

This subprogram is designed to inform taxpayers of the income tax law requirements and to aid them in filing in a timely and accurate fashion. A tax service specialist serving as a staff assistant to the Executive Officer designs a general information program addressed to the taxpaying public at large. Field office personnel, including auditors, assist in the publicity program and aid the individual taxpayer in meeting the requirements of the tax laws by advising in the interpretation of law and the application of proper reporting procedures. No increase in this subprogram is planned for the budget year.

III. Enforcement Program

This program is designed to insure that returns are filed by all persons and corporations obligated by law to do so, and that all taxes due are collected. Responsibility for this program is primarily within the Operations Division, but substantial manpower and equipment is contained within the Legal and Electronic Data Processing Division as well.

Table 8
Enforcement Program Expenditures

<i>Subprogram</i>	<i>Actual 1964-65</i>	<i>Estimated 1965-66</i>	<i>Proposed 1966-67</i>
1. Enforcement of filing requirements			
a. 599-FCP match -----	\$1,841,015	\$1,963,851	\$1,992,197
b. Residency and withholding -----	31,165	33,223	33,767
c. New accounts -----	7,458	7,950	8,080
d. Exempt organizations -----	55,015	58,661	148,213
Total filing requirements -----	\$1,934,653	\$2,063,685	\$2,182,257
2. Collections -----	1,288,070	1,373,233	1,411,270
3. Criminal investigations -----	120,461	128,435	130,316
Grand totals -----	\$3,343,184	\$3,565,354	\$3,723,843

1. Enforcement of Filing Requirements

Four major projects are operational which have as their objective the inclusion of every eligible individual and organizational taxpayer in the tax base: the employer information-federal return match (referred to commonly as the 599-FCP match), residency and withholding, new accounts, and the control of exempt status for certain organizations.

The productivity of these operations are examined in Table 9. Costs are total board costs, which are higher than the budget costs used in Table 8 due to the inclusion of certain items of agency overhead.

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Table 9
Enforcement of Filing Requirements, Board Costs
and Net Revenues, 1964-65

	Board costs	Net revenue	Net revenue per dollar of cost
599 project -----	\$1,187,239	\$3,853,226	\$3.25
FCP -----	1,258,902	3,635,525	2.89
Total 599-FCP -----	\$2,446,141	\$7,488,751	\$3.06
Residency and withholding -----	37,270	100,902	4.52
New accounts -----	10,057	184,061	18.30
Exempt organizations -----	46,038	--	--
Totals -----	\$2,539,506	\$7,773,714	\$3.06

a. *Employer Information—Federal Comparison Project (599-FCP).*

This is actually two projects, each of which is carried on in both a headquarters and field phase. Under the employer information match project, California employers and payors of certain other types of income report to the board payments which they have made to employees and payees, and this information is then matched against state returns. Under the federal comparison project the board matches information extracted from federal income tax returns with state returns. The end result of these distinct but similar processes is the detection of apparent noncompliance with filing requirements. Apparent instances of noncompliance so developed are processed, first, by machine mailings of notice to taxpayers, and secondly, by reference of all documents to the field to allow personal contact with suspected noncompliers. The results of field processing may be seen in Table 10.

Table 10
Results of Field Activity, 599-FCP Projects,
Calendar Year 1964

	599		FCP	
	Number	Revenues	Number	Revenue
Taxable returns filed -----	35,742	\$1,174,916	49,128	\$1,447,701
Nontaxable returns filed ----	6,153	--	17,099	--
Assessments -----	44,416	2,060,789	42,815	1,562,994
Totals -----	86,311	\$3,235,705	109,042	\$3,010,695

Large manpower costs are involved in field processing, as it is mainly a clerical, nonmechanical function.

b. *Residency and Withholding.* This function has as one of its objectives the bringing into the tax base of all those individuals who claim residency outside California but are legally California residents for tax purposes. Its second objective is to withhold tax payments in certain cases where the final payment may be jeopardized. The work centers primarily in the field with some reviewing manpower in Sacramento headquarters. Organizationally, the people who perform this work are auditors. Their productivity is difficult to define because they also perform other auditing operations.

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c. *New Accounts.* This is an investigative function within the corporation field analogous to Residency and Withholding within the personal income tax field. The objective of this function is to cause corporations having sufficient business activity within California to file franchise tax and corporation income tax returns.

d. *Control of Exempt Status for Certain Organizations.* The board grants tax exemption to organizations qualifying under the exempt purposes enumerated in Section 23701 of the Revenue and Taxation Code. It also audits selected information returns from organizations required by law to file them. The board estimates that of the 67,000 **exempt organizations** within California, 33,000 are subject to the requirement of filing annual information returns, if their annual gross income exceeds \$25,000. The board received 7,400 information returns in 1964-65. Of these, 500 received a type of extended audit and 955 a scan audit. No field audits were conducted.

The board is requesting a sizable increase in the level of service for 1966-67. Table 11 shows the amount and distribution of manpower under the present and proposed programs and our recommended staffing pattern.

Table 11
Exempt Organization Staffing

	Present program		Our recom- mended program		Budget	
	1965-66	1966-67	1966-67	1966-67	Page	Line
Audit						
Auditor III (headquarters)	.5	1.0	1.0	--	587	71
Auditor II (headquarters)	.25	1.25	2.25	2.0	587	72
Auditor II (field)	--	3.0				
Junior-intermediate typist-clerk	1.0	2.0	1.5	.5	587	73
Legal						
Assistant counsel	1.0	2.5	1.5	1.0	587	20
Intermediate stenographer	.25	1.25	.25	1.0	587	22
Statistics						
Junior-intermediate typist-clerk	--	1.0	.5	.5	687	73
Total staff	3.0	12.0	7.0	5.0		

The board predicts that the proposed threefold increase in headquarters auditing will increase the number of extensive audits per year from 500 to 1,850 and of scan audits from 955 to 4,775. Field auditors would perform 220 audits. The increase in attorney time would be used to more thoroughly examine the 300 applications for exempt status presently being received, and to meet new workload generated by the increased audit activity. These increased services would necessitate increased clerical services. Also, the board states that a clerical position would be needed in the analysis of the 7,400 annual returns.

The 67,000 exempt organizations fall basically into three groups: (1) 6,000 charitable organizations, (2) 30,000-32,000 religious organizations, and (3) the balance of 29,000-31,000 other organizations.

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Of the first group the vast majority are required to annually file detailed financial information with the Registry of Charitable Trusts in the Attorney General's Office. It conducts a desk audit of all organizations subject to its jurisdiction. These organizations account for \$3 billion in book assets alone. Their relation to the total of all exempt organization assets cannot be estimated by the board, but they are probably a dominant group.

Religious organizations comprising the second group are not required to file annual information returns. The board's proposed program does not anticipate any new workload in the investigation of this group.

The third group is the one with which the board is and will be primarily concerned. Most important among this group are fraternal beneficiary societies, business leagues, civic leagues promoting social welfare or local employees' organizations, and social clubs. Although educational corporations are included, the board anticipates no investigation of them as a part of proposed workload.

The exempt organization field has recently been a subject of greatly increased interest to the federal government. The Internal Revenue Service expanded its field audit coverage from 2,000 to 10,000 audits in 1963-64, a level which it states will continue. Also, an Exempt Organization Council has been created within the Revenue Service, and certain information gathered relating to exempt organizations has been committed to automatic data processing.

The more limited field of charitable foundations has been the focus of even greater examination. Actual and suspected abuses have been investigated by a subcommittee of the United States House of Representatives. With particular reference to California, the Registrar of Charitable Trusts is currently undertaking a statistical study of charitable organizations in California which is being financed by a grant from the Russell Sage Foundation. The results of this study are expected to be released during calendar year 1966.

The purposes of the board's proposed program are two-fold: the identification of areas of greatest potential abuse of tax exempt status, and the investigation of selected organizations within these areas. The first priority is the identification phase. The board presently lacks information which would lead to definition of potential areas of abuse. It will be aided in this respect by information developed by the federal government, which is examining a practically identical universe. Lacking this information and the experienced audit personnel necessary in a specialized field, the agency is not in a good position to undertake a realistic field program at this time.

The present auditor III position must spend half of his time in unrelated audit activities. A full position would create the type of minimum control necessary for a developing program in which federal audit and state return information would be applied to properly select certain organizations for extended desk or field audit. Under our recommendation, 2.25 auditor II positions would be authorized to provide both headquarters and field auditing staff, to be used as needed. An

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increase of one-half of an attorney man-year appears to be more than sufficient to handle the additional legal questions arising from the expanded program. It is believed that the present legal stenographic staff will absorb the slight workload increase occasioned by addition of .5 attorney position. The addition of one full typist-clerk should be adequate to handle statistical and clerical support for the additional auditing staff.

We recommend approval and deletions of positions for the activity as shown in Table 11, for a total reduction of \$34,884.

In addition, we suggest that the Legislature may desire to study the role of both the Attorney General's Registry of Charitable Trust and the Franchise Tax Board's exempt organizations program with a view toward defining areas of responsibility and the avoidance of unnecessary duplication of effort.

2. Collections

The objective of this subprogram is simply to obtain payment of all money owed to the state as the result of board assessments. The collections function is divided between headquarters and field processing. There are four basic assessments upon which collection is sought: (1) for returns filed showing tax liability but accompanied by no payment, partial payment, or a dishonored remittance, (2) for returns filed with an error in computation, (3) arbitrary or related assessments, for a failure to file a return, and (4) for deficiencies developed through auditing activity.

Headquarters collections are a continuation of the agency's initial billing function. It is primarily an electronic data processing application. Department of Employment information is fed to the computer, resulting in machine produced letters going to employers. Orders to withhold on taxpayer's wages to collect the amount of the assessed liability follow.

After scheduled waiting periods, accounts still delinquent, whether bearing employer information or not, are assigned to the field for collection by personal contact with the delinquent taxpayers. Field collectors, which include both tax representatives and clerks functioning as collectors, are located within the regional and branch offices. A breakdown of field personal income tax collections activities in terms of salary costs and net revenues for calendar years 1964 and 1965 is given in Table 12.

Table 12
Field PIT Collections and Salary Costs,
Calendar Years 1964 and 1965

	<i>Amount collected</i>	<i>Salary costs</i>	<i>Amount Collected per dollar salary cost</i>
1964 -----	\$5,246,996	\$517,787	\$10.13
1965 -----	6,959,880	604,314	11.52

The board is asking for two new tax representatives to be used in field collections and we recommend approval. The request appears justified because of the increasing productivity of field collectors. Also, we

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recommend approval of the request for conversion of a temporary position to a full-time junior-intermediate typist-clerk position in the San Francisco region.

The most important results of recent collections activities are given in Table 13. They concern the overall handling of tax delinquent accounts for the past several years.

Table 13
Delinquent Tax Collection and Writeoff, 1961-62 to 1965-66

	Amount collected	Amount of relief granted (written off)	Dollar inventory on hand, end of period	Write-off as a percent of collection
Personal income tax				
1961-62 -----	\$4,204,608	\$1,700,841	\$17,627,741	40.5
1962-63 -----	6,055,621	2,071,931	17,565,708	34.2
1963-64 -----	8,677,417	1,356,618	19,874,387	15.6
1964-65 -----	10,188,649	3,315,279	18,857,253	32.5
1965-Oct. 31, 1965 ----	3,327,405	1,743,613	17,187,382	52.4
Bank and corporation tax				
1963-64 -----	n.a.	n.a.	\$10,145,634	n.a.
1964-65 -----	\$2,383,147	\$2,919,000	9,753,685	122.5
1965-Oct. 31, 1965 ----	578,207	338,073	9,105,698	58.5

In analyzing these results, it is important to realize that an extensive inventory purge of older and lower dollar liability accounts was carried on in the latter part of 1964-65 and is continuing during the current fiscal year. In addition to writeoff shown in Table 13, there were on October 31, 1965 an additional \$1,221,047 in personal income tax accounts and \$2,789,404 in corporation tax accounts awaiting final granting of relief by the Board of Control after being considered written off by the agency.

This vastly accelerated writeoff effort has nevertheless failed to substantially reduce the dollar amount of inventory.

The following recommendations are made regarding the activities and operation of the collections program:

(1) *The board should study the feasibility of establishing and maintaining permanent collections files in field offices.* Under present field operation, once a collection account is closed the file is returned to Sacramento headquarters leaving no record of collection activity upon that particular account in the field. If the same taxpayer again becomes delinquent and the account reaches the field collection stage the knowledge previously gained as to the delinquent taxpayer's habits, location, assets, or employment is wasted. The collection steps previously taken on the account, which may have proven costly in time and money spent, may be unwittingly repeated. As a byproduct of such a permanent field collections file, valuable data could be accumulated in any needed study of delinquent behavior or efficiency of field collections methods. Such data could lead to reductions in enforcement program costs as well as shed light on the causes of noncompliance, which is the central problem in much of the board's continuing costs.

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(2) *The causes of collection accounts writeoff should be studied.* As seen above, the agency has failed in its effort to bring the collection accounts backlog under control through its intensive 1965 effort. Dollar amounts on hand remain relatively constant while amounts written off have rapidly increased. It is proposed that the writeoff problem be analyzed by the board, with detailed attention given to the following:

(a) Reasons for account being written off—quantitative analysis of accounts being sacrificed because they are considered of insufficient dollar amount, are too old, have become uncollectible because of death, unknown location, or unreachable assets, and for other reasons,

(b) Nature of the delinquent taxpayer—an analysis of the number of delinquents which are repeaters, willing to pay but unable to do so, able to pay but unwilling to do so, which are individuals, and which are corporations, and of other types of delinquent taxpayers,

(c) Size of the account—an analysis of accounts by dollar amount of assessments,

(d) Type of assessment by number and amount—analysis of incomplete remittance, arbitrary, computational error, audit, and other assessments,

(e) Amounts and number of items voluntarily paid after the account has been written off—this is an indicator of where collection activity could be further pursued.

3. Criminal Investigations

The board exercises the legislative power to investigate criminal violation of the income tax laws leading to the enforcement of criminal sanctions against flagrant noncompliers. The investigation is carried on exclusively by the Special Investigations section of the Legal Division, and is involved with three major types of violations: false returns, failure to file, and illegal activity. About 80 percent of the workload is the investigation of failures to file.

IV. Tax Determination Program

This program has as its objective the insuring of the accuracy of tax computations contained in voluntary individual and corporate returns.

Table 14 examines the board operating costs and revenues of the program and its subprograms for 1964-65. Board operating costs are substantially higher than the program costs for 1964-65 shown in Table 4 due to the inclusion of prorated central agency overhead, rent and building expense, and administrative services. Also, Table 14 costs are overstated because all nontax determination program time could not be segregated at the time the statistics were compiled. Table 14 is primarily useful in comparing the productivity of specific audit functions with one another.

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Table 14
Tax Determination Program Costs and Revenue
1964-65

<i>Subprogram</i>	<i>Net revenue</i>	<i>Board cost</i>	<i>Net revenue per dollar cost</i>
1. Mathematical verification -----	\$1,486,254	\$431,502	\$3.44
2. Selective desk audit			
a. Personal income tax:			
(1) PIT audit section -----	\$1,949,617	\$720,356	2.71
(2) RAR audit -----	3,347,995	225,723	14.83
(3) Specialist section -----	495,953	142,616	3.48
Total PIT -----	\$5,793,565	\$1,088,695	5.32
b. Bank and corporation tax:			
(1) Corporate audit -----	\$8,149,454	\$165,525	49.23
(2) Interstate allocation -----	5,415,675	177,174	30.56
Total B and CT -----	\$13,564,675	\$342,699	39.58
Total, selective desk audit -----	\$19,358,240	\$1,431,394	13.52
3. Selective field audit:			
a. Personal income tax -----	\$3,985,456	\$1,010,634	3.94
b. Bank and corporation tax -----	15,616,045	1,483,810	10.52
Total, selective field audit -----	\$19,601,501	\$2,494,444	7.85
4. Claims for refund:			
a. Personal income tax -----	—\$1,502,069	\$352,646	
b. Bank and corporation tax -----	—3,487,820	139,048	
Total, claims for refund -----	—\$4,989,889	\$491,694	
5. Protests and appeals -----	---	\$146,774	
GRAND TOTALS -----	\$35,456,106	\$4,995,808	\$7.10

1. Mathematical Verification

Taxpayer determination of liability for all bank and corporation and many personal income tax returns receives a preliminary examination in the Primary Audit section. The only returns excluded from this treatment are those personal income tax returns having taxable income under a specified dollar amount labeling them as "annual file" items, and upon which the taxpayer-determined tax liability has been fully paid. These returns, however, constitute a majority of all returns. Processing consists of two major operations. First, the mathematical accuracy of return information is verified or questioned by machine comptometers. Second, returns are examined by experienced account clerks who make tax assessments where they discover obvious errors in other characteristics of the returns, such as improper omission or exclusion of necessary information on sources of income, deductions, or exemptions. Operations in 1964-65 resulted in 142,339 tax assessments. Short form, or 540A returns, are kept in a card file and normally are processed no further than this section. They account for 20 percent of all personal income tax returns.

2. Selective Desk Audit

The returns pass from the primary audit section to the alpha files, where they are separated into bank and corporation, and personal in-

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come annual and folder files, and alphabetized. Bank and corporation returns are alphabetized by year and are held until called for by the Corporation Audit and Interstate Allocations units. Partial or no-pay annual files are combined in the alpha files with fully paid annual file returns coming directly from the cashiering unit. The annual files are composed of returns reporting adjusted gross income below a specified dollar amount. These account for 73 percent of all personal income tax returns. Folder files, accounting for 7 percent of personal income tax returns, contain returns reporting more than a specified amount as well as nonresident returns and returns wherein a tax credit is claimed for income tax paid another state.

a. Personal income tax audit. This function is carried on in three sections.

(1) *Personal income tax audit section.* Both annual and folder files are audited by the personal income tax audit section. Auditing begins approximately two years after returns are received in the case of annual files and one or two years in the case of folder files. The goal of the agency is to audit all folder file taxpayers for each income year and all annual file taxpayers at least upon one return in a two-year period, a 50 percent coverage.

(2) *Revenue agents reports.* The board receives copies of federal field audits. It reviews these audits and makes adjustments for differences in our tax laws. This is the most productive personal income tax audit function within the agency.

(3) *Specialist section.* This unit audits all returns from fiduciaries, personal income tax returns where a credit is claimed for taxes paid to another state, and computations of corporate dividend deductions. The workload has remained relatively stable with no increase in staff.

b. Bank and corporation tax audit. Returns of banks and corporations, where all income is clearly attributable to California sources, are sent to the Corporation Audit unit. Auditing begins approximately one year after the date of filing. Returns reflecting income which is attributable to both California and other states go to the Interstate Allocations unit. Auditing commences two years after the filing date.

3. Selective Field Audit

Field auditors are located at regional offices in Los Angeles and San Francisco, Sacramento, 12 branch offices located in other California cities, and out-of-state offices in Chicago and New York. Their workload originates from three sources: (1) headquarters audit staff selects **returns for field audit**; (2) the regional and branch office request returns under their own initiative; and (3) returns receiving headquarters desk audit are often sent to the field for development of further information. Productivity of the various aspects of this sub-program can be viewed in Table 15. The table shows that with respect to in-state auditing, 54 percent of costs was devoted to personal income tax audits while these same audits accounted for only 33.7 percent of the total audit revenue. Out-of-state field operation in New York and Chicago performs only corporate allocation auditing.

Table 15
Revenues and Costs of Field Audit, by Tax

	<i>1963-64</i>			<i>1964-65</i>		
	<i>Net revenue</i>	<i>Board cost</i>	<i>Net revenue per dollar of cost</i>	<i>Net revenue</i>	<i>Board cost</i>	<i>Net revenue per dollar of cost</i>
Personal income tax.....	\$3,625,298	\$974,864	\$3.72	\$3,985,456	\$1,010,634	\$3.94
Bank and Corporation Tax :						
Corporate	3,509,809	568,345	6.18	4,298,174	551,772	7.80
Interstate Allocation						
California field	1,213,659	256,478	4.73	5,983,897	296,426	20.19
Chicago and New York.....	6,658,592	566,076	11.76	5,333,974	635,612	8.39
Totals :						
In-state field	8,348,766	1,799,687	4.64	14,267,527	1,858,832	7.68
Out-of-state field	6,658,592	566,076	11.76	5,333,974	635,612	8.39
Grand Totals	\$15,007,358	\$2,365,763	\$6.34	\$19,601,501	\$2,494,444	\$7.86

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Five additional Auditor I positions are requested for the Los Angeles region. Revenue per dollar cost of auditing has been rising in the Los Angeles region to an even greater extent than it has been rising in the in-state field generally (see Table 16). Also, the degree of audit coverage of large personal income tax returns has been declining at the rate of about 2 percent per year. These two factors support the addition of auditor positions as a result of increased workload.

We recommend that the five new field auditor positions (\$32,160) be approved, budget page 588, line 25.

4. Processing Taxpayer Protests and Appeals

When auditing produces a change in liability in favor of the state a notice of proposed assessment is issued by the board. The taxpayer may resist the proposed assessment through the lodging of a protest with the board. The protest section within the legal division processes the protest. If the taxpayer's protest fails in whole or in part, he may at his option appeal the ruling to the Board of Equalization. Another section of the Legal Division concerning itself with the appeal state prepares a brief which it then files with the Board of Equalization.

The protests section used 5 attorneys, 2 auditors, and 1 and a fraction clerical man-years in 1964-65. The board reports the statistics respecting workload accomplishments for the protest function in Table 16.

Table 16
Protests Workload

	Sept. 1, 1963 to Aug. 31, 1964	Sept. 1, 1964 to Aug. 31, 1965	Sept. 1, 1965 to Aug. 31, 1966 (estimated)
Number protests received	664	570	600
Number protests completed	521	564	700
Protests otherwise disposed of without work	14	46	n/a
Man-years applied	6	6	7
Protests on hand, end of period	722	682	582

Temporary help funds are being used in the current year to finance a legal position which the board requests be made permanent in the budget year. This position is being used to gradually eliminate the backlog of protest cases. Once the backlog is eliminated the board proposes to move the position to the appeals section. In this section, the backlog of appeals has risen from 25 on August 31, 1963 to 66 as of August 31, 1965. Applying an average past production of 20 cases per man-year, the board estimates that the backlog of appeals cases is growing at the rate of about one man-year worth of production per year.

We recommend approval of one junior counsel position on the condition that one-half of the position be immediately applied to the appeals function.

5. Claims

This program includes the handling of claims resulting from audit activity.

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V. Work Measurement and Controls Program

The objective of this proposed program is to achieve long-term personnel savings through improvements in operating procedures, identification and application of work standards, and a work measurement reporting system for controlling the assignment of personnel.

The program would be implemented by taking the following steps:

- (1) *Hiring* private consultant and employing an agency staff of analysts and clerks to operate the program;
- (2) *Training* of the agency staff by the consultant in the application of the skills relied upon for the program by the consulting firm;
- (3) *Choosing* as subject activities for study those consisting of clerical or repetitive operations;
- (4) *Analyzing procedures and methods* used within these activities in order to improve and standardize them;
- (5) *Measuring* the total work and component tasks within each activity chosen;
- (6) *Setting* standard times for the performance of specific work tasks; and
- (7) *Developing a time reporting* system on a permanent basis, upon which management decisions can be made.

Results hoped to be achieved are greater efficiency in procedures and methods with concomitant clarification of tasks and goals, definition of workload standards, line personnel trained in a permanent time reporting system, and, most importantly, continuing savings in personnel costs. The latter are to be realized through the normal attrition of personnel in areas deemed nonproductive or designated for reduction in manpower.

Costs and savings of the program as projected by the agency are shown in Table 17. The projected starting date is September 1, 1966.

Table 17
Work Measurement and Controls Program—
Projected Costs and Savings

	Cost	Savings	Net savings
1966-67 -----	\$225,900	\$86,400	—\$139,500
1967-68 -----	114,350	403,200	288,850
1968-69 -----	76,380	748,400	672,020
Total, three years -----	\$416,630	\$1,238,000	\$821,370
Annually (1969-70 and after) -----	\$76,380	\$1,200,000	\$1,123,620

The basis for this projection is the working proposal submitted to the board by a private firm of management consultants. The measurement and controls used by this firm are based on predetermined time standards, specifically, upon the system known as method time measurement, or MTM. MTM is a technique which breaks all work down into fundamental motions and assigns a time value to each motion. It is best suited for highly repetitive, short-cycle operations. Additionally, standard time data based on MTM have been developed to measure clerical and repetitive administrative operations allowing measurement

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and control of indirect labor costs. In the event this program is approved by the Legislature, the board will entertain competitive bids from other consulting firms.

Due to the fact that this proposal did not become a part of the agency's budget until late in the budget-making process, we did not have sufficient time to properly analyze the request. Therefore, we recommend this proposal receive special review by the Legislature.

Electronic Data Processing

This organizational unit exists to service all programs of the agency. Its costs are allocated on the basis of the proportionate amount of time consumed in service rendered to particular programs, as shown in Table 18.

Table 18
Allocation of EDP Costs, by Program

	Actual 1964-65	Estimated 1965-66	Proposed 1966-67
Administrative services -----	\$97,645	\$111,254	\$112,542
Taxpayer self-assessment -----	296,331	329,798	319,903
Enforcement -----	476,462	508,594	514,289
Tax determination -----	65,655	70,079	70,875
Total EDP costs -----	\$936,093	\$1,019,725	\$1,017,609

The board reported to the Legislature in December 1965 that it would save about \$168,000 during the current fiscal year by converting its filing enforcement program (599-FCP) from a manual to a mechanical matching process. Present information indicates that savings will be less than the original estimate. In fact, the latest estimates of workload for key punch operators indicates a need for five positions over the amount originally allocated.

In the budget year, the agency is requesting 14 new positions for this activity, eight of which are to be financed by converting eight temporary help positions to permanent positions. The following table shows these changes.

Type of position	Conversion from temporary help	Additional	Total new
Key punch operators -----	5	3	8
Intermediate stenographer -----	1	--	1
Intermediate clerk -----	2	--	2
Temporary help -----	--	3	3
	<u>8</u>	<u>6</u>	<u>14</u>

Of the new temporary help positions, two will be key punch operators and one will be a junior clerk.

We recommend the above positions be approved on a workload basis.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ITEM 159 of the Budget Bill

Budget page 591

FOR SUPPORT OF DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT FROM THE GENERAL FUND

Amount requested	\$1,806,383
Estimated to be expended in 1965-66 fiscal year	1,007,206
Increase (79.3 percent)	\$799,177
Increase to improve level of service	\$400,000

TOTAL RECOMMENDED REDUCTION

\$61,104

Summary of Recommended Reductions

	<i>Budget</i>	
	<i>Amount</i>	<i>Page Line</i>
Administration		
Delete 1 Senior stenographer	\$5,148	591 39
Building and Housing Standards		
Delete 1 District representative	8,604	591 49
Delete 2 Intermediate typist-clerks	8,904	591 51
Housing and Community Development		
Delete 3 Area representatives	29,844	591 45
Delete 1 District representative	8,604	591 49

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development was established September 17, 1965, pursuant to Chapter 1222, Statutes of 1965, to be headed by a director, appointed by the Governor at a salary of \$18,000 per year. This act provides for two divisions: the Division of Building and Housing Standards, consisting of the former Division of Housing in the Department of Industrial Relations; and the Division of Housing and Community Development, each to be headed by a chief, appointed by the Governor on recommendation of the director at a salary of \$15,500 per year.

Table 1
Department of Housing and Community Development
Personnel and Expenditures

1. Personnel	1962-63	1963-64	1964-65	1965-66	1966-67
Administration	--	--	--	5	11
Division of Housing and Community Development					
Administrative and technical	--	--	--	5	10
Area representatives	--	--	--	1	9
Division of Building and Housing Standards					
Administrative and technical	35	35.8	38.2	42.5	47.5
District representatives	44.9	44	51.1	55	67
Total	79.9	79.8	89.3	108.5	144.5
Salary savings	--	--	--	4	8
Equivalent man-years	79.9	79.8	89.3	104.5	136.5

Department of Housing and Community Development—Continued

Table 1—Continued

Department of Housing and Community Development
Personnel and Expenditures

2. <i>Expenditures</i>						
Administration -----	--	--	--	\$63,264	\$172,109	
Division of Housing and Community Development ---	--	--	--	39,551	253,322	
Federal grant -----	--	--	--	(243,000) ¹	--	
Division of Building and Housing Standards -----	\$813,126	\$859,010	\$1,009,697	1,114,914	1,380,952	
Total -----	\$813,126	\$859,010	\$1,009,697	\$1,217,729	\$1,806,383	
3. <i>Revenues or Reimbursements</i> -----						
	\$213,234	\$272,180	\$442,538	\$533,000	\$680,000	

¹ The federal grant is excluded from the total. It is shown in the budget as an expenditure for contract services, budget page 592, line 14, \$250,000, which amount is in error.

Chapter 1222 also creates a Commission of Housing and Community Development consisting of nine members appointed by the Governor. The commission is to establish the policy for the Department of Housing and Community Development.

The department has broadly defined responsibilities for providing assistance to local governmental agencies in the field of community development. In addition, the department assumes the responsibilities of the Division of Housing, Department of Industrial Relations, which include the inspection and consultative services with regard to the state housing and mobile home laws and the inspection of labor camps.

Table 1 shows the agency's growth since 1962-63.

The personnel and expenditures shown in Table 1 above are distributed in accordance with the department's organization. The existing organization of the department closely parallels the programs (administration, building and housing standards, and community development) which we discuss in our analysis. The only exceptions are those positions (one in the current fiscal year and two in the budget year) related to community development in the Division of Building and Housing Standards. This overlap of programs between the two divisions is likely to increase in future years.

In our analysis that follows, we have discussed all positions in relation to their program.

Since this department was not activated until September 17, 1965, a portion of its support for the current year is included in the budget of the Department of Industrial Relations, as shown below:

Department of Housing and Community Development -----	\$1,007,206
Department of Industrial Relations, Division of Housing -----	210,523
Total estimated General Fund support for 1965-66 -----	\$1,217,729

ANALYSIS AND RECOMMENDATIONS

Administration

This program includes the director of the department and his staff. The director also serves as the secretary to the Commission of Housing and Community Development.

Housing and Community Development

Item 159

Department of Housing and Community Development—Continued

The following positions were established during the current year pursuant to Chapter 1222:

- 1 Director
- 1 Administrative assistant II
- 1 Associate counsel
- 1 Secretary I
- 1 Senior stenographer

—
5

An additional clerical position (intermediate stenographer) is being transferred to this unit from the Division of Housing and Community Development.

A senior stenographer is requested for the budget year to provide additional clerical support for the administrative assistant. Since the administrative unit currently has three clerical positions for three professional positions, we see no justification for adding additional secretarial support.

We recommend disapproval of one senior stenographer, budget page 591, line 39, \$5,148.

The department also is requesting an intermediate typist-clerk to perform general office work such as mimeo machine operations and mail distribution.

We recommend approval of one intermediate typist-clerk, budget page 591, line 41, \$4,452.

The following positions are being requested for the budget year to enable the department to undertake the personnel and fiscal services now being provided by the Department of Industrial Relations.

	Amount	Budget Page	Line
1 Accounting officer III	\$9,948	591	37
1 Accounting technician II	5,028	591	38
1 Senior typist-clerk	5,028	591	40
—			
3	\$20,004		

We recommend approval of these positions as budgeted.

Building and Housing Standards

The department supervises, administers and enforces the State Housing and Mobile Home Laws (Health and Safety Code Division 13, Parts 1 and 2), and the Earthquake Protection Law (Sections 19100-19170, Health and Safety Code). These laws provide state building and housing standards for apartment houses, hotels, dwellings, mobile homes and mobile home parks. The department acts in a supervisory capacity in these areas where local jurisdictions have assumed responsibility for these laws. The department, however, has the sole responsibility for enforcing standards for mobile homes.

The department is also responsible for the inspection of labor camps pursuant to the provisions of the Employee Housing Act, Chapter 1274, Statutes of 1965.

Department of Housing and Community Development—Continued

Table 2 shows the allocation of the district representatives among the activities in this program. The activity "special projects" includes emergency services such as those rendered by the department during the December 1964 flood. The allocation was furnished by the agency and does not include the district representatives working on community development as discussed later in this analysis.

Table 2
District Representatives, by Activity

Activity	Man-years			Positions	
	1962-63	1963-64	1964-65	1965-66 estimated	1966-67 proposed
State Housing Law-----	11.2	11.0	7.92	9.0	9.0
Employee Housing Act-----	10.0	6.7	6.84	9.0	13.0
Earthquake Protection Law--	0.5	0.44	.63	0.5	0.5
Mobile home parks-----	13.0	11.6	15.16	16.0	19.0
Mobile homes-----	8.0	11.55	16.48	17.0	21.0
Special projects-----	2.2	2.64	3.21	2.5	2.5
Total-----	44.9	44.0	50.24	54.0	65.0

The department is requesting one area supervisor for a new field office to be established in San Jose. This would provide 1 supervisor to 10 district representatives which we feel is a reasonable ratio.

We recommend approval of one area supervisor, budget page 591, line 48, \$10,440.

The department is requesting four district representatives to increase inspection of mobile home manufacturers and dealers by approximately 25 percent in the budget year. The division made 3,586 inspections of 291 manufacturers of record and 816 inspections of approximately 1,200 dealers of record during 1964-65. The increased level of inspection requested by the division has the endorsement of the industry. Fees, estimated to be \$480,000 for the budget year, are established by the department which has statutory authority to set the fees to cover the costs of this service.

We recommend approval of four district representatives, budget page 591, line 49, \$34,416.

Three district representatives have been requested to meet the department's increased workload in inspecting accessory structures in mobile home parks. The additional staff will enable the department to make approximately three additional inspections of structures as required by workload increase in each of the 1,709 mobile home parks under the department's jurisdiction. Fees for inspection of mobile home parks including accessory structures and new construction were \$99,939 in 1964-65.

We recommend approval of three district representatives, budget page 591, line 49, \$25,812.

The department is requesting four district representatives to undertake a 100 percent inspection of labor camps "of record." Camps of record include those camps where existing structures may still be used for housing and those camps which were registered. The Employee

Department of Housing and Community Development—Continued

Housing Act requires all labor camps in use or anticipated for use to be registered.

An indication of the number of camps is given in the following summary:

	<i>Registered</i>	<i>Of Record</i>
1963 -----	3,927	7,000
1964 -----	4,244	7,324
1965 -----	4,163	6,501

We do not believe that the time required to inspect an unregistered camp is the same as the time required to inspect a registered camp; nor do we agree with the department that a 100 percent inspection of camps "of record" is required. Our calculations indicate that three additional positions will enable the department to inspect all registered camps and make an adequate check on unregistered camps.

We recommend approval of three district representatives and disapproval of one district representative, budget page 591, line 49, for savings of \$8,604.

The department is requesting four clerical positions for the Division of Building and Housing Standards. Only two positions are required to meet the department's proposed ratio of one clerical to three staff.

We recommend approval of one senior stenographer, budget page 591, line 50, \$5,148; and one intermediate typist-clerk, budget page 591, line 51, \$4,452. We recommend disapproval of two intermediate typist-clerks, budget page 591, line 51, \$8,904.

Community Development

Chapter 1222 placed additional emphasis on the role of the state with respect to community development. Among other things, it provides for state assistance, through the department, to local agencies in developing new and used housing for farm laborers, the elderly, racial minorities, persons displaced by governmental action and low income persons.

The department may provide assistance to colleges and universities in developing housing for students and to local governmental agencies to effect community development or redevelopment. The department may act as a clearing house for general information, including the availability of federal assistance, affecting housing and community development.

Section 1477 of the Labor Code also gives the department the authority to make investigations of housing conditions, to study the operation and enforcement of building laws, finance, taxes, and zoning and districting regulations, to encourage local city planning, and to promote organizations intended to increase the supply of wholesome homes.

The department has the responsibility for administering a \$243,000 federal demonstration grant for low income housing for farm workers. The purpose of this program is to conduct a market survey, develop user criteria and construct 36 to 48 prototype units. It is expected that contracts for the prototype units will be let before the end of the current fiscal year. The department is to prepare a final report in 1968 outlining the results of the project.

Item 159

Housing and Community Development

Department of Housing and Community Development—Continued

The following summary indicates the allocation of staff to community development.

	1964-65	1965-66 <i>Estimated</i>	1966-67 <i>Proposed</i>
Division of Housing and Community Development		6	19
Division of Building and Housing Standards	0.86	1.0	2.0
Total	0.86	7.0	21.0

The former Division of Housing began its community development program using the Labor Code as authorization. The department is requesting an additional district representative to increase the level of service in 1966-67. We agree that the department should increase the level of this service as a part of the increased emphasis on community development; however, we do not feel that an additional position is necessary. In 1961 only 31 counties in the state had established building departments. Now all but three counties, Amador, Mariposa, and Tuolumne, have established county building departments and have assumed primary enforcement for the state housing law. As the local jurisdictions assume a greater role in enforcing the state housing law, we feel that the resulting reduction in workload of the department will allow for an increased emphasis by the district representatives on problems related to the Labor Code.

Therefore, we recommend disapproval of one district representative, budget page 591, line 49, for a savings of \$8,604.

The following positions were established for the Division of Housing and Community Development during the current fiscal year. One of the clerical positions is being transferred to administration:

- 3 Coordinator community development
- 1 Housing representative
- 2 Clerical

The three coordinators will each specialize in a different aspect of community development: housing and community development finance, housing technology, and community facilities. The one housing representative will specialize in community facilities and will be assigned to Los Angeles.

The following additional positions are requested for the budget year.

	Amount	Budget	
		Page	Line
1 Chief	\$15,500	591	44
8 Area representatives	79,584	591	45
5 Intermediate typist-clerk	22,260	591	46

The chief for the division was authorized by Chapter 1222. The department now proposes to create area offices in Los Angeles, Fresno, and Sacramento. The department is requesting eight area representatives in addition to the existing housing representative. The department proposes to have an area representative in each office specializing in the same aspects as the coordinators.

Department of Housing and Community Development—Continued

We do not feel at this stage in the agency's development that sufficient workload will exist to warrant a specialist in each office for each aspect outlined by the department.

Therefore, we recommend approval of only five and disapproval of three area representatives, budget page 591, line 45, for a savings of \$29,844.

The five clerical positions will provide one position in each of the three offices plus two positions for the coordinators.

We recommend approval of these positions as budgeted.

STATE TREASURER

ITEM 160 of the Budget Bill

Budget page 593

FOR SUPPORT OF THE STATE TREASURER FROM THE GENERAL FUND

Amount requested	\$481,665
Estimated to be expended in 1965-66 fiscal year	467,312
<hr/>	
Increase (3.1 percent)	\$14,353
TOTAL RECOMMENDED REDUCTION.....	None

GENERAL PROGRAM STATEMENT

The State Treasurer, a constitutional official, is responsible for the redemption of warrants drawn by the State Controller and checks drawn on Treasury Trust accounts by other state agencies, the investment of surplus state funds under programs administered by the Pooled Money Investment Board, handling of state bank accounts, the selling and servicing of state general obligation bonds, and the maintenance of securities and pledges deposited in the state vault or approved depositories.

The following table summarizes our estimate of the distribution of the Treasurer's staff and budget by programs for 1966-67. The total cost of the program includes a nonbudgeted cost which estimates the interest lost to the state as the result of non-interest-bearing bank accounts maintained to compensate banks for their services. The total cost also includes the amount for preparing and advertising bonds for which special appropriations are made by the statutes.

Distribution of the Treasurer's Staff and Costs by Programs
Estimate for 1966-67

Program	Man- years	Total cost	Non- budgeted costs	Reimburse- ments and special appro- priations	Budget Bill appropriation
General administration	9.2	\$146,860	---	---	\$146,860
Debt service	9.5	244,574	---	\$175,290	69,284
Investment service	5.2	63,605	---	---	63,605
Accounting and cashing	15.8	645,955	\$524,500	---	121,455
Trust service	12.7	148,461	8,000	60,000	80,461
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	52.4	\$1,249,455	\$532,500	\$235,290	\$481,665

State Treasurer—Continued

The format of this agency's budget was changed in 1965-66 to include an augmentation of \$75,000 which was made to create a General Obligation Bond Revolving Fund pursuant to Chapter 1027, Statutes of 1965. This new revolving fund will provide payment of costs for preparing and advertising general obligation bonds. Previously, these costs came from separate revolving funds. The consolidated fund simplifies accounting procedures and reduces the amount of money required to maintain separate revolving funds.

This agency's budget has increased by 4.1 man-years and \$98,889, or 25.8 percent, in General Fund support between 1962-63 and 1966-67, as indicated in the following table.

**Growth of Treasurer's Office
1962-63 to 1966-67**

	<i>Man-years</i>	<i>General Fund support</i>
1962-63 -----	48.3	\$382,776
1963-64 -----	48.9	410,412
1964-65 -----	50.4	435,233
1965-66 (est.) -----	52.4	467,312
1966-67 (est.) -----	52.4	481,665

ANALYSIS AND RECOMMENDATIONS**General Administration**

This program includes the State Treasurer and his immediate staff and such other functions which are not at this time directly assignable to a specific program. The major portion of the general administration expense would probably be included under debt management if a more accurate breakdown were undertaken. No change in staffing for this program is contemplated for either the current or budget years.

Debt Service

This program includes the selling, issuing, servicing and redeeming of state general obligation bonds, state building certificates and state college revenue bonds.

The Treasurer will receive for the budget year an estimated \$58,790 in reimbursements for bond sales services and bond and coupon services expense. In addition, special appropriations made by the statutes and transfers from bond funds to the new revolving fund are estimated to be \$116,500.

The following table shows the estimated workload.

	<i>Number of bonds and coupons redeemed</i>	<i>Number of hours</i>	<i>Hourly unit production</i>
1964-65 (est.) -----	5,712,791	13,820	413
1964-65 (actual) -----	5,719,709	13,861	413
1965-66 (est.) -----	5,718,100	14,000	408
1966-67 (est.) -----	5,698,975	14,000	407

Workload has been kept constant by converting coupon bonds to registered bonds and by issuing bonds in larger denominations.

No change in staffing for this program is contemplated for either the current or budget years.

State Treasurer—Continued

Investment Services

The Treasurer, under the direction of the Pooled Money Investment Board, consisting of the Treasurer, Controller, and Director of Finance, is responsible for the investment of temporarily idle state moneys. There are three investment programs, the Pooled Money Investment Account, the Surplus Money Investment Fund, and the Condemnation Deposits Fund.

Success in avoiding idle funds depends on close coordination with the cashing and accounting program in determining the amount of money in excess of that necessary to meet the minimum required bank balance plus an amount to redeem state warrants when they are presented for payment.

The minimum required bank balance is made up of three parts, an amount to compensate the banks for their services, a float to account for delayed state credit on redeemed warrants and a "minus" float to account for delayed bank credit on state deposits. The amount of non-interest-bearing deposits to compensate the banks for their services as of October 1, 1965, was \$12,341,796. Since the earning rate on the alternate use of this money under the Pooled Money Investment Account during 1966-67 is estimated to be 4.25 percent, the cost of this service to the state is equivalent to \$524,500. (This amount is shown as a non-budgeted cost in the accounting and cashing program.)

The amount of float as of October 1, 1965, was \$36,244,880. Included for the first time this year is a "minus" float which takes into account delayed bank credit of state deposits. This minus float will reduce the amount of idle funds and thereby increase revenues to the state. The minus float recommended for October 1965 was \$606,739.

The required average minimum bank balance for 1964-65 was \$48,250,000. The actual average balance was \$48,264,000 which indicates a successful elimination of idle General Fund moneys.

Other indicators of the scope of the investment program can be seen by the following tables.

Growth in Security Transactions

	1963	1964	1965
Dollar volume (billions) of securities purchased or sold -----	\$7.2	\$10.2	\$12.0
Number of transactions or blocks of securities purchased or sold -----	1391	1824	2044

Investments by the Pooled Money Investment Board (millions)

Investment program	1963-64		1964-65	
	Average daily amount invested	Percent yield	Average daily amount invested	Percent yield
Pooled money ----	\$592.4	3.60	\$611.9	3.92
Surplus money ----	271.7	3.64	316.6	3.94
Condemnation ----	32.4	4.01	38.1	4.04
	\$896.5	\$32.5	\$966.6	\$38.0

The yield on state investments will continue to rise because of rising money rates. The yield of the Pooled Money Investment Account as of

State Treasurer—Continued

December 31, 1965, was approximately 4.3 percent. It should be noted, however, that any rise in the money rate also increases the cost of state borrowing.

No change in the staffing for this program is anticipated for either the current or budget years.

Accounting and Cashiering

This program provides the necessary banking services for all state agencies. In addition, the daily reporting of the state's cash position is essential to the operation of the state's investment program.

The estimated workload growth is shown by the following figures.

<i>Fiscal year</i>	<i>Warrants paid</i>	<i>Deposit and deposit reports</i>	<i>Total items</i>
1964-65 (est.) -----	5,187,115	322,867	5,509,982
1964-65 (actual) -----	5,193,497	306,463	5,499,960
1965-66 (est.) -----	5,446,000	310,000	5,756,000
1966-67 (est.) -----	5,683,000	314,000	5,997,000

Increased workload for this program during the current and budget years has been handled by transferring temporary help from other programs. No additional change in staffing is anticipated for either the current or budget years.

	<i>1964-65</i>	<i>Estimated 1965-66</i>	<i>Estimated 1966-67</i>
Total items (thousands) -----	5,500	5,756	5,997
Permanent personnel -----	8	8	8
Temporary help -----	3.7	4.8	4.8
Items per man-year (thousands) --	470	450	469

Trust Services

Part of this program is closely related to the investment program. After the decision to buy or sell is made by the investment section the actual accounting for the documents and warrants is made under the trust program.

Bank collateral on state bank deposits is approved and accounted for under this program. This collateral is held in the Treasurer's vault or state approved depositories. Daily adjustments are made to account for varying portfolios and values of collateral items.

In addition, state-owned securities and pledges required for other purposes such as those required by the Department of Insurance are kept in the Treasurer's vault. The timely collection of interest on the state-owned securities and the clipping of coupons on bonds held as pledges are a part of this program.

The state has \$189,000 in a non-interest-bearing time deposit as compensation to the bank which performs bond and coupon collection services under this program. Since the earning rate on the alternate use of this money under the Pooled Money Investment Account is estimated to be 4.25 percent during 1966-67, the cost of this service to the state is equivalent to \$8,000.

The Treasurer receives \$60,000 in reimbursements for bond collection expenses. Workload for this program has not grown as anticipated. The 1964-65 agency estimate of bonds, coupons and documents was

State Treasurer—Continued

3,118,172; the actual amount was 2,657,127. Temporary help for 1964-65 was 0.7 man-years less than the original estimate. The agency did not submit workload estimates for the current or budget years.

No change in personnel for the program is anticipated for the current or budget years.

We recommend approval of the item as budgeted.

HEALTH AND WELFARE AGENCY ADMINISTRATOR

ITEM 161 of the Budget Bill

Budget page 596

FOR SUPPORT OF THE HEALTH AND WELFARE AGENCY ADMINISTRATOR FROM THE GENERAL FUND

Amount requested -----	\$203,989
Estimated to be expended in 1965-66 fiscal year -----	171,414
Increase (19 percent) -----	\$32,575

TOTAL RECOMMENDED REDUCTION ----- None

GENERAL PROGRAM STATEMENT

The Administrator of the Health and Welfare Agency supervises and for the Governor coordinates the Departments of Mental Hygiene, Public Health, Rehabilitation, Social Welfare, the Citizens Advisory Committee on Aging, the Office of Atomic Energy Development and Radiation Protection, and the Mental Retardation Program. Chapter 4, Statutes of 1965, Second Extraordinary Session, also made the administrator responsible for the administration of the state's new health care program, effecting a basic change in the statutory agency administrator concept. Details concerning the administrative staff for this function are not available at the present time but will be submitted to the Legislature in a separate addendum to the budget. One consultant position was administratively established in 1965-66, and is proposed to be continued in the budget year for the purpose of coordinating the poverty programs in the state. The administrator is also requesting one additional position to assist in handling the increasing administrative responsibilities in the agency.

ANALYSIS AND RECOMMENDATION

The agency administrator proposes a total expenditure of \$397,889 in 1966-67. This amounts to an 8.9 percent increase over the estimated level of expenditure in 1965-66. Included in this figure is \$203,989 of General Fund money and \$193,900 of federal grant support. The agency administrator is currently authorized 12.5 positions and is requesting a staff increase of 1.3 positions to assist the agency in its administrative responsibilities. Of these 13.8 requested positions, 5 will be involved in activities in the agency administrator's office and 7.8 are being requested as a continuation of the mental retardation program, established by the Statutes of 1965. The other position of special consultant does not work in the agency administrator's office although paid from this budget. The position is assigned to the Governor's office to coordinate the federal-local economic opportunity program.