DEPARTMENT OF FOOD AND AGRICULTURE

Items 111 through 115 from the General Fund, Agriculture Fund, and Fair and Exposition Fund — Budget p. 59 Program p. I-275

Requested 1973–74	$24,133,197
Estimated 1972–73	22,423,132
Actual 1971–72	19,203,189
Requested increase $1,710,065 (7.6 percent)	
Total recommended General Fund reduction	$13,600

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Weights and Measures.* Recommend the periodic weights and measures surveys of counties be made available to the public.	205
2. *Weights and Measures.* Recommend a statewide performance evaluation and rating system be devised to evaluate regularly county weights and measures programs.	206
3. *Feed and Livestock Remedies.* Recommend department review of the Commercial Feed and Livestock Remedy program element organization and funding.	206
4. *Pesticide Law Enforcement.* Recommend priority be given to further expansion of the citation system in pesticide regulation.	209
5. *Tax on Pesticides.* Recommend reduction of tax on pesticides.	210
6. *Agricultural Land and Water Needs.* Recommend department review agricultural inputs to Department of Water Resources water resource planning. Also that department prepare a proposed program to implement conclusions in our report entitled *Water Resources Planning and Agricultural Water Needs.*	211
7. *Reduce Item 111 by $13,600.* Recommend deletion of requested new assistant information officer position.	214

GENERAL PROGRAM STATEMENT

Chapter 225, Statutes of 1972, changed the title of the Department of Agriculture to Department of Food and Agriculture in order to emphasize the food and consumer aspects of the department's work.

Under the Agricultural Code the Department of Food and Agriculture has authority to: (1) promote, protect, and further the agricultural industry in the State of California, (2) assure producers, handlers and consumers true weights and measures of commodities and services, and (3) protect the health and welfare of the people of the state.

The department's activities are broad in scope and range from the financial supervision of local fairs through agricultural pest and disease

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control, to enforcement of quality, quantity and safety standards of certain agricultural and consumer goods.

The financial resources of the department are derived primarily from the General Fund and the Department of Agriculture Fund.

The total proposed budget for the Department of Food and Agriculture in 1973–74 is $31,779,443. Of this $14,493,182 will come from the General Fund while the Department of Agriculture Fund will provide $12,580,031. The Fair and Exposition Fund which is derived from horseracing provides $310,484 which largely supports the Division of Fairs and Expositions. The items are listed below. Additionally, the Agriculture Fund total above includes $1,750,500 shown in the local assistance section of the budget, which amount is continuously appropriated. For 1973–74, the Department of Food and Agriculture support expenditure and General Fund local assistance discussed in the analysis are as follows:

1. Item 111, General Fund	$14,321,136
2. Item 112, Agriculture Fund	9,329,531
3. Item 113, Fairs and Exposition Fund	310,484
4. Item 114, General Fund—salaries of county agricultural commissioners	171,600
5. Item 115, General Fund—land under contract	446
Total	$24,133,197

The federal government contributes a substantial amount to the overall budget of the Department of Food and Agriculture in the form of reimbursements or unbudgeted program participation. The major area of support is in the meat inspection program where the federal government will reimburse the department about $3 million in 1973–74. This approximates 50 percent of the expenditures for meat inspection.

The department also collects and expends approximately $21.8 million under 38 marketing orders or similar programs established at industry request to aid in solving problems related to production, control, and advertising of agricultural products. These marketing order expenditures do not appear in the Governor's Budget because they are handled as special trust fund accounts in the Agriculture Fund.

Payments to Counties for Agricultural Programs

Various statutes in recent years have provided for allocation of funds through the Department of Food and Agriculture to counties for agricultural purposes. Chapter 1571, Statutes of 1970, provides for the transfer to the Department of Agriculture Fund the unrefunded taxes derived from gasoline purchases for off-highway agricultural use. These funds are continuously appropriated (1) $500,000 each year to the Department of Food and Agriculture for administrative expenses charged to Agricultural Fund programs, (2) $1 million each year for emergency detection, eradication and research on agricultural plants, pests and diseases, with the unexpended balance added to the allocation to counties, and (3) the remainder of the unrefunded taxes transferred each year are allocated to counties as a partial reimbursement of their expenses in carrying out agricultural programs authorized under the Agricultural Code. In the 1973–74 budget of the Department of Food and Agriculture there is approximately $730,000 for this allocation to the counties.

Chapter 1367, Statutes of 1971, established an 8 mill tax per dollar on designated sales in California of registered economic poisons. The statute provided that the tax was to be apportioned five-eighths to the counties and three-eighths to the Department of Food and Agriculture for its costs in administering designated pesticide programs. The county and state programs to be financed through these fees are discussed further in this Analysis under the title of Tax on Pesticide Sales. The Department of Food and Agriculture's budget for 1973–74 provides for a $1 million allocation to counties under Chapter 1367. In addition, there will be a minor allocation of $20,500 to counties under Section 12112 of the Agricultural Code consisting of 50 percent of the moneys collected from licensing pesticide dealers.

Total allocations to counties in 1973–74 from the Agricultural Fund are $1,750,500 and $172,000 from the General Fund

AGRICULTURAL PEST AND DISEASE PREVENTION

The objectives of this program are to protect California agriculture from damage resulting from the introduction or spread within the state of harmful plant and animal diseases, weeds, and other pests. The largest of the elements of this program are exclusion and detection budgeted at $2,149,310 in the budget year, and control and eradication budgeted at $4,373,190. In addition, there are laboratory services, nursery services, animal health and veterinary laboratory service activities. Total program expenditures are $10,547,271.

Southern Border Agricultural Stations

The Department of Food and Agriculture proposed last year a plan for the reorganization of pest exclusion activities in southern California. The department planned to enter into an agreement with the State of Arizona under which Arizona would gradually take over border agricultural inspection for pest and diseases (plant and insect quarantines) at Arizona's eastern border stations. The intent of the agreement was to allow California to close its four stations at Blythe, Needles, Vidal, and Winterhaven. This agreement was projected to result in substantial savings to California, even after a payment of $150,000 to Arizona for the added service it would perform for California, the cost of spot checks to be performed in California and certain other unspecified program increases.

On December 26, 1972, the department reported to the Joint Legislative Budget Committee pursuant to a directive in the Supplementary Report of the Committee on Conference of the Budget Bill, setting forth the progress under the agreement and the savings realized. The department reported that the shift of inspection responsibilities to Arizona was proceeding smoothly. It also reported that automobile inspection will be terminated at the four southern stations in California on January 1, 1973, except for spot checks, full-time truck inspection, however, will continue. On April 1, 1973, the department intends to shift to part-time truck inspection at the four southern stations. By June 1, 1973, the department expects to reduce its southern border station inspection to a four-man spot check level. A total reduction of 42 positions is expected by June 1, 1973, with

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1972–73 savings estimated at about $144,000. Net savings in 1973–74 are estimated at $226,027.

FOOD AND AGRICULTURAL STANDARDS AND INSPECTION SERVICE

The Food and Agricultural Standards and Inspection Service program is made up of diverse elements including enforcing standards for agricultural products, inspecting meat and dairy products for wholesomeness and sampling agricultural commodities for pesticide residues. The overall budget for this program is $11,002,521 in 1973–74 which is $650,817 above the current year. In the budget year the General Fund contribution to this program is $4,750,165, compared to $4,410,394 in the current year. The Agriculture Fund support is increased from the current level of $2,951,654 to $2,989,650. A significant element of the program involves maintaining standards in agricultural chemicals, and insuring accurate weights, measures and counts of commodities purchased by the public. This program contains more elements dealing with protection of the general public than any other in the Department of Food and Agriculture.

Bureau of Weights and Measures

The Department of Food and Agriculture has general authority over the accuracy of weights and measures and weighing and measuring devices sold or used in the state, as well as the accurate packaging of goods, merchandise, commodities and foodstuffs in containers. The director has the responsibility for enforcing these regulations but the work is primarily done by the county sealers of weights and measures.

The Bureau of Weights and Measures program is divided into four program elements. These elements are quantity control, weighing and measuring devices, petroleum products, and weighmaster enforcement. The quantity control and weighing and measuring device program elements are financed by the General Fund and are estimated to cost approximately $631,928 in 1973–74. Petroleum products activities and weighmaster enforcement will cost approximately $735,086 in 1973–74. Both petroleum products and weighmaster enforcement are financed through licenses and other fees placed in the Agriculture Fund. In addition, the department will receive approximately $31,000 in miscellaneous program reimbursements.

State Responsibility vs. County Operation and Funding

As the law presently stands the county sealers of weights and measures and their staffs are county employees who are paid by the county taxpayer. However, the State Department of Food and Agriculture has broad authority and is in charge of general supervision over weights and measures in the state unless otherwise provided by law. In addition, the department is specifically required to investigate the conditions in various counties and cities with respect to weights and measures in the sales of goods, wares and merchandise, commodities and foodstuffs in containers. The department is also charged with issuing instructions and making recommendations to county sealers. These instructions and recommendations are to govern the procedures followed by county officers in the discharge of their duties. Although the state has overall authority and responsibility for the statewide condition of weights and measures, the only means the department has to compel county compliance with department directives is Agricultural Code Section 12214, which states that if the director finds the county sealer guilty of neglect of duty, incompetence or misconduct in office, a trial board may be convened to hold a hearing at such time and place as the director may provide.

The generality of the above statutory language, and the lack of other statutory mechanisms for the Director of Agriculture to insure adequate weights and measures protection throughout California, has resulted in the current confused policy regarding the role of the state vs. counties in the direction and conduct of weights and measures in the state. It also results in a lack of uniformity among county programs. A 1961–63 report by the Assembly Interim Committee on Agriculture states, "It is common knowledge that the weights and measures division of the Business and Professions Code is not enforced uniformly throughout the State of California. The committee has made no study of uniform enforcement, but the testimony taken in various connections by the committee substantiates this belief. The reason for existence of nonuniform enforcement is that enforcement is largely a county function, supervised by county officials and financed by county funds."

There are many factors responsible for the nonuniform quality of weights and measures programs among various counties and for program inefficiencies. These include such variables as funds available, whether or not the county has a full-time or part-time sealer, enforcement techniques and policies applied, quality of staff and training, equipment available, etc.

It is the responsibility of the Department of Food and Agriculture to see that counties maintain efficient and effective weights and measures programs for the protection of the consumer. When a substandard program is detected by the department, it is the department's duty to see that the problem is corrected. The Business and Professions Code provides both the county sealers and the Director of Food and Agriculture and his employees with the powers of a peace officer to enforce weights and measures law. The law provides that any sealer observing a violation shall cause the violator to be prosecuted. The intent of this section appears to be that strong enforcement procedures be followed. This intent is not being carried out uniformily throughout the state.

Public Needs to Know Quality of Weights and Measures

We recommend that the department provide the results of its weights and measures surveys of counties to the general public so that the public will be aware of the quality of weights and measures enforcement.

The periodic county survey performed by the department as required by law is the primary and only comprehensive review by the department of the status of county weights and measures programs. In the past, such surveys appear to have only been a cursory examination.

Currently, the department conducts so-called minisurveys designed to followup the regular county survey to see whether or not counties have corrected the deficiencies observed in the original survey. The minisur-

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veys have helped to inform the department of the lack of action by sealers to correct deficiencies, but have not helped significantly in strengthening the department's capabilities or policy in regard to correcting deficiencies found.

A very simple, legal, and so far intentionally neglected, means of achieving more prompt and complete correction of weights and measures deficiencies in county programs is the public disclosure of the results of a county weights and measures survey. Sections 12103 of the Business and Professions Code states, "the department shall keep a complete record of all of its acts, a record of prosecutions and the reports of various sealers. These records and reports shall be open to the public."

The department does not now make the results of its county surveys available to the public. In fact the department has in the past, refused to make such reports available to the public although the law clearly grants access to public inspection. Full disclosure could be a powerful means of upgrading county weights and measures programs in California. Regular reporting could also improve the visibility of this important consumer service and aid in securing adequate county budgets for the office of county sealer. This office is often little known and given low priority in the county because its role is so poorly understood by the public.

Necessity for Statewide Weights and Measures Standards

We recommend that the department develop and administer a statewide rating system to regularly evaluate county weights and measures programs. Such a system should include objectively determined standards to be met by all counties.

The establishment of a statewide rating system with objectively determined standards to evaluate each county would substantially improve the capability of the existing system to provide uniformity in weights and measures protection to the consumer. Such a system would ideally provide information at least annually to the department. Additionally, it would permit the Department of Food and Agriculture to concentrate on substandard counties and to upgrade their programs. At the present time, the department's infrequent county surveys are the chief basis for locating county problems and evaluating performance. The proposed rating system would regularly monitor all county programs permitting the department to continually review the performance of counties by their performance under this rating system.

Commercial Feed and Livestock Remedies

We recommend that the Department of Food and Agriculture undertake a thorough reevaluation of the feed and livestock remedy program operating procedures, field enforcement, and funding level to be completed no later than November 1, 1973.

The Commercial Feed and Livestock Remedy program element of the department is an industry financed activity designed to insure that high quality and unadulterated feed as well as livestock remedies are provided to the purchaser. The primary beneficiaries of the program are the producers of meat, milk and eggs who purchase over 7 million tons of commercial feed annually in California.

Total department funding for both the feed and livestock remedy activities is $429,360 in 1973–74 which is $27,500 above the current year. The expenditure for the feed activity constitutes about 95 percent of the total expenditure with livestock remedies accounting for the remainder. These activities rely on industry license fees, a tonnage tax and livestock remedy registration fees as their sources of funding.

Purchasers of commercial feed are entitled under law to receive the nutrient ingredients as shown on feed labels. The mislabeling, misrepresentation or adulteration of feeds can cause serious economic loss to producers as well as possible public health hazards. So-called "hazardous" livestock remedies when used improperly may have a harmful effect on the treated animals and cause an illegal drug residue in meat, milk and poultry products. The nutrient standards for certain feed ingredients and various labeling requirements are set by regulations of the department. Included also are tolerances for pesticides, drugs and various other feed additives.

The commercial feed segment of this program consists of a regulatory program chiefly functioning through (1) a licensing activity which requires that each person operating a plant to manufacture or distribute commercial feed shall obtain a license from the Director of the Department of Food and Agriculture, and (2) an inspection activity which consists of sampling commercial feed and subsequent chemical analysis to determine if label guarantees are accurate.

We have noted a substantial number of cases of feed deficiency and/or mislabeling. In Table 1 the summary results of feed samples tested by the department in 1971 and 1972 are shown:

Table 1
Deficiencies in Feed Samples

Year	Samples tested	First test: No. passed	First test: No. failed	Followup test: No. passed	Followup test: No. failed
1971	3,220	2,656	564 (17.5%)	84	58 (41%)
1972	2,676	2,246	430 (16%)	119	85 (42%)

As is evident from Table 1, a substantial fraction of those feeds tested in both 1971 and 1972 did not meet label guarantees. The figure was 17.5% failing in 1971 and 16% in 1972. Even more significant than this is the percentage which failed on followup testing by the department. This is an indication of the compliance achieved by the department after the initial sample is taken and after it has informed the feed producer or distributor of the violations. The followup figures for 1971 show 41 percent of followup samples failed to meet label guarantees. In 1972 this figure was 42 percent. These high percentages indicate that even when the department has located feed producers or distributors who are not complying with the law it has a difficult time achieving compliance.

The department indicates that although feed manufacturers are responsible by law for correct labeling of feed, including statements of minimum crude protein, fat, fiber, ash, etc., many companies do not analyze ingredients to determine whether or not guarantees are met. This amounts to

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label guarantees representing the "educated" guess of the manufacturer. As the figures above indicate, the manufacturer is likely to be wrong about one time out of six (16%).

Livestock remedies are registered by the department after their labels are reviewed for claims, use directions, caution statements, etc. The Director of Agriculture may refuse to register livestock remedies if they are of little or no value for the purpose for which intended or are dangerous to livestock health. In addition, registration may be refused if inadequate warnings are not provided for the health of livestock, or if information furnished to the director is inadequate to permit the director to make the required determinations. Those remedies found to be in conformance with department regulations on labeling and efficacy are registered. The department has not in the past and does not now devote any significant effort to determining the efficacy of livestock remedy before registration or renewal of registration. The department has in the past relied primarily on analysis of livestock remedy efficacy by the federal government. The federal government's findings on safety and efficacy are now being substantially revised by more recent and more thorough analysis by both the Food and Drug Administration and University of California.

State law provides that the director may revoke a livestock remedy registration if samples of that remedy show it fails to conform to its registration and labeling guarantees. The department does not take any significant number of samples of livestock remedies and therefore does not have factual, up-to-date information on the quality or hazard of products on the market at this time.

As mentioned above the livestock remedy activity is financed by industry fees. The fee for registration of livestock remedies is $25 with an annual renewal fee of $15. These fees do not provide sufficient revenue to finance an adequate registration, sampling and quality control program for livestock remedies. Expenditures for this program in the current year are estimated at 5 percent or less of the $401,860 total for both feed and remedies, or less than $20,000. The total value of remedies sold in California each year is $54 million. It is obvious that this current level of funding permits only the most cursory review by the department of livestock remedies during registration and subsequently in the field.

The above discussion of livestock remedies indicates a need for the department to institute at least a minimal livestock remedy sampling program and adequate enforcement to provide the required quality assurance in livestock remedies.

Our review of the feed and livestock remedy area has indicated a strong need for a thorough reevaluation of this program's operational procedures, field enforcement, and funding level. We believe the study can be completed by the management analysis group of the department by November 1, 1973.

Meat Inspection

All animal and poultry products that are intended for sale as human food in California are the subject of inspection, either by the department (intrastate) or by the federal government (interstate). The state inspects approximately 650 slaughter and/or processing establishments and the federal government about 400. The funding of meat inspection is about 50 percent state and 50 percent federal at this time. The department anticipated an increase in the share of federal funding in the current and budget year. This funding did not materialize and the department has incurred substantially increased meat inspection cost over last year's budgeted program request. The exact amount required in the current budget year and the source of funding is uncertain at this time. We anticipate being able to comment more fully on this matter at the time of legislative hearings on the Budget Bill.

Analyst's Report on Pesticides

In December 1972, this office, in cooperation with Division of Environmental Studies at the University of California at Davis, completed a report entitled *Pesticide Regulation in California—Registration and Use Control.* The report was an in-depth study of the department's pesticide registration and evaluation efforts, as well as a limited treatment of certain aspects of the county control of pesticide use. The study was more detailed and supplemented our previous work on pesticide regulation.

The department has been in the process of reorganizing its pesticide regulation programs to regulate pesticides according to the more restrictive provisions of recent laws. The department's program is in transition and its eventual accomplishments cannot be evaluated more fully until such time as the reorganization and policy reorientation is actually functioning. Specialists to perform the numerous complex and necessary evaluations of pesticide safety and environmental considerations still remain to be hired and therefore very little of this necessary pesticide evaluation has taken place at this time. Progress is being made but much remains to be done.

Citations in Pesticide Enforcement

We recommend that department expand the citation program for pesticide use and quality enforcement to cover the maximum number of counties at the earliest possible date. This means that this activity should receive priority attention in the proposed pesticide program reorganization.

In our analyses of the 1971–72 and 1972–73 Budget Bills, we recommended the use of citations by the Department of Food and Agriculture and county agricultural commissioners for pesticide quality and pesticide use control enforcement. We pointed out then that the Counties of Lake, Glenn, and Contra Costa already were using citations to a limited extent in county agricultural law enforcement. The Legislature accepted our recommendation and directed the Department of Food and Agriculture to initiate a state and county pilot citation program in pesticide quality control in the counties of Fresno, Riverside, Sacramento, and Ventura in 1972–73.

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The reason for our recommendation last year was partly as a response to the recent substantial increase in the workload of counties in pesticide control. There appeared to be a lack of reasonable uniformity in the enforcement of pesticide law. The existing enforcement tools, such as the "notice of warning" generally appeared ineffective, and formal prosecution was too cumbersome and costly. Citations seemed to be well suited to field enforcement use and had the advantage of being both quick and inexpensive. The county commissioners which we have interviewed in a recent report on pesticide use control found advantages in the use of citations.

The state Department of Food and Agriculture has proceeded slowly in the use of citations for pesticide enforcement and has initiated a pilot citation program only in Fresno County. The slowness with which the department has implemented this program and the apparent low priority assigned it is not commensurate with its importance. There is substantial agreement that citations could be the most effective, simple and inexpensive enforcement tool for both county and state enforcement of pesticide quality and use laws. In addition, the Legislature directed last year that four counties be used as pilot programs for citations, not just Fresno County. We believe the department should not delay implementation of such an effective enforcement tool. The federal Environmental Protection Agency in California has shown a recent willingness to vigorously prosecute pesticide violations.

Tax on Pesticide Sales

We recommend that the department reduce the tax rate on pesticides to bring revenues more in line with projected expenditure levels.

Chapter 1367, Statutes of 1971, provided for a tax on the sales of designated registered economic poisons. This tax was set at a maximum rate of 8 mills per dollar of sales. The Department of Food and Agriculture originally estimated that approximately $960,000 would be collected annually from the tax. It was felt that this amount would be sufficient to finance the additional functions of pesticide regulation contained in pesticide legislation of recent years. Counties were to receive five-eighths of any funds collected to finance pesticide use control. This amount was originally estimated at $600,000. The department was to retain three-eighths of any moneys collected to finance its pesticide programs. This amount was estimated at about $360,000.

Revenues received by the department thus far have exceeded the above projections. In the last half of 1971 the department received approximately $940,000 from the tax, and during the first quarter of 1972–73 about $475,000. At this rate the department is receiving almost double the original revenue estimate. The department should make the appropriate adjustments in the tax rate in order to provide only the necessary funds required for the pesticide programs including the possibility of preparing environmental impact reports on environmentally hazardous materials.

AGRICULTURAL MARKETING SERVICES

The objectives of this program are to assist and protect agricultural producers and handlers and the consuming public by providing regulatory, informational, and other marketing services. The total departmental expenditure in 1973–74 for agricultural marketing services is budgeted at $6,132,417 which is $167,512 above the current year. This consists of $1,533,537 from the General Fund, and $4,378,000 from the Agriculture Fund, with $220,880 in reimbursements.

Market News

Primary functions of the market news program element is the dissemination of current information on prices, supplies, and other economic indexes of agricultural commodities of California in order to facilitate orderly marketing of agricultural products. The program collects, analyzes, and disseminates information on current prices, commodity supply, demand, movement, quality, location and other relevant market news. The program is a joint federal-state activity with the California Department of Food and Agriculture cooperating with the U.S. Department of Agriculture Federal-State Market News Service.

In the past we have recommended that the agricultural industry finance a substantial share of the state's General Fund cost of this program. These General Fund costs are budgeted at $1,090,043 in 1973–74. The department has been largely unsuccessful in deriving any industry financial support for this program to date.

Partially due to our past comments on this program, changing market conditions and structure, and the lack of industry financial support, the state Department of Food and Agriculture is presently attempting to secure an independent study of the California market news system by the University of California. Although the exact extent and content of this study has not been determined at this time, the likely objective of this study will be the reevaluation of the entire program concept, operating goals, size and scope, clientele served, means of gathering and disseminating information, and the relation of the California program to the federal program. Based on our past studies, such a reevaluation is clearly warranted and its initiation should receive priority attention by the department.

Determining Agricultural Land and Water Needs

We recommend that the Department of Food and Agriculture be instructed by the Legislature to review, using presently available staff and data, the agricultural data inputs to be used in the next comprehensive planning report of the Department of Water Resources, known as Bulletin 160-74, Water for California, the California Water Plan, Outlook in 1974.

We further recommend that the Department of Food and Agriculture be instructed to prepare a staffing proposal to implement the conclusions in our report entitled Water Resources Planning and Agricultural Water Needs for review by the Legislature and inclusion in the 1974–75 budget.

A report by this office entitled *Water Resources Planning and Agricultural Water Needs* issued in January 1973 concludes that federal and state water planning and agricultural assistance programs are not sufficiently coordinated and interrelated. They appear to utilize different data bases

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for the design of their activities. Some programs are operating in opposite directions. For example the state and federal departments of agriculture are currently expending substantial amounts of tax monies to reduce agricultural production, while federal and state water agencies are expanding agricultural production by increasing water supplies to irrigable lands. This lack of coordination is financially burdensome on the consumer/taxpayer, and may keep farm income below what it would otherwise be if governmental goals and programs were coordinated. To the extent that the state is involved with food and agriculture, it should seek to coordinate its programs to assure economies for the taxpayer and to assure that new irrigation developments are beneficial to the irrigated areas and the state as a whole, if not the nation.

The agency which has made the most significant effort to coordinate planning is the Department of Water Resources. Through the $6.5 million annual expenditure for the program entitled "Continuing Formulation of the California Water Plan" the department gathers and evaluates hydrologic, meteorologic, land use, water use and other demand data for general planning activities with a primary objective to " . . . prepare and maintain . . . a coordinated . . . statewide plan for timely economic . . . development of . . . water resources. . . ." Within this framework the department has attempted to relate its water resources planning to agricultural water needs. The department should be commended for its efforts in this area, especially since the other state and federal agencies affecting agriculture have not substantially engaged in this type planning or coordination.

However, with regard to agricultural water needs, the department has been unable to fully achieve the objective of the above program. This conclusion is reached principally because: (1) in its planning bulletins the department has only indirectly considered the substantial farm income assistance activities of the state and federal departments of agriculture, (2) a review of several major economic indicators show that the agricultural industry in the United States and in California has been facing a significant decline in profitability, (3) the method of economic analysis used by the department to evaluate irrigation projects may indicate feasibility for projects which are not to the benefit of the state as a whole, (4) a major University of California study indicates that future increases in irrigated acreage as projected and supported by the department will be detrimental to the state's agricultural industry, and (5) the department's planning bulletins have only indirectly considered the impact upon the consumer/taxpayers caused by increases in irrigated acreage as projected and supported by the department.

We do not believe that the Department of Water Resources should be expected to establish or evaluate agricultural policies. However, neither state nor federal agencies having agriculture as a primary responsibility have undertaken to supply the Department of Water Resources with agricultural data or to coordinate divergent agricultural programs to assure that the combination of programs operates efficiently and economically. Therefore Water Resources has attempted to perform this function.

The simplest and most direct approach to further fiscally efficient and operationally effective relationships between water development programs and agricultural programs would be to establish all data gathering and program coordination responsibilities concerning agricultural and food needs within the Department of Food and Agriculture. Under this concept the Department of Food and Agriculture would (1) establish an agricultural data base including land use, (2) coordinate the data base, including agricultural land use data, with marketing, supply, production and other departmental data, (3) coordinate the state's activities regarding governmental programs related to agriculture, (4) improve the monitoring of principal economic indicators related to the interests of the agricultural industry and the consumer/taxpayer, (5) determine additional agricultural production resources needed by the state's agricultural industry to meet the needs of the consumer/taxpayer, and (6) report such information to the Department of Water Resources, the Legislature and the public.

The Department of Water Resources should, we believe, include the determination of needed agricultural production in its water planning activities. It should treat the input from agriculture in the same general manner as it currently treats population data prepared by the Department of Finance's population projections unit. Once such a system became operational, the Department of Food and Agriculture's input to the Department of Water Resources should substantially improve the effectiveness of water resource planning.

The above proposal will not be easy for the Department of Food and Agriculture to implement. It would take time and determination to develop the analytical techniques for application to the available data and to determine and fill in data gaps. The effort would, however, be justified in terms of a better data base related to all the state's agriculturally oriented problems. The data base also would have major use beyond the problems discussed in this report.

The determination of agricultural production needs and the collection of data on agricultural land use would provide a resource base for future decisions on the needs for and the differentiation between open-space lands which should be preserved by governmental action and lands which will likely remain in open-space agricultural use without governmental inducements. The gathering and analysis of better data on agricultural land use along the coastline will assist in the new regulatory efforts of the California Coastal Zone Conservation Commission as established under Proposition 20 of the 1972 general elections and for the preparation of better environmental impact reports where alternative uses of agricultural lands are involved. Finally, decisions on land use related to air pollution control will eventually require better data on the probable extent to which agricultural lands will shift to urban or industrial uses because of changes such as farm marketing and water resources policies. The state and federal governments are now attempting to integrate separate policies on air pollution, water quality and solid waste control and other control programs by means of land use analyses and other tools. However, the most important use of land, which is for agriculture, is not an official

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input into these efforts. Thus the need for a better agricultural data base is now crucial for water resources planning, but will soon be equally as crucial for other state programs.

FINANCIAL SUPERVISION OF LOCAL FAIRS

The Department of Food and Agriculture maintains a Division of Fairs and Expositions which has as its objectives (1) providing assistance to local fairs to upgrade services and exhibits and (2) keeping services and exhibits responsive to changing conditions in the state. In addition, the division assists the fairs in decreasing the need for financial assistance from the state by increasing their income from existing revenues and developing new revenues. The division's staff allocates state funds and accounts for these funds as well as funds generated locally, which are used for support and construction of the 76 local fairs. In addition, the division's staff directly assists managers of the various fairs in planning, accounting, exhibiting, and construction and maintenance work.

The total proposed budget for this element is $489,754 or $47,685 above the current year level of $442,069. This increase is primarily due to increased operating costs.

ADMINISTRATIVE SUPPORTING SERVICES

Total department expenditures proposed for administration, excluding certain direct reimbursements not shown in the Governor's Budget, are $2,011,842 in the budget year. These costs are all either allocated to other departmental programs or reimbursed from trust funds, other departments, or continuing appropriations.

Information Office

We recommend deletion of one assistant information officer position for a General Fund savings of $13,600 in Item 111.

The department is requesting the addition of one assistant information officer position in the 1973–74 budget at a cost of $13,600. At this time the department has two information officers. One position is in the Information Office and the other is assigned to the Division of Plant Industry. In addition the department is proposing to fund a portion of the cost of an information officer position created in the current year to work in the Agricultural and Services Agency. We are recommending elsewhere in this Analysis (Item 28) the elimination of this information position in the agency.

The department states that the third information office position it is requesting will expand the public relations and information services needed to keep industry aware of trends in agriculture and satisfy the need to educate and inform the consumer of the consumer-related activities of the department. The proposed position would be used for (1) preparation of news releases, (2) preparation of educational material such as brochures, posters, etc., and (3) design and preparation of display material for fairs.

In the 1971–72 budget the department expanded its technical information capability by creating a technical information position in the Division of Plant Industry. This resulted in placing emphasis on plant-protection-oriented work. This was an effort to improve the department's capability in Pest Exclusion and Detection and in Control and Eradication programs. Two information officers in a department the size of the Department of Food and Agriculture should be sufficient.

We have noted during the past year a large number of general information releases emanating from the department, many of which have dealt with minor achievements of the department, publicity to counter criticism, publicity on ballot propositions, and many miscellaneous low-value news items. The administration has stated a policy during the past year to reduce the flow of public relations releases from the departments. A proper step to implement this policy would be to deny the additional information officer position for the Department of Food and Agriculture.

Office of Emergency Services

WORKMEN'S COMPENSATION FOR DISASTER SERVICE WORKERS

Item 116 from the General Fund — Budget p. L-16 Program p. I-486

Requested 1973–74	$76,800
Estimated 1972–73	88,600
Actual 1971–72	131,184
Requested decrease $11,800 (13.3 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Community disaster services are usually performed by volunteer personnel who do not receive regular compensation. In recognition of the risks and hazards of such work, the state first accepted responsibility in 1943 to compensate such workers for injuries or deaths occurring in the line of duty. This is covered under the Labor Code.

The state appropriates annually for injury and death compensations based on estimates made by the State Compensation Insurance Fund which handles the service. The amount fluctuates in accordance with the volume of services and activities which usually reflect both exercises and actual emergencies such as fire and flood incidents or earthquakes. Past experience has indicated that the estimates made by the State Compensation Insurance Services have been quite realistic.

9—83988

DEPARTMENT OF COMMERCE

Items 117–118 from the General Fund — Budget p. 62 Program p. I-316

Requested 1973–74	$2,041,111
Estimated 1972–73	1,792,188
Actual 1971–72	1,285,924
Requested increase $248,923 (13.9 percent)	
Total recommended reduction	$102,828

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Business-Industry, Tourism and World Trade Development. Reduce $19,472.* Recommend deletion of requested salary adjustments and realignment of staff to conform to 1972–73 budget authorization.	220
2. Report. Recommend department prepare progress report on space shuttle accomplishments and plans for aerospace-related promotional efforts.	221
3. *Economic Development Commission. Reduce $3,504.* Recommend deletion of requested salary adjustment to conform to 1972–73 budget authorization.	223
4. *General Fund support for the Council of Product Design and Marketing. Reduce $79,852.* Recommend deletion of General Fund support for the council.	224

GENERAL PROGRAM STATEMENT

The Department of Commerce was created by the Governor's Reorganization Plan Number 1 of 1968 and was assigned to the Agriculture and Services Agency. In January 1971, by executive order, the department was transferred to the office of the Lieutenant Governor. Starting with the 1972–73 fiscal year, the department was transferred back to the Agriculture and Services Agency in keeping with existing statutes.

Its functions, consolidated from a number of separate agencies and organizations, include:

1. The promotion of business and industrial growth.
2. The expansion of California's export trade.
3. The promotion of tourism.
4. The encouragement of public education in science and industry.

The first three of these functions are carried out by the department's business, industry, world trade and tourism development section, located in Sacramento. The fourth is provided by the California Museum of Science and Industry, located in Exposition Park in Los Angeles.

In the areas related to business, industry, world trade and tourism promotion, the department receives policy guidance from the Economic Development Commission. In addition, the Board of Directors of the

Table 1
Personnel and Expenditures of the Department of Commerce

	Personnel Man-years			Expenditures		
Programs	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Business, industry, tourism and international trade development	6	15.5	15.5	$136,740	$660,676	$669,025
Commission for Economic Development	0.2	3	3	32,754	78,094	85,742
Council of Product Design and Marketing	—	4	4	—	77,424	79,852
Museum of Science and Industry	106	114.6	122	1,121,747	1,403,451	1,606,492
Totals	112.2	137.1	144.5	$1,291,241	$2,219,645	$2,441,111
Reimbursements				−5,317	−427,457	−400,000
General Fund cost				$1,285,924	$1,792,188	$2,041,111

DEPARTMENT OF COMMERCE—Continued

Museum of Science and Industry, as well as the newly created Council of Product Design and Marketing advise the department in their respective areas.

The department's staff and expenditures are summarized in Table 1.

ANALYSIS AND RECOMMENDATIONS

The requested $248,923 (13.9 percent) increase in General Fund support of the proposed budget includes funding for salary differentials resulting from reclassification of vacant positions under the business, industry, tourism and international trade development program, as well as funding for additional staff and capital outlay for the Museum of Science and Industry. In addition, fee revenues from the museum's parking lots, which are treated as reimbursements, are expected to drop during the budget year. These changes will be discussed under their respective programs.

I. BUSINESS, INDUSTRY, TOURISM AND INTERNATIONAL TRADE DEVELOPMENT

Overall expansion of the state's economy through selective promotion in business, industry, tourism and export trade is the basic goal of this program. Following an executive reorganization in 1968 and subsequent budgetary cuts by the Legislature, activities in these areas were significantly curtailed. At the beginning of fiscal year 1971–72 the department had a staff of six and a budget of about $135,000.

Substantial Budget Augmentation During 1972–73.

In March 1972, the Economic Development Commission was created and charged with improving the state's overall economic condition. Subsequently, the department's budget was augmented by $499,000 to fund programs to carry out the commission's goals. This augmentation, sponsored by the California Chamber of Commerce, allocated $250,000 for the promotion of tourism, $59,000 for business and industrial development, and $190,000 for international trade promotion.

The $59,000 allocation for economic development was proposed with the understanding that $50,000 would be earmarked for purposes of promoting participation by California contractors in the space shuttle program. The chamber also proposed a list of specific activities, projects and staff requirements it considered necessary to achieve the desired objectives.

In general, the proposal envisioned the state's role as a supporting function, supplementing private sector and other governmental efforts in business, tourism and world trade promotion. The staff proposed by the state chamber included specified technical and professional positions and secretarial support. The specific positions and items of expenditures contained in the augmentation, as approved by the Legislature and the Governor is listed on pp. 17–19 of the List of Changes to the Governor's Budget, Final Report by the Department of Finance, dated June 22, 1972.

In implementing this augmentation, the State Department of Commerce is developing a staff that differs from the staff approved by the Legislature.

Authorized Positions Not Filled

During the first half of the current fiscal year, the department made little progress in filling the staff positions authorized by the augmentation. Table 2 shows that, while some of the civil service clerical positions have been filled, all of the *professional* (civil service) jobs that were designed to implement the goals of the augmentation, remain vacant. Several of the authorized professional (civil service) jobs have been reclassified to exempt management positions.

Table 2
Department of Commerce
Status of Positions Authorized by 1972–73 Budget Augmentation

Positions approved in 1972–73 augmentation [1]	*Authorized salary*	*As implemented by department. Status as of January 1, 1973*
Industry Promotion		
Associate economist	$11,976	Upgraded to exempt economist ($15,151) and filled October 1972
World Trade Promotion		
Senior statistician	$15,276	Vacant
Assistant economic analyst	10,356	Vacant
Senior steno	7,250	Vacant
Temporary help	3,000	Reclassified to exempt and filled August 1972
Tourism Promotion		
Tourism officer	$15,276	Vacant
Administrative assistant	13,860	Vacant, reclassified to exempt
Senior steno	8,604	Filled October 1972
Senior clerk	6,912	Filled July 1972
Senior clerk	6,912	Filled November 1972
Council of Product Design and Marketing		
Executive secretary (exempt)	$20,000	Filled July 1972
Administrative assistant	12,576	Vacant
Senior steno	7,260	Filled August 1972
Senior steno	7,260	Vacant

[1] Positions are civil service except as noted.

The department's reason for the delay in filling these positions is that it is in the process of formulating the details of its business development, tourism and world trade programs and does not want to fill these jobs until the detailed programs have been finalized. At the same time, however, the department cites staff shortage as the reason for the slow progress in developing its program details. Since April 1972, the department contracted for consulting and professional services in the approximate total of $113,000. Of this amount, $21,000 was spent on two contracts for preparation of organizational and operating plans for the Economic Development Commission and the Council of Product Design and Marketing, and the development of economic data and economic reports. These and other activities which have been performed by outside consultants, including

DEPARTMENT OF COMMERCE—Continued

$3,000 in consultant fees for preparation of the department's 1973–74 budget, could have been assigned to the department's professional staff if all authorized positions had been filled.

While the authorized and budgeted professional jobs remain vacant, a number of exempt management positions have been filled. These positions (deputy director of commerce, deputy for industry and trade, deputy for tourism, and chief economist) were created following the formation of the department in 1968, when the department was considerably larger than it is today. Funds for these positions were subsequently deleted by the Legislature, but the statutes authorizing the positions were not repealed.

Department Should Realign Personnel

We recommend deletion of the three deputy positions and reclassification of the economist position to the originally authorized associate economist, for a net General Fund reduction of $19,472 for the budget year.

Table 3 outlines actual and proposed expenditures for the business, industry, tourism and international trade program.

Table 3
Business, Industry, Tourism and World Trade Staff and Expenditures

	Personal Man-years			*Expenditures*		
	Actual 1971–72	*Estimated 1972–73*	*Proposed 1973–74*	*Actual 1971–72*	*Proposed 1972–73*	*Estimated 1973–74*
Continuing costs	6	15.5	15.5	$136,740	$643,903	$649,553
Salary adjustments	—	—	—	—	16,773	19,472
Total General Fund Cost	6	15.5	15.5	$136,740	$660,676	$669,025

The increase in program cost during 1972–73 reflects the budget augmentation discussed above. The salary adjustment item is the result of the substitution of higher-salaried exempt positions for the authorized civil service positions. We recommend that the department conform to the staffing as authorized by the 1972–73 budget, eliminating the necessity for the 1973–74 salary adjustment.

Slow Progress in Business and Industry Development

This promotional activity has started slowly, producing some measurable progress only during the last two months. Last fall this section, with outside consulting help, prepared a statement on California's industrial strengths and weaknesses. Based on this report a program was prepared in outline form which would include: (1) plant location assistance to companies wishing to expand or locate in California, (2) development of a statewide business and industrial location strategy, and (3) assistance to California firms in obtaining federal contracts. Because the program is still in the embryo stage, and no specific plans for implementation have been developed, its potential effectiveness cannot be evaluated at this time.

Space Shuttle Promotion Effort in Limbo

We recommend that, by October 1, 1973, the department prepare a progress report on the space shuttle effort, including details of expenditures, activities and accomplishments, as well as plans for the budget year for aerospace-related promotional efforts.

The $59,000 included in the augmentation of the department's 1972–73 budget for economic development was proposed by the California Chamber of Commerce and subsequently approved by the Legislature with the understanding that $50,000 of that amount would be earmarked to finance efforts to obtain contracts for California firms in the space shuttle program and other aerospace projects. Prior to July 1, 1972, the California Chamber of Commerce was active in this area, with financial support provided by private donations. Expenses were mostly for travel, public relations and secretarial help. The salary of the executive director of this activity was paid by an aerospace firm and office space was provided in the Los Angeles office of the Lieutenant Governor. Shortly after state funding was provided for this effort, a California aerospace firm obtained the major space shuttle contract. We have been advised that there are two additional shuttle-related contracts yet to be awarded, but the department has not provided details as to how the $50,000 is being expended during the current year.

In January 1973, the national administration indicated its intentions to postpone the schedule for the entire space shuttle program. The State Department of Commerce recently terminated the services of the loaned executive director in Los Angeles and moved this function to its Sacramento office. An employee hired under the federally financed public employment program now heads the staff-support for the space shuttle and federal contract-assistance effort. The department periodically publishes a Space Shuttle Newsletter, containing aerospace-related news clippings, and liaison-type assistance is available to California companies in securing federal contracts through contacts in Washington. Beyond these limited activities, however, the department does not appear to have a specific program formulated and no details are available as to proposed expenditures for the budget year.

International Trade Development Program Proposed

On September 15, 1972, the department submitted to the Economic Development Commission a general program outline for world trade promotion. Subsequently finalized with more specific details, this program proposes to sponsor export seminars, publish an exporter's service guide, process export trade leads and compile California export trade statistics. The progress and accomplishments of this program will have to be reviewed at a later date, however, as implementation is not scheduled to commence until February 1973.

Department Should Fill Vacant Authorized Staff Positions

The department's current promotional activity is limited to processing of export trade-leads, performed by one deputy with secretarial help. Progress in implementing its proposed program would be facilitated by filling the currently vacant authorized professional staff positions with employees competent in world trade promotion.

Tourism Promotion

In July 1972, the department introduced its program for tourism promotion in California. Its plans included publication of a tourism map, other promotional literature and audiovisual material, organization of state-sponsored tourism conferences, and programs to attract business and foreign travel to California.

While some elements of this program overlap existing local promotional efforts, they are generally consonant with the objectives offered in the California Chamber of Commerce augmentation proposal. We suggest that the department also work toward promoting tourism more evenly throughout all geographic areas of California. A 1968 study of the state's tourism industry showed that out of each tourist dollar, 50 cents was spent in Southern California and about 25 cents in the Bay Area. The department should provide assistance to those local chambers of commerce and private tourism groups wishing to help themselves increase their share of the tourism dollar.

Visible Progress Made. During the first half of the budget year the department published a tourism map and is in process of producing a statewide tourism movie and assorted promotional literature. Implementation of the other objectives is scheduled during the budget year.

Department Should Fill Authorized Vacant Positions. Currently, one deputy with secretarial help works on tourism promotion. The department has indicated that it is presently understaffed in this effort. It has two additional professional positions authorized, but, as Table 2 illustrates, these positions have been vacant since their establishment. If the department fills these positions it would be better able to make progress toward its program objectives.

II. COMMISSION FOR ECONOMIC DEVELOPMENT

This body, composed of legislative and private sector representatives and chaired by the Lieutenant Governor, was created for the purpose of providing leadership in the overall economic development of the state. Its responsibilities include providing policy guidance to the Department of Commerce, considering programs for statewide economic development, making recommendations for pertinent legislation and annually reporting its activities, findings and recommendations to the Legislature and to the Governor. The commission became operative in March 1972, and four committees: (1) tourism, (2) international trade, (3) business and industry development, and (4) goals and objectives were organized. Four full commission meetings and numerous committee meetings have been held. The commission has heard and approved the programs prepared by the staff of the Department of Commerce and outside consultants for tourism, world trade and business-industry promotion.

Need for Long-Range Economic Development Plan

In our 1972 analysis we recommended that the commission give primary consideration to creating a long-range economic development plan for California.

One of the responsibilities of the Goals and Objectives Committee was to propose ideas for long-range economic development. Shortly after its creation, however, this committee was disbanded so that the commission could concentrate on short-term objectives.

We understand that the commission is planning to reinstate its Goals and Objectives Committee in the near future. We suggest that this committee give primary consideration to the need for a statewide long-range economic development plan.

Program Requirements

Table 4 summarizes the staff and expenditures of the commission.

Table 4
Staff and Expenditures of the Commission for Economic Development

	Personal man-years			*Expenditures*		
	Actual 1971–72	*Estimated 1972–73*	*Proposed 1971–72*	*Actual 1972–73*	*Estimated 1973–74*	*Proposed 1973–74*
Program costs	0.2	3	3	$32,754	$78,094	$82,238
Salary adjustment	—	—	—	—	—	3,504
Total General fund cost	0.2	3	3	$32,754	$78,094	$85,742

We recommend deletion of the proposed $3,504 salary adjustment.

The authorized staff for the commission includes the executive secretary, an associate research analyst and one secretary. The associate research analyst position has not been filled. A tourism development manager, however, was recently hired at a salary level higher than the salary authorized for the research analyst. The $3,504 is proposed to cover this differential for the budget year.

The department advises us that this employee is to concentrate on tourism-related activities. As Table 2 indicates, the department already has an authorized but currently vacant position for a tourism officer. If the department conformed to the authorized staff, no salary adjustment funds would be necessary.

III. COUNCIL OF PRODUCT DESIGN AND MARKETING

This body, created by 1971 legislation (Chapter 1579), became funded and operative on July 1, 1972. Its general goal is to assist the Department of Commerce in encouraging design excellence for California products, so that they may be better marketed statewide, nationally and internationally. Specifically, its objectives include: (1) advising California businessmen on the marketing advantages of good product design and quality of workmanship, (2) indicating the importance of design in the marketing function, (3) promoting worldwide demand for California products, and (4) encouraging design curricula at educational institutions. Its 15 members, appointed by the Governor, represent various business and industrial sectors, particularly the furniture and fashion industries.

DEPARTMENT OF COMMERCE—Continued

The council's proposed program includes the establishment of design centers, and a statewide register of professional designers, creation of a "California image" and the establishment of a "made in California" label. Details for these projects are being worked out by four task groups. The first design center is scheduled to be located at the California Museum of Science and Industry in Los Angeles.

Budgetary Requests

A General Fund expenditure of $77,424 ($2,424 over the amount originally allocated) is estimated for the current year and $79,852 is proposed for the budget year. The council has an authorized staff of two professionals and two secretaries. To date, only one professional (executive secretary) and one secretarial position has been filled and, as a result, the council expects to have some unspent funds at the end of the current year. We understand that state funds will be used only to cover the council's staff salaries and operating expenses. Costs of the various proposed projects would be financed by private donations to be solicited by a nonprofit foundation presently being organized.

General Fund Support Not Warranted

We recommend deletion of General Fund support of the council for a savings of $79,852 for the budget year. Although the council's announced objective is to promote the marketing of all California products, we believe that the potential benefits from the activities of the council and its staff would accrue primarily to the manufacturers of consumer products, a relatively small segment of California's industry. Of the total employment of 8.3 million in the state, under 2 million are employed by manufacturing firms and less than one-half of those are engaged in the production of consumer goods. The expenditure of state funds to promote the consumption of California-produced apparel, furniture, appliances, sporting goods or other consumer products directly serves the interests of particular industries rather than providing a statewide benefit. Many trade and professional associations successfully promote their own products or services without financial assistance from the state. Secondly, the goals of the commission are expressed in such general terms that there is no method by which the benefits could be measured. Finally, the Commission for Economic Development is already charged with providing guidance to the Department of Commerce in statewide, national and international promotion of California products.

Private Funding as an Alternative. The 1972–73 Budget provided seed money for the formation and first-year operation of the council. We understand that the council anticipates no difficulty in obtaining private contributions for its proposed projects through a nonprofit foundation. We believe that if the continued operation of the council is deemed desirable by the business community, funding for operating and staff support should also come from the business community.

IV. MUSEUM OF SCIENCE AND INDUSTRY

The program performed by the Museum of Science and Industry exhibits man's scientific progress and informs Californians and visitors of the state's scientific capabilities and accomplishments. The director and his staff, in cooperation with the nine-member board of directors, administers the museum and has responsibility for the security of the museum buildings and Exposition Park.

Education Program

The primary purpose of this program is to create and stimulate the interest of Californians in the field of science. It is particularly geared to reach the largest possible number of the state's young, with the anticipation that some will pursue scientific careers and thereby provide California with needed talent in this field. The program consists—in addition to permanent and temporary exhibits—of lectures, seminars, summer science workshops and teaching institutes led by eminent scientists from all over the country. A major portion of these latter activities is financed by the Museum Foundation Fund which is supported by private contributions.

Admission to most of the museum's exhibits is free, and attendance records underscore continued public interest in it.

Administration

This function assures the proper operation and maintenance of all plants and facilities. It includes operation and security of museum buildings, as well as providing security within Exposition Park, which includes portions of land leased to the Coliseum Commission and to the County of Los Angeles. The museum also operates 26 acres of public parking, catering to patrons of the Museum, the coliseum, the sports arena and swimming stadium. Parking fees for special events at these facilities were raised by the museum in 1971, to bring them more in line with private parking rates in the surrounding area.

Table 5 summarizes the past, present and proposed staffing and expenditures of the museum.

Table 5
For the Museum of Science and Industry

	Man-years			*Expenditures*		
	Actual 1971–72	*Estimated 1972–73*	*Proposed 1973–74*	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Education	66	71.6	71.6	$674,930	$804,928	$929,706
Administration	40	43	43	446,817	598,523	676,786
Workload adjustments	—	—	7.4	—	—	70,716
Total Program Costs				$1,121,747	$1,403,451	$1,606,492
Reimbursements				−5,317	−427,457	−400,000
General Fund cost	106	114.6	122	$1,116,430	$975,994	$1,206,492

The reimbursement figure for 1971–72 represents payments by Los Angeles County and City for maintenance services performed by the museum's staff on Exposition Park property which the county and city rent from the state. Reimbursement figures for the current and budget years represent projected revenues from the museum's parking lots. Starting in 1972–73 these revenues are being treated as reimbursements, rather than General Fund revenues.

Personnel Increase and Additional Capital Outlay Proposed

We recommend approval of the 7.4 man-year staff increase and $100,000 for capital outlay for the Museum of Science and Industry.

The proposed staff addition includes a manager for the museum's education programs, two positions for museum operations and four guards for improvement of outside security. We believe that addition of these positions is justified on a workload basis. The museum's current guard staff assigned to night security in Exposition Park consists of one patrol car and one motorcycle officer. This coverage appears to be inadequate in view of the current crime rate in Exposition Park. During a recent three-month period 24 felonies, including two murders, were committed on park property. The additional guards are proposed to increase nighttime coverage.

The proposed $100,000 capital outlay includes funds for surfacing a parking lot and for necessary repairs of the museum's physical facilities. The Legislature approved funds for these projects in the museum's 1971–72 budget, but they were subsequently deleted by the Governor.

Agriculture and Services Agency

DEPARTMENT OF CONSUMER AFFAIRS

Items 119–140 from Various Funds — Budget p. 63 Program p. I-324

Requested 1973–74	$11,751,506
Estimated 1972–73	17,032,440
Actual 1971–72	12,147,823
Requested decrease $5,280,934 (31.0 percent)	
Total recommended reduction	$3,000
Pending	$74,178

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Delete New Position. Reduce Item 123 by $3,000.* Recommend the proposed expert examiner position for the Board of Barber Examiners be deleted.	231
2. New Positions. Recommend withholding approval of 12 of the 17 proposed new positions in Item 127 ($74,178 in salaries) for the Contractor's State License Board pending completion of a management study.	232
3. Funding. Recommend legislation to fund Division of Consumer Services from General Fund rather than from charges prorated to special funds of departmental boards.	237
4. Regionalization of Department. Withhold recommenda-	237

tion on department's regionalization plan until we have reviewed in detail its provisions.

GENERAL PROGRAM STATEMENT

The former Department of Professional and Vocational Standards was renamed the Department of Consumer Affairs by the Governor's Reorganization Plan No. 2 of 1970. The Consumer Affairs Act (Chapter 1394, Statutes of 1970, operative July 1, 1971) defined objectives and authorized activities which significantly broadened the department's responsibility and functions in the field of consumer affairs. Chapter 1041, Statutes of 1972, further defined the department's responsibility to consumers by requiring boards and bureaus to investigate complaints and inform the complainant of action taken.

Chapter 1399, Statutes of 1970, created within the department a Division of Consumer Services, which replaced the former Division of Consumer Affairs. This division was designated as the administrative unit responsible for receiving, reviewing and acting upon consumer complaints not assignable to a specific departmental regulatory agency. Since its inception, the Division of Consumer Services has assumed a major portion of the department's consumer protection responsibilities, including the processing of consumer complaints and requests for information, compiling data and statistics, furnishing reports, and coordinating consumer protection activities with other consumer agencies. The division also prepares consumer resource materials; establishes resource contacts with business, trade and consumer organizations; and develops consumer protection and counseling programs in disadvantaged areas.

Departmental Organization

The department is headed by a director appointed by the Governor and serving at his pleasure. Subject to such authority as is conferred upon the director by specific statute, each of the 21 constituent agencies within the department conducts its own statutory program. For purposes of administrative and budgeting convenience, the department has grouped its constituent agencies into the following functionally related program groups:

1. Healing arts
2. Fiduciary
3. Design and construction
4. Business and sanitation

In addition to these program groups, there is an administrative program, the cost of which is largely distributed pro rata to each constituent agency. Costs which are not distributed are absorbed by the Division of Administration. The division estimates that undistributed costs will total $668,900 in the budget year. However, because $608,648 will be recovered as reimbursements from the constituent agencies, the division will only have to absorb $60,252. While each agency maintains a semi-independent status, the Division of Administration provides centralized services such as accounting, budgeting, personnel management, internal auditing, and legal assistance. The department's Division of Investigation provides investigative and inspection services for constituent agencies. Electronic data processing services are secured under contract from the Board of

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Equalization. Headquarters is located in Sacramento and the department maintains offices in San Francisco and Los Angeles.

Each board and bureau has the statutory objective of regulating an occupational group in order to protect the general public against incompetency or fraudulent practices. Each seeks to accomplish its objective through two types of activity—licensing and enforcement of laws, rules, and regulations. Licensing may involve activities such as the establishment of curricula, school accreditation, and required experience periods; examination, issuance and renewal of licenses or certificates; or a registration procedure. Law enforcement or compliance consists of procedures to insure that licensees obey laws, rules and regulations governing business or professional conduct. Compliance activity involves inspections, investigations, administrative hearings (before an officer of the Office of Administrative Hearings) or court proceedings where the act being enforced so provides.

Departmental Funding

Two departmental agencies, the Athletic Commission and the Board of Guide Dogs for the Blind, are wholly supported by the General Fund, but each of the remaining agencies is supported by one or more special funds. The Division of Consumer Services, which received a General Fund appropriation of $100 in the 1971 Budget Act, has been placed under departmental administration. Its costs, estimated at approximately $172,354 in the budget year, are distributed pro rata to each constituent agency in the department.

Healing Arts Group to be Transferred

The Governor's Reorganization Plan No. 1 of 1970, whose effective date was rescheduled by Chapter 1217, Statutes of 1971, for July 1, 1973, provides for the establishment of a State Department of Health in order to consolidate the health care services presently administered by the Departments of Mental Hygiene, Public Health, Health Care Services, Social Welfare, and Rehabilitation. One provision of the plan provides for transferring to the new department 11 of the 12 boards now comprising the healing arts program within the Department of Consumer Affairs. The Board of Guide Dogs for the Blind is the one exception. The effect of the transfer is discussed later in the analysis.

ANALYSIS AND RECOMMENDATIONS

With the exception of the Board of Barber Examiners and the Contractors' State License Board, we recommend approval of the departmental administration and agency budget requests.

The net budget request for the department is $11,751,506, which is $5,280,934 or 31.0 percent below estimated net expenditures for the current year. Reimbursements, estimated at $608,648, and undistributed administrative costs estimated at $60,252 (Consumer Affairs Fund), produce a total expenditure program of $12,420,406.

The department's reduced budget reflects the transfer of the healing arts boards to the State Department of Health. The Division of Administration is requesting 11 new positions in the budget year. However, in accordance with the Governor's Reorganization Plan No. 1 of 1970, it is transferring nine currently established positions to the State Department of Health. One additional position is being transferred to the Structural Pest Control Board. The net effect is a request of one additional position for the division.

The Division of Investigation will experience a reduction of 71 positions in the budget year because of the transfer of the healing arts boards.

Because of its late preparation, the budget does not properly reflect increased administrative costs that will have to be prorated among the boards that remain (21) in the department after the healing arts boards are transferred. Consequently, we anticipate that most boards will have to request budget augmentations during the 1973–74 fiscal year.

The transfer of the healing arts boards makes it difficult to draw meaningful comparisons between current and proposed expenditure levels. Generally, however, the departmental and individual agency budget requests propose maintenance of the present level of service.

SUMMARY OF FUNDING REQUESTS

Listed in budget item sequence below are selected workload statistics and summaries of the funding requests (excluding reimbursements) of the department's various boards, commissions and bureaus. In a number of instances, we comment on recent legislation which affects agency programs or operating procedures.

Board of Accountancy

Item 119 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	28,614	29,000	30,000
Examinations	6,395	7,000	7,200
Complaints	322	400	450
Man-years	11.2	11.8	14.8
Cost	$407,542	$496,284	$535,441

The proposed budget reflects the addition of one administrative position (pursuant to Chapter 716, Statutes of 1972) to assist in the continuing education program for licensees. The board is also requesting one additional clerical position ($5,760) and temporary help (1.0 position—$5,387) to handle a workload generated by increased license renewal activity. Chapter 126, Statutes of 1972, lengthened the time public accountants may take to pass the certified public accountant examination. This has created additional recordkeeping, filing and testing of applicants.

Board of Architectural Examiners

Item 120 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees:			
Architects	6,482	7,082	7,382
Building designers	1,123	1,100	1,075
Complaints	111	120	130
Man-years	5.2	6.3	6.4
Cost	$137,259	$159,297	$183,752

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Athletic Commission

Item 121 (General Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	3,989	4,200	4,500
Applications	2,990	3,100	3,250
Examinations	114	120	120
Complaints	647	650	650
Inspections/investigations	4,460	4,550	4,550
Man-years	10.1	13.4	13.4
Cost	$173,829	$215,588	$213,486
Revenue (General Fund)	$337,483	$310,000	$348,870
(Net General Fund)	$163,654	$94,412	$135,384

Bureau of Automotive Repair

Item 122 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	10,000	48,000	50,000
Applications	32,000	9,600	7,000
Complaints	4,313	30,696	38,000
Man-years	17.2	89	87
Cost	$324,543	$2,430,958	$2,424,139

The Bureau of Automotive Repair became operative on July 1, 1972, pursuant to Chapter 1578, Statutes of 1971 (cited as the Automotive Repair Act). This bureau, consisting of a nine-member advisory board and a chief appointed by the Governor, is responsible for registering, licensing and regulating automotive repair dealers and official lamp-brake-smog (LBS) stations. The responsibility for the LBS program was transferred from the California Highway Patrol together with 47 inspector positions. These positions were later transferred to the Division of Investigation (in keeping with department policy regarding centralization of services).

Because of the large volume of complaints in this area and the need for investigators with mechanical expertise, the director has now determined that although centrally located, these inspectors will be used exclusively for the work of the bureau.

The bureau is requesting four clerical positions and two man-years of temporary help to implement Chapter 967, Statutes of 1972, which requires the licensing of adjusters-installers in official lamp, brake, and smog control stations.

Board of Barber Examiners

We recommend that the proposed expert examiner position (0.4 man-years) in Item 123 be deleted for a savings of $3,000. We believe that the board's request for a new expert examiner position is not justified because examination and inspection workloads have not increased, according to

Item 123 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	36,011	36,000	36,000
Applications	4,458	4,300	4,300
Examinations	1,700	1,600	1,600
Complaints	183	200	250
Investigations	214	220	220
Inspections	15,893	16,000	16,000
Suspensions/Revocations	350	355	355
Administrative hearings	36	37	37
Man-years	10.5	11.5	11.7
Cost	$404,269	$449,117	$448,539

information supplied by the board. We do support the board's request for 0.1 man-year of temporary help because the budget year is a license renewal year.

Cemetery Board

Item 124 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	1,763	1,800	1,875
Applications	2,917	3,200	3,300
Examinations	455	475	475
Complaints	80	90	95
Reports and audits received	526	532	538
Investigations/Inspections	411	415	418
Man-years	4.1	4.4	4.4
Cost	$81,700	$93,361	$92,261

Bureau of Collection and Investigative Services

Items 125 and 126 (Two Special Funds)

Detail	Actual 1972–72	Estimated 1972–73	Proposed 1973–73
Collection Agency Program			
Licensees	3,947	4,200	4,200
Applications for license	608	625	625
Applications for examination	86	85	85
Complaints	939	939	1,000
Audits	385	440	440
Suspensions/revocations	3	3	4
Man-years	10.8	11.1	11.1
Cost	$203,206	$229,438	$238,176
Private Investigator and Adjustor Program			
Licensees	2,513	2,600	2,700
Applications	519	525	530
Examinations	499	502	515
Complaints	183	250	250
Investigations	84	90	90
Man-years	3.1	3.2	3.2
Cost	$95,673	$111,857	$112,715

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Contractors' State License Board

Item 127 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	86,441	92,000	98,000
Applications	17,780	13,200	21,000
Examinations	5,576	6,134	6,747
Complaints	23,112	25,423	27,965
Investigations/inspections	19,524	19,520	22,500
Cases settled (licensees)	6,361	6,400	6,500
Cases referred to disciplinary action	668	700	700
Dismissed and other disposition	6,676	7,000	7,000
Man-years	148.5	173.5	177.5
Cost	$2,689,358	$3,174,134	$3,328,589

We recommend that approval of 12 of the 17 requested clerical positions in Item 127 ($74,178 in salaries) be withheld pending the results of a study of the board's operations by a private consulting firm.

On December 27, 1972, the board released a request for proposals to private management consulting firms in order to select a firm to conduct a complete management study of the board's operations. The request requires the firm selected to examine the field operations and organization of the board, and to offer recommendations to the Registrar of Contractors on or before June 1, 1973.

The Department of Consumer Affairs supports the intent of the study because the board currently has an unmanageable backlog of complaints to investigate.

The board is requesting 17 new authorized clerk II positions for the budget year. Five of these positions were established administratively in December 1971 and the remaining 12 represent new positions. We believe the board should await completion of the study before determining if new positions are required. The study may conclude that certain procedural changes will reduce or eliminate the complaint backlog without added staff. However, we do recommend continuation of the five clerk II positions which were established during the prior fiscal year.

Board of Cosmetology

Item 128 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	172,383	185,000	195,000
Establishments	16,868	17,000	17,000
Schools	281	290	290
Examinations	9,492	11,000	11,000
Complaints	941	1,000	1,000
Inspections	22,699	25,000	28,000
Investigations	1,485	1,400	1,400
Man-years	26.7	28.6	25.3
Cost	$824,756	$970,530	$938,030

The budget request reflects the elimination of two field representatives pursuant to Section 20, Budget Act of 1972. The board proposes elimination of 1.2 man-years of temporary help because the budget year is a nonrenewal year for licenses.

Board of Dry Cleaners

Item 129 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	16,962	17,500	18,000
Applications	2,100	2,300	2,800
Examinations	583	700	900
Complaints	1,769	2,000	2,300
Inspections	8,940	9,000	9,000
Investigations	783	800	800
Suspensions/revocations	265	320	320
Man-years	7.4	10.6	10.6
Cost	$292,722	$444,530	$436,435

The Board of Dry Cleaners is requesting two clerical positions to meet the requirements of Chapter 991, Statutes of 1972, dealing with continuing education for licensees, and to handle a workload increased by the assumption of duties previously performed by the State Fire Marshal. The above requested positions were created administratively in the current year.

Bureau of Employment Agencies

Item 130 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	1,428	1,500	1,550
Applications	350	350	450
Branch applications	96	150	165
Counselor registration applications	10,000	10,000	10,000
Examinations	400	450	600
Complaints	1,479	1,550	1,650
Inspections/investigations	1,525	1,525	1,700
Man-years	6.5	8.0	8.0
Cost	$240,687	$287,283	$286,057

The bureau is requesting $2,968 in temporary help to meet increased workload generated by license renewal activity.

Board of Funeral Directors and Embalmers

Item 131 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	4,710	4,700	4,900
Applications	4,650	4,725	4,825
Complaints	111	135	135
Inspections/investigations	3,037	3,175	4,000
Man-years	5.6	6.5	6.5
Cost	$115,652	$143,893	$154,126

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Board of Registration for Geologists

Item 132 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	3,916	3,800	3,850
Applications	27	50	70
Man-years	1.6	1.7	1.7
Cost	$42,698	$52,718	$49,060

State Board of Guide Dogs for the Blind

Item 133 (General Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	24	24	25
Applications	3	2	1
Man-years	—	0.1	0.1
Cost	$2,199	$5,000	$5,000

Bureau of Home Furnishings

Item 134 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	24,770	23,796	25,000
Complaints	2,972	3,200	3,400
Inspections/investigations	13,110	13,000	13,000
Samples analyzed	2,112	2,120	2,130
Action taken as a result of sample analysis:			
Finished articles:			
Articles destroyed	400	402	405
Articles relabeled	3,762	3,800	3,900
Articles returned to manufacturer	2,540	2,550	2,560
Bulk materials:			
Relabeled/returned to manufacturer (pounds)	34,420	34,430	34,440
Man-years	14.9	15.7	15.2
Cost	$472,265	$492,249	$502,354

Chapter 749, Statutes of 1972, changed the name of the Bureau of Furniture and Bedding Inspection to the Bureau of Home Furnishings. The bureau is requesting one additional clerk-typist position to handle an increased workload generated by Chapter 844, Statutes of 1970 (mattress flammability inspection), and Chapter 881, Statutes of 1971 (waterbed inspection). The bureau is proposing the reduction of 0.4 man-years of temporary help.

Board of Landscape Architects

Item 135 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	832	872	872
Applications	205	250	250
Complaints	33	40	50
Investigations	29	35	40
Man-years	1.4	1.3	1.3
Cost	$39,412	$47,749	$50,531

Nurses' Registry

Item 136 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	106	110	112
Applications	10	12	14
Man-years	0.3	—	—
Cost	$10,768	$11,283	$11,405

Chapter 808, Statutes of 1972, transferred the operation of the Nurses' Registry from the Division of Consumer Services to the Bureau of Employment Agencies. We had recommended such a transfer in order to provide more efficient and economical administration.

Board of Registration for Professional Engineers

Item 137 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	64,496	67,000	69,000
Applications	7,333	8,700	8,100
Examinations	7,859	8,500	9,000
Complaints	479	500	500
Investigations	470	500	500
Man-years	37.6	37.2	39.2
Cost	$683,824	$744,021	$768,702

The board is requesting two expert examiner positions to handle an increased examination workload generated by Chapter 1204, Statutes of 1972, which created a new license classification entitled "land surveyor-in-training."

Bureau of Repair Services

Item 138 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	6,576	6,000	6,100
Applications	1,139	900	900
Complaints	2,916	3,000	3,200
Inspections/investigations	3,659	3,000	3,200
Man-years	10.2	12.4	12.5
Cost	$282,253	$323,461	$336,445

Certified Shorthand Reporters' Board

Item 139 (Special Fund)

Detail	Actual 1971–72	Estimated 1972–73	Proposed 1973–74
Licensees	1,940	1,950	1,960
Applications	510	520	530
Examinations	510	520	530
Complaints	166	170	170
Investigations	2	3	4
Man-years	1.8	2.8	3.3
Cost	$38,676	$67,854	$69,508

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Chapter 801, Statutes of 1972, established a recruitment and scholarship program under which the board is attempting to attract persons into the court-reporting field through seminars at high schools and junior colleges, and by offering a limited number of scholarships. In order to implement this program the board is requesting: (1) additional temporary help (1 man-year), and (2) that the half-time executive secretary position be made a full-time position. When the program terminates June 30, 1975, the executive secretary position will revert to a half-time position.

Structural Pest Control Board

Item 140 (Special Fund)

Detail	*Actual 1971–72*	*Estimated 1972–73*	*Proposed 1973–74*
Licensees	4,953	5,000	5,700
Applications	1,384	1,400	1,500
Inspection reports filed	456,555	458,000	459,000
Completion notices filed	219,431	220,000	230,000
Complaints received	1,630	1,700	1,700
Inspections/investigations	1,550	1,600	1,600
Examinations	1,205	1,250	1,250
Personnel man-years	17.1	20.6	19.7
Cost	$506,125	$572,281	$566,755

The board is requesting the transfer of one stenographic position from the Division of Administration to the board, and the addition of 0.1 man-year of temporary help to absorb workload which has increased due to license renewal activity. The board administratively created one stenographic position and one man-year of temporary help in the current year. However, it requests that these positions be replaced by the transferee from administration and the addition of 0.1 man-year of temporary help.

POLICY RECOMMENDATIONS

The Governor's Reorganization Plan No. 2 of 1970 emphasized and the Consumer Affairs Act of 1970 expanded the authority and responsiblity of the department as a consumer affairs agency. The stated objective of the Consumer Affairs Act is to promote and protect the interests of consumers by facilitating the proper functioning of the free enterprise market economy through (1) consumer education programs, (2) consumer protection from the sale of goods and services through deceptive methods, acts, or practices which are inimical to the general welfare, (3) the fostering of competition, and (4) the promotion of effective governmental representation of consumer interests.

The department may not be fully able to implement the spirit of the Governor's Reorganization Plan No. 2 or the policy statements in the Consumer Affairs Act partly because of the current limited activities and funding arrangement for the Division of Consumer Services, and because the department's proposed regionalization plan may not be totally adequate from the standpoint of the consumer.

Funding of Division of Consumer Services

We recommend legislation be enacted to fund the Division of Consumer Services from the General Fund rather than from charges prorated to the special funds which support the departmental boards and bureaus.

The Division of Consumer Services assists all consumers on a statewide basis by disseminating consumer education materials and processing consumer complaints which do not fall within the jurisdiction of the licensing boards and bureaus. The division is funded, however, from charges prorated to the licensing bodies. It is neither efficient nor good policy in our judgment to support a division which performs broad consumer based services from special funds derived from license fees collected from 21 occupational groups. We further believe that if the division were funded from the General Fund, sufficient monies could be made available to enable the division to hire personnel to meet its responsibility of developing counseling programs in disadvantaged areas and coordinating the activities of consumer protection groups which are being established in many local government jurisdictions. Because the complaint workload has increased significantly (the division is requesting 8.8 new clerical positions to handle workload in the budget year) it has been necessary for the division to concentrate on consumer complaints at the expense of its counseling and consumer education activities. Budget year costs for this division are estimated at $172,354.

Departmental Regionalization Plan

Withhold recommendation on the department's regionalization plan.

As currently organized, the department has no field offices where all services of the department can be made available to the general public. The department has recognized this deficiency and has developed a regionalization plan which it intends to implement in the near future. This plan was presented to us in January 1973 and we have questions concerning (1) the delineation of functions in each region between the Division of Investigation and the Division of Consumer Services, (2) funding arrangements, and (3) the need for the "program manager" proposed by the plan. Hopefully, the department will provide additional information in these areas prior to the budget hearings on this item.

BOARD OF CONTROL

Item 141 from the General Fund — Budget p. 65 Program p. I-386

Requested 1973–74	$172,318
Estimated 1972–73	157,109
Actual 1971–72	118,669
Requested increase $15,209 (9.7 percent)	
Total recommended reduction	$1,685

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Increased Claims. Reduce $1,685.* Recommend clerk-typist position and elimination of temporary help. 238

ANALYSIS AND RECOMMENDATIONS

We recommend approval of one clerk-typist position and elimination of temporary help in the amount of 0.3 of one position (−$1,685).

This item provides administrative support for the Board of Control and the Merit Award Board which share a single staff under supervision of the Secretary of the Board of Control. The board has requested an additional clerk-typist to handle the large increase in claims related to victims of violent crimes (79 percent workload increase from fiscal years 1971–72 to 1973–74). This new position would bring the board's staff to 11.3 members and accounts for most of its requested budget increase.

Good Samaritan Claims No Longer Subject to Legislative Review

General claims against the state are presented to the Board of Control for review and disposition. Tort liability (see Item 48–49) and aid to victims of violent crimes (see Item 50) claims are reviewed and acted upon only by the board, and those approved are paid from funds appropriated for those purposes. As a result of Chapter 1269, Statutes of 1971, Good Samaritan claims up to a statutory maximum of $5,000 are also approved by the board without legislative review and paid from a separate appropriation. All other claims approved by the board are referred to the Legislature for final review under an annual omnibus claims appropriation.

Other responsibilities of the board include the review of various fiscal and related transactions, the disposal of unclaimed property, and the adoption of administrative rules governing state employees' travel pay and moving allowances.

Past and projected claim workload of the board is indicated in Table 1.

Table 1
Volume of Board of Control Claims

	1970–71	*1971–72*	*1972–73*	*1973–74*
Original estimate	2,980	3,000	3,000	3,200
Actual	2,946	3,181	3,900 *	—

* Based on July–December average.

THE MERIT AWARD BOARD

The Merit Award Board reviews state employee suggestions for more efficient government operation and recommends cash awards for those whose ideas are adopted.

Table 2 shows past and projected workload of this program.

Table 2
Volume of Employee Suggestions

	1970–71	*1971–72*	*1972–73*	*1973–74*
Original estimate	3,000	3,100	3,100	3,600
Actual	2,925	2,479	2,200 *	—

* Based on July–December average.

CALIFORNIA EXPOSITION AND FAIR

Items 142–144 from the General Fund and transfer from the State Fair Fund — Budget p. 66 Program p. I-388

Requested 1973–74	(General Fund)	$1,380,000
	(State Fair Fund)	265,000
Estimated 1972–73	(General Fund)	1,725,759
	(State Fair Fund)	475,854
Requested General Fund decrease $345,759 (20 percent)		
Total recommended reduction		None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Reevaluate Cal-Expo. Recommend a comprehensive independent reevaluation of Cal-Expo to identify an effective management organization and program; and if this approach is not successful, deny further funding. 240

GENERAL PROGRAM STATEMENT

The California Exposition and Fair Executive Committee operates the California Exposition and Fair (Cal-Expo). The committee is composed of 14 members appointed by the Governor, as well as five state department heads and four legislators who are advisory members. The exposition is the successor to the old State Fair and is located on a site in northeastern Sacramento. The original concept of the Exposition and Fair was for an exposition of resources, commerce and unique values of California, in addition to various educational and recreational features. It was intended that the exposition would operate approximately nine or 10 months each year, with the fall period augmented by special exhibits and agricultural attractions which would be similar to those at the old State Fair. The exposition has not operated on this basis, however, but has continued much as the old State Fair.

CALIFORNIA EXPOSITION AND FAIR—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend that the Legislature provide for an independent, comprehensive reevaluation of Cal-Expo to identify the proper management organization and future direction. If this is not successfully completed, we recommend denying further funding to Cal-Expo because its present operations appear to be headed toward higher future costs and greater problems than would occur from closure.

In the budget year, the General Fund appropriation request for Cal-Expo is $1,380,000 or 20 percent below the $1,725,759 provided in the current year. This amount includes $1,130,000 for principal and interest payments on the $13 million revenue bond issue for its construction, and $250,000 as a General Fund support subsidy for Cal-Expo.

In the current year Cal-Expo received a $220,000 special augmentation for certain specific purposes such as livestock exhibits, special events, advertising, maintenance, etc., providing a total General Fund support subsidy of $595,759. This increase was not matched by increased revenues as originally anticipated by the executive committee.

The budget for next year estimates substantially higher revenues than realized in the past two years. In addition operating costs are to be reduced by $201,042 due to certain economies such as shifting the maintenance of buildings and grounds to the Department of General Services. The result of these changes is to reduce the General Fund subsidy by $345,000 for 1973–74. It is probable, however, that the revenue is overestimated and that this will result in underfunding Cal-Expo and produce a serious financial problem for Cal-Expo. Recent declines in revenues and attendance are shown in Tables 1 and 2 in later sections of this analysis.

The above developments, as well as other problems in recent years indicate a need to review the management record at Cal-Expo and determine a future course of action.

Origins of Cal-Expo

Numerous studies were undertaken prior to the construction of Cal-Expo. A study in 1949 and a subsequent study in 1956 suggested that the old State Fair site was unsuitable to an expanded and financially prosperous operation. These studies also noted that Sacramento was distant from the primary market areas for a state fair, that the predominantly agricultural state fair did not reflect changes in California's economy or the interests of its people, that expenses were excessive compared to fairs of similar size, and that a large number of free passes were issued annually which severely reduced revenues.

Conceptually, the California Exposition and Fair was to be of broader scope than the old State Fair in order to "promote and extol the state in all its aspects—its heritage, culture, industry, people, and resources." It was to be made economically self-sufficient with the aid of professional showmen, promotional experts, and management personnel. Operation was to be by nonprofit corporation (CEFCO). In 1963, Economic Research Associates (ERA) completed a detailed study of Cal-Expo and presented a plan consisting of five major attractions: (1) an exposition center to provide a noncommercial, year-round educational and cultural display area; (2) an industrial exhibition area with open space and building shells for private industrial use; (3) a recreation area with a revenue-producing amusement park designed to fit various California themes; (4) a fair activities complex with space for traditional state fair exhibits; and (5) the racetrack with provision for both automobile and horseracing. The exposition was to be operative year-round, and according to the ERA estimates would immediately become self-sufficient and show profits.

In April 1967, substantial changes in the ERA proposal were made because of a shortage of construction funds. These changes included (1) reduction in estimated attendance figures for Cal-Expo which were believed to be significantly overstated, (2) development was to proceed on a pay-as-you-go basis when funds were available, (3) initial features were designed to give greater emphasis to agriculture, (4) private concessionaires were to install, maintain and operate the entertainment features of the exposition, and (5) state funds saved by obtaining such private capital were to be used for expansion of agricultural purposes at the fair.

Premature Opening of Cal-Expo

Although the physical plant at Cal-Expo was not finished, the Exposition and Fair Executive Committee chose to open Cal-Expo in July 1968. The interior and exhibits of the Exposition Center were unfinished. Nothing had been done to provide for recreational features and private capital to construct such recreational features had not been obtained. Economic Research Associates stated in July 1968, after visiting Cal-Expo, that the facilities open to the public at that time were little more than the old State Fair housed in new structures.

The initial run of Cal-Expo in 1968 consisted of 58 days and resulted in a loss according to the State Auditor General's figures of $1.7 million. The Assembly Governmental Organization Committee, as a result of the first year of operation of Cal-Expo, held hearings on the problems of Cal-Expo and made three recommendations. There were: (1) hearings be held to determine the appropriate organizational framework for the operation of the Exposition and Fair, (2) an independent market reevaluation to determine future revenue and operating potential and use of excess land, and (3) an audit. The committee also seriously questioned whether a year-round exposition in the Sacramento metropolitan area was feasible as originally proposed by ERA.

Corporation Dismissed

The executive committee terminated the contract for operation of Cal-Expo with the corporation on September 30, 1968. It blamed the corporation for the poor performance of Cal-Expo and cited duplication and inadequate management, diffusion of responsibility, inadequate revenues and attendance, and inadequate exhibit management as factors warranting the dismissal of the corporation. The executive committee determined that "fiscal responsibility and the pay-as-you-go policy make it incumbent upon the executive committee, as the state agency responsible for Cal-Expo, to immediately bring the operational costs of Cal-Expo within income and budgeted funds." The executive committee still operates Cal-Expo.

CALIFORNIA EXPOSITION AND FAIR—Continued

Current Problems at Cal-Expo

Reduce Revenues and Attendance

As indicated in Table 1, Cal-Expo revenues have declined in both 1971–72 and 1972–73 from the 1970–71 high.

Table 1
Cal-Expo Revenues

Revenues	*Actual 1970–71*	*Actual 1971–72*	*Actual 1972–73*	*Estimated 1973–74*
Admissions	$564,246	$482,586	$495,933	$628,822
Parimutuel wagering	864,030	734,055	699,470	720,000
Parking	77,458	91,464	111,315	116,000
Concessions and commercial	406,652	465,243	435,000	592,000
Exhibit entry fees and miscellaneous	19,250	12,283	11,000	15,500
Public services	145,459	187,782	188,000	197,617
Totals, revenues (State Fair Fund)	$2,077,101	$1,973,413	$1,940,718	$2,269,939

Cal-Expo has increased its attendance (see Table 2) from the very poor year in 1968 to a high in 1970. Thereafter attendance has dropped slightly. *Paid attendance* is even less favorable.

Table 2
Paid Attendance at Cal-Expo

Year	*Total attendance*	*Paid attendance*	*Paid attendance as percent of total*
1968	782,883	620,777	79.3
1969	857,386	525,983	61.4
1970	952,691	536,249	56.3
1971	893,737	446,069	49.9
1972	932,561	469,488	50.3

Executive Committee Proposal on Organization and Development of Cal-Expo

In response to a growing criticism of Cal-Expo the executive committee early in 1972 appointed a six-member subcommittee to study the Cal-Expo organization structure, the original concept as set forth in the "Gold Book" (prepared by ERA), and to make recommendations on the future of Cal-Expo.

The organization structure subcommittee which undertook the reevaluation of Cal-Expo returned to and largely adopted the purposes, objectives and general policies of ERA's "Gold Book" which presented the original plan for Cal-Expo. The purpose was determined to be a promotional one. General policies were designed to meet Cal-Expo's primary purpose and were determined to be (1) functional excellence, (2) functional balance (the fair shall strive for a proper combination and balance of all its functions), and (3) self support. The subcommittee adopted a proposed master plan for capital outlay expenditures. In essence, the subcommittee proposed that a number of the original features of Cal-Expo with some modification be completed over a period of years by state and private expenditures. The basic but unspecified objectives of the executive committee during its years of managing Cal-Expo have been very similar to those stated in the organization structure subcommittee report. This report is a statement of these goals and policies and also spells out a proposed capital outlay plan which is intended to achieve them.

Unfortunately the report of the organization structure subcommittee largely ignores the five years of problems which the state has had with Cal-Expo. The basic need was to restudy the fair organizational structure and the concept of Cal-Expo, to determine the future direction of Cal-Expo, and to prepare a capital outlay proposal. However, the study fails to come to grips with these critical organizational and conceptual problems of Cal-Expo. It does not provide the basic market and economic feasibility analysis which has been recognized as necessary by the Legislature since 1968. It therefore amounts to a proposal to put substantially more money into Cal-Expo without an adequate reevaluation.

Horseracing at Cal-Expo

In 1970 the executive committee contracted with the California Capitol Trotting Association, Inc., to provide 40 nights of harness racing at Cal-Expo. As we pointed out in our Analysis last year, attendance at the 1971 harness race meet was 149,712 with a total handle for 40 nights of $5,869,001. The revenue to Cal-Expo was quite minor, however, as the California Capitol Trotting Association received the meet sponsor's share of parimutuel revenues. The exposition received only about $27,400 from concessions and rental of the track. Our Analysis concluded that the harness racing meet at Cal-Expo appears to have been largely responsible for the decline in horseracing revenues to Cal-Expo. It also appears that at least in 1970–71 the executive committee contracted a part of its racing market to outside harness racing.

Table 3
Thoroughbred Horseracing at Cal-Expo

	1970	*1971*	*1972*
Total handle (amount wagered)	$8,393,513	$6,765,137	$6,112,773
Revenue to Cal-Expo	$864,030	$734,096	$699,504
Per capita wager	$65.70	$68.90	$56.98
Racing attendance	127,709	98,140	107,436
Percent change in attendance from previous year	6.7%	−23%	9.5%
Total fair attendance	952,691	893,737	932,551
Percent change in total fair attendance from previous year	11.1%	−6.2%	4.4%

Table 3 shows that after the substantial decline in the total handle (total amount wagered) and Cal-Expo parimutuel revenue for 1971, the year 1972 was a further disappointment. Although racing attendance increased slightly from 98,140 in 1971 to 107,436 in 1972, Cal-Expo revenues from wagering showed a further decline from $734,096 to $699,504. The per capita bet dropped from $68.90 in 1971 to $56.98 in 1972. Also evident from the table is the fact that although the overall fair attendance in 1971 declined by 6.2 percent from the previous year, racing attendance dropped 23 percent in the same year. It should be noted that 1971 was the year of serious crowd disturbances at Cal-Expo which have had an adverse

CALIFORNIA EXPOSITION AND FAIR—Continued

effect on all aspects of Cal-Expo's operations.

Stable Area and Racetrack Lease

Cal-Expo currently leases the stable area and racetrack to a private concessionaire during the interim between the fall fair and harness racing seasons at a rental rate equal to about $500 per month or 10 percent of gross revenues, whichever is greater. The stables themselves originally cost over $1.8 million and are subject to substantial deterioration from this interim operation. Cal-Expo realized revenues of about $5,211 in 1970–71 with a similar amount expected in 1971–72 from this lease. In addition, Cal-Expo has significant personnel costs due to this contract.

In the report of the Cal-Expo organization structure subcommittee it was found that the interim stable lease appeared to be of questionable merit. It was stated as likely that the state could not recover enough from this lease to pay for the needed maintenance nor realize any net revenues. We agree with this conclusion. The executive committee recently gave notice to the lessee of its intent to terminate this lease. The executive committee proposes to operate the stables temporarily on a pilot basis. It is unlikely that this change will result in making the interim stable operation an economic one.

Deteriorating Premises

Although some staff has been available for maintenance work at Cal-Expo there has been a general deterioration of the upkeep, appearance and operation of the premises. This deterioration has progressed to the point that it is clearly inconsistent with the unique designs and high quality construction of the permanent structures at Cal-Expo. The facilities have not been kept attractive, and in some cases, such as the carnival area last fall, conditions have occurred which are repulsive or hazardous to the public.

In its five-year plan the executive committee for the first time publicly recognized that major deferred maintenance costs are rising and that certain lighting and air conditioning equipment is costly and unsatisfactory to the point of needing replacement. Water quality continues to be a problem in the lagoons and passageways. Furthermore the construction of the flume ride in front of the expensive Exposition Center complex is architecturally and esthetically objectionable. In short, a rapid deterioration in the quality of the premises is occurring.

Minirail Corporation

The nonprofit corporation contracted with the Minirail Corporation to construct and operate a minirail. When Cal-Expo was converted to a fair, the minirail was left without a market and the corporation had a worthless investment. The corporation removed the trains and brought suit for damages. The state settled the suit for $2.2 million which was appropriated by the Legislature last session. Four of the six trains were returned as part of the settlement but they were not in operating condition for the fair period. The end result is more cost and much greater difficulty than if the state had built the minirail itself. This illustrates how outside contracts for private investments can become major problems rather than benefits.

Amusement Park Operations

Current management problems are particularly evident in Cal-Expo's amusement park operation. Under the terms of the amusement park lease with Atlas Greater Shows, Cal-Expo is to receive for each annual fair period a minimum rental of $230,000 or 35 percent of gross sales and receipts received by the lessee, whichever is greater.

To date Atlas Greater Shows has not furnished (nor has Cal-Expo management required) an adequate, detailed accounting of amusement park operations. In 1971, the financial information furnished the state by Atlas for fair operations consisted of one page of summary data. The information was not prepared by a CPA and was inadequately detailed for audit. In 1972, Atlas submitted two pages of handwritten figures and a set of ticket books. This "accounting" was neither signed nor dated. In a number of categories there were discrepancies between ticket book revenues and the revenues on the balance sheet. Again, this type of information does not permit the state to verify the accuracy of Atlas' accounting. A major revenue category for the carnival operation is sale of carnival "real estate" footage. Atlas derived approximately $100,000 from the sale of this space to operators of games, etc. According to Cal-Expo staff, payments for this footage are made by carnival operators to the concessionaire in cash, with no receipts kept, making audit impossible.

It is imperative if the state is to exercise even the most basic financial controls over its concessions and determine proper state rentals, that it set up an adequate base of financial information. Such information should permit the state to verify totals by audit of basic documents.

In the 1973–74 budget, Cal-Expo has requested the addition of an audit position. This position would be used for audit of leases, etc. This position is needed but will not solve all contract and lease problems. Management policy relative to the financial procedures and submittal of financial information by lessees must also be revised and strengthened, and Cal-Expo must enforce the terms of leases.

Lack of Management Control and Poor Quality of Amusement Park Operations

The amusement park contract at Cal-Expo carries numerous obligations which bind the amusement park operator, as well as requiring administrative control by the management of Cal-Expo. Some of the more significant obligations on the part of the lessee and the current condition of compliance are:

(1) The lessee at his sole cost and expense is to construct, maintain and operate an amusement park and carnival on the grounds of Cal-Expo. No amusement park has yet been constructed or operated at Cal-Expo. Although numerous carnival rides and a flume ride are referred to as an amusement park, they are no more than a semipermanent carnival.

(2) All amusement park facilities are to be clean, including aisles, streets, roads and areas used by the public. In both 1971 and 1972 Cal-Expo management complained about the unclean condition of the carnival and eventually cleaned the area in 1971 with its own

CALIFORNIA EXPOSITION AND FAIR—Continued

crews. In 1972 the carnival was very poorly maintained again, but Cal-Expo management chose not to maintain the area.

(3) The lessee is responsible for the neat appearance and conduct of his employees and his personnel are to be identified by uniforms and identification badges. Exposition management was unable to cause the carnival operator to provide uniforms for his employees, nor insure that they at all times had proper identification badges.

(4) Trailers for live-in residences are not allowed on the premises of the amusement park. Such trailers were present in 1972.

(5) In addition the lessee commencing with the opening day of each fair is to deposit all of the gross revenues derived by the lessee from his operations during the fair period into a bank designated by the state. This contract condition was not complied with in 1972 although it is essential to checking the computation of rentals. The state is to have a lien on this account in the amount of the minimum rental due the state.

(6) Not more than 30 percent of the rides or shows by number or volume of business are to be sublet. This volume condition was probably exceeded in 1971 although Cal-Expo does not possess the information to be sure.

(7) The lessee has the right to display *appropriate* signs and advertising on the leased premises. Signs displayed in 1972 were very poor in appearance and not approved by the state.

(8) It is the duty of the lessee at his own expense to prepare and conduct an extensive program for promotion and advertising purposes to capture the interest of the public in the amusement park. According to Cal-Expo management no such program has ever been conducted.

(9) Temporary electrical wiring was unsightly and exposed and presented a potential public safety hazard according to the Division of Industrial Safety.

(10) The executive committee has criticized the size and quality of the roller coaster, the unsightly appearance of the flume ride, failure to complete or begin the theme amusement park as originally conceived, and the general appearance of the amusement park area.

At the August 25, 1972, meeting of the executive committee, it was noted that the restrooms in the amusement park were still unfinished, and that the size and quality of the roller coaster and general condition of the amusement park were unsatisfactory. Further, instead of permanent rides, almost all rides in the amusement area were of a temporary nature. The executive committee then directed that Atlas be informed that unless the deficiencies were immediately corrected the executive committee would take action to declare its contract with Atlas null and void. The letter sent to Atlas listed eight areas of deficiencies. Four of these deficiencies were identical to those noted in an October 15, 1971, letter of the executive committee to Atlas Greater Shows. This occurred after the executive committee made three amendments to the Atlas lease on January 4, 1972, on the basis that these earlier deficiencies would be entirely eliminated.

It is clear from the above examples that Cal-Expo has permitted serious deficiencies in the amusement areas to continue for an unreasonable period of time. At the same time, Cal-Expo has allowed amendments to the concession contract benefitting the amusement park operator. As a consequence the problems with this concessionaire may result in future litigation and claims against the state with the state having to buy out the contract as in the case of the minirail.

This review of the stewardship of the executive committee indicates that it has not solved the problems it willingly assumed when it terminated the contract with the nonprofit corporation and that in many areas its operations have been unsatisfactory. It has been noted that in several major instances the actions of the executive committee have been detrimental to the state. Thus, continued operation under present conditions is not only failing to solve problems but appears to be creating new problems.

These management failures are contributory to its problem, but the major difficulty at Cal-Expo is still the lack of a clear determination whether Cal-Expo can ever be the exposition it was planned and constructed to be. If it cannot be such an exposition, Cal-Expo should be modified on some reasonable new program basis and the funds provided to achieve that goal. If this is not done immediately, Cal-Expo should be denied further funding because present operations are generating an increasing number of deferred contract and maintenance problems which will be costly to correct.

STATE FIRE MARSHAL

Item 145 from the General Fund — Budget p. 67 Program p. I-394

Requested 1973–74	$1,275,827
Estimated 1972–73	1,035,287
Actual 1971–72	957,098
Requested increase $240,540 (23.2 percent)	
Increase to improve level of service $75,000	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Plan Review. Recommend a fee be established making the plan review and field inspection functions of the State Fire Marshal self-supporting. — 249
2. Electronic Data Processing. Recommend special review of proposed fire statistics development and implementation system. — 250

STATE FIRE MARSHAL—Continued

GENERAL PROGRAM STATEMENT

The basic objectives of the State Fire Marshal's office is the prevention of loss of life and property by fire through fostering, promoting and developing ways and means to protect against fire and panic. The program is specifically aimed at various types of occupancy to which the public has general access. However, the Fire Marshal's activities also result in the promotion of fire and panic safety in nonpublic occupancies through influence on applicable building codes. To achieve the objectives the Fire Marshal has established three major elements within his office (1) enforcement, (2) analysis and development, and (3) administration.

Enforcement

The enforcement element is composed of seven components affecting public assembly occupancies (occupancy of 50 or more persons), educational occupancies, institutional occupancies, state-owned buildings, portable fire extinguisher servicing concerns, fireworks and transportation of flammable liquids. Enforcement is conducted principally on a two-phase basis, (1) review of construction plans for new facilities, and (2) onsite or field inspection applicable to the various components. The responsibility for enforcement rests with local fire authorities, except in the case of state-owned buildings and cargo tanks used in the transportation of flammable liquids. Where no such fire authority exists, the State Fire Marshal is charged with enforcement responsibilities. Until the enactment of Chapter 991, Statutes of 1972 (SB 1355), the Fire Marshal also exercised sole enforcement jurisdiction in drycleaning establishments.

Analysis and Development

The analysis and development element consists of four components. Three of these components have been established and operational for more than 18 years. These include (1) construction materials and equipment, (2) licensing registration and certification, (3) public education and training. The fourth element, statistics, was added through the enactment of AB 2066, Chapter 758, Statutes of 1972 (AB 2066). Under this activity information and data relating to every fire in the state will be submitted to the State Fire Marshal for analysis, completion and dissemination to each chief fire official in the state, as well as any other interested person. Through this means, the development and enforcement of more effective and practical fire safety requirements should result.

The construction materials and equipment component is responsible for evaluation of technical data and test reports of construction materials and equipment to determine conformance with State Fire Marshal adopted test methods and standards. A listing of the conforming materials and equipment is published annually.

The licensing, regulating and certification component is responsible for those requirements within the function relating to flame retardants, fireworks, explosives, portable fire extinguishers and cargo tanks used in the transportation of flammable liquids.

The public education and training component provides the public with fire and panic safety information and also trains and informs local enforcement agencies as to the most recent developments, regulations, and practices in fire and panic safety.

Administration

The administrative program includes planning, coordinating and application of appropriate statistical, fiscal and technical information and data. For accounting purposes the cost of this element is distributed to the enforcement and analysis and development elements in the amount attributable to each.

ANALYSIS AND RECOMMENDATIONS

The requested $1,275,827 for the support of the office of the State Fire Marshal is $165,740 (14.9 percent) above the estimated gross support expenditure for the current year. However, $75,000 for the current year expenditures is from the Dry Cleaners Fund. With the enactment of Chapter 991, Statutes of 1972 (SB 1355), the Fire Marshal's responsibility for enforcement of fire and life safety in drycleaning facilities was terminated. The total request for the budget year is from the General Fund and is $240,540 (23.2 percent) above the estimated expenditure in the current year of $1,035,287 from that fund. This increase is related to a request for three new positions ($34,703) increased operating expenses ($70,837) a reduction in reimbursements ($60,000) and the deletion of $75,000 from the Dry Cleaners Fund. Nearly all the increase in personnel and operation expense is directly related to the new statistics element which is discussed later in this item. The decrease in reimbursement is due to a revised agreement with Public Health and the Department of Welfare. Under this agreement the Fire Marshal contracts with private individuals for field inspection of facilities licensed by these departments. This contractual agreement has been revised downward $60,000. The State Fire Marshal had assigned six field inspection personnel to the responsibility of inspection drycleaning establishments. With the termination of this responsibility the State Fire Marsnal has absorbed these positions into field inspection of other facilities under his responsibility which will provide an additional 1,200 inspections of institutional facilities and 1,000 inspections of state-owned buildings.

Plan Review Function

We recommend establishment of a fee to make the plan review and field inspection functions self-supporting.

In response to the 1972 Budget Bill Supplemental Conference Report, we have made a study of the State Fire Marshal's plan review function. The study was to determine the type of plans reviewed and whether the functions should be eliminated or a fee should be established to make the function self-supporting.

At the present time the Fire Marshal's plan review function operates under two separate standards. In the case of public schools and state buildings, the Fire Marshal reviews and approves plans. In all other cases he reviews plans for basic conformance to panic and life safety codes (Title 19 California Administrative Code), but he does not approve them and in

STATE FIRE MARSHAL—Continued

most cases points out that his review is strictly for conformance and does not constitute approval. Under this second standard, the Fire Marshal estimates that 90–95 percent of his workload is related to state licensing procedures required by other state agencies for facilities such as day care centers, nursing homes, hospitals, etc. The responsiblity for enforcement of these codes in most areas of the state rests with local authorities.

In effect, what the plan review function represents is a consulting service which fills a gap in professional services in the fire and life safety area. The architect, in design of buildings, has professional consulting services available from registered professionals in such fields as structural, mechanical, and electrical engineering. These professionals are knowledgeable in their respective fields and charge a fee for their services. However, in the field of fire and life safety, comparable registered professionals are not available for consulting services. It is imperative that fire and life safety aspects in construction be monitored by knowledgeable individuals. Since there are no private professional services available, the responsibiliy must be assumed by the State Fire Marshal. However, this consulting service should be reimbursed for actual cost with a fee based on the value of construction, similar to the fee charged by the schoolhouse plan-checking division of the State Office of Architecture and Construction. If, however, there are knowledgeable individuals within a fire district or whenever state-licensed professionals become available, the State Fire Marshal should not assume this responsibility.

Field Inspection

The State Fire Marshal's workload in this area is estimated at 16,380 field inspections in the budget year. Approximately 73 percent or 11,880 field inspections are in facilities within an area for which local fire authority does not maintain a staff capable of inspecting facilities for conformance to fire and life safety codes. Several fire districts throughout the state assess a tax sufficient to maintain a staff for facilities inspection. Other districts do not maintain such a staff and many may not have the workload to justify full-time inspection personnel. These are understandable situations, and yet the need for an on-going program for inspecting facilities is obvious. However, it does not seem appropriate for the population of a fire district to be taxed for the maintenance of a district inspection staff and at the same time be taxed by the state to provide comparable service for other districts. It must be pointed out that the districts are responsible for this service, and it seems reasonable for the State Fire Marshal to establish a fee, to offset direct costs, associated with this service.

Fire Statistics

We recommend special review of $80,000 requested for electronic data processing (EDP). Additional information should be made available by the agency before or during budget hearings.

The budget includes $80,000 for study, development and implementation of state-owned EDP equipment necessary to handle the statistical reports to be generated under this new function. This amount is in addition to $40,000 to be expended for this purpose in the current year. It is our understanding that the State Fire Marshal is working with the Department of General Services to develop a program so that a study can be made by a private contracting agency. We have received no information regarding the scope of the EDP program and cannot, at this time, recommend the adequacy of the request.

FRANCHISE TAX BOARD

Item 146 from the General Fund — Budget p. 69 Program p. I-398

Requested 1973–74	$35,396,670
Estimated 1972–73	34,303,594
Actual 1971–72	26,017,247
Requested increase $1,093,076 (3.2 percent)	
Increase to improve level of service $115,038	
Total recommended reduction	$492,867

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Workload revision. Reduce $456,860.* Recommend reduction of $456,860 in personal income tax program support including disapproval of 10.5 key data operators on basis of lower estimate in the number of returns filed. 253
2. *Unallocated auditors. Reduce $36,007.* Recommend disapproval of 1.1 auditors requested for management assignments. 256

GENERAL PROGRAM STATEMENT

The Franchise Tax Board administers the Personal Income Tax Law, the Banks and Corporation Tax Law, and the Senior Citizens Property Tax Assistance program.

Budget Increased $10 Million in 1972–73

Chapter 1, Statutes of 1971, First Extraordinary Session (AB 1), incorporated a number of tax changes which have had a significant impact on the workload of this agency. They include:

1. Withholding. A system of personal income tax withholding and quarterly estimated payments was initiated January 1, 1972. First-year tax returns under the new withholding program will be due April 15, 1973.

2. Bank and Corporation Tax Quarterly Payments. A system of quarterly payments of estimated tax was instituted in 1972 replacing the semiannual installment provisions which existed under former law.

3. Senior Citizens' Property Tax Assistance. Income limitations under this program were increased from $3,350 to $10,000, resulting in an increase in claimants from 56,000 to 293,000 estimated in the current year.

Table 1 provides a history of the program changes which were approved for implementation of Chapter 1.

FRANCHISE TAX—Continued

Table 1
Effect of Chapter 1, Statutes of 1971, First Extraordinary Session on Franchise Tax Board 1972–73 Budget
(in thousands)

Program Budget	*1972–73 Governor's budget*	*Chapter 1 augmentation*	*1972–73 Budget total*[1]
Personal income tax	$15,146	$8,860	$25,233
Bank and corporation tax	6,826	291	7,486
Senior citizens' program	556	1,033	1,671
Reimbursements	−3	−83	−86
Total	$22,525	$10,101	$34,304

[1] Total includes $1,677,052 for salary increases and staff benefits.

The 1972–73 increase in expenditure levels necessary to administer the withholding provisions of Chapter 1 are due principally to three factors:

1. *Employer Withholding.* The withholding of income taxes by employers and subsequent deposit of these moneys is administered under contract with the Department of Human Resources Development (HRD) in conjunction with its State Disability Insurance withholding program. The current year HRD contract costs are estimated to be $4.9 million, which represents 49 percent of the total 1972–73 budget increase shown in Table 1.

2. *Increased Number of Returns Filed.* Due to the withholding of income from persons who have previously failed to file a tax return and the withholding of income from persons who will not have a tax liability but will file for a refund, the current-year budget estimates an increase of 1.8 million returns filed for a 23 percent increase in return-processing workload.

3. *Electronic Data Processing (EDP).* In order to facilitate the rapid processing of returns filed with claims for refund the board will move from a manual math verification and audit selection to the electronic data processing of all returns. The added EDP costs will amount to $2.5 million or 28 percent of the budget increase in the current year.

ANALYSIS AND RECOMMENDATIONS

Distribution of the board's manpower and expenditures by program is summarized in Table 2.

Table 2
Franchise Tax Board
Distribution of Manpower and Expenditures by Program

	Actual 1971–72		*Estimated 1972–73*		*Proposed 1973–74*	
	Man-years	*Expenditures (thousands)*	*Man-years*	*Expenditures (thousands)*	*Man-years*	*Expenditures (thousands)*
Personal income tax	723.1	$18,358	908.5	$25,740	868.3	$26,558
Bank and corporation tax	368	6,902	378	7,373	383	7,638
Senior citizens' program	69	810	122	1,305	122	1,329
Administration	627	(8,226)	756	(9,752)	785	(10,212)
Reimbursements	—	−53	—	−115	—	−129
Totals	1,787.1	$26,017	2,164.5	$34,304	2,158.3	$35,397

I. PERSONAL INCOME TAX PROGRAM

We recommend that the personal income tax program be reduced $456,860 including disapproval of 10.5 key data entry operators requested in the budget year.

The board's workload budget for 1973–74 is based upon an estimated 8.5 million tax returns filed in 1973–74. Analysis of more recent data indicates that actual returns filed will approximate 8.1 million returns, a reduction in workload of 400,000 returns in the budget year.

New Personal Income Tax Estimating Base

For 1972–73 and 1973–74 the board has established a new workload estimate base using the number of federal income tax returns filed by California residents. The experience of other states has been used to estimate that the number of California returns (Form 540) should equal between 90 and 95 percent of the number of federal returns filed. The board's 1973–74 budget estimate is based upon the number of 1970 federal returns filed in California. Table 3 compares this estimate with our revised estimate using 1971 federal data which became available after the budget was prepared.

Table 3
Comparison of Budget Estimate and Revised Estimate of Personal Income Tax Returns—1973–74
(in thousands)

Returns	*Budget estimate 1970 federal base*	*Revised estimate 1971 federal base*	*Difference*
Residents (540)	7,880	7,449[a]	−431
Nonresidents (540 NR)	275	275	—
Prior year (540 E)	150	150	—
Fiduciary (541)	110	110	—
Partnership (565)	130	130	—
Total 1973–74 returns filed	8,545	8,114	−431

[a] Based upon 92.5 percent of the 7,591,000 federal returns filed in 1971 projected to 1973 at 3 percent.

The board's budget-year estimate is based upon a 3 percent annual projection of 1970 federal returns filed in California. Last year, the board's estimate was based upon 1969 California returns filed projected forward three years at an annual rate of 4.5 percent. We indicated then that the 4.5-percent projection rate substantially exceeded the growth in California population and employment during the period 1969 through 1972, and that actual growth in returns filed would increase at a lower rate. The latest federal and state data, shown in Table 4, supports the estimates we made last year.

Table 4
Growth in Federal and State Personal Income Tax Returns Filed in California
(1968 through 1971 in thousands)

Income Year	*Federal returns filed*	*Percent change*	*State returns filed*	*Percent change*
1968	7,462	—	5,587	—
1969	7,745	+3.8%	5,841	+4.5%
1970	7,553	−2.5	5,969	+2.3
1971	7,591	+0.5	5,895	−1.2

FRANCHISE TAX—Continued

The recommended reduction in program support is based upon an average cost per return of $1.06 which is the direct cost of processing each return and does not include any charges for administrative overhead, field audit costs or amounts allocated to HRD for employer withholding.

The recommended workload reduction would be realized by: (1) reducing from 29 to 18.5 the number of data entry operators requested in the budget year, and (2) by realizing savings from programs which will be discontinued during the current and budget years.

1. *Data entry reductions.* The board presently has a staff of 121 permanent and 151 temporary key data entry operators who transfer information from each tax return directly into the computers for arithmetic verification and computation of refunds. The recommended increase of 18.5 temporary data entry operators is consistent with the revised estimate of tax returns filed in 1973–74.

Data Entry Productivity Improves

The 1973–74 request for data entry operators reflects the increase in productivity of temporary help which we recommended in last year's Analysis. The productivity of temporary data entry operators for 1973–74 is equal to 77 percent of the permanent operators production rates and is 17 percent higher than the targeted production rates used by the board to estimate staffing requirements in 1972–73.

2. *Discontinued programs.* Conversion to centralized EDP processing will eliminate some previously manual programs and will reduce workload in others. The following schedule identifies programs which will be completed in the current and budget years with personnel assigned to new areas.

	Anticipated savings in man-years	
Programs	*1972–73*	*1973–74*
1. Elimination of alphabetic sorting	−10.6	−55.6
2. Filing enforcement program	−28	−72
3. Completion of tax forgiveness	—	−33.5
4. EDP consolidation	−3	—
Total man-year savings	−41.6	−161.1

The budget identifies the 55.6 man-year reduction in alphabetic sorting of returns, but does not separately identify the staff savings in filing enforcement and tax forgiveness which were reallocated to the increased workload occurring in return processing and math verification.

Year-end Savings Used to Reduce Backlogs

The agency has realized only nominal year-end savings for the past four years even though actual workload during this period has consistently fallen below the budget estimates. Table 5 shows the workload experience for the period 1968–69 through 1971–72 and the resulting increase in costs.

Table 5
Comparison of Budget Estimates and Actual Workload for the Personal Income Tax Program 1968–69 through 1971–72
(returns in thouands)

	Budget estimates of returns filed	*Actual number of returns filed*	*Difference*	*Budget cost per return filed **	*Actual cost per return filed*
1968–69	6,006	5,587	−419	$1.89	$2.03
1969–70	6,250	5,841	−409	2.04	2.19
1970–71	6,320	5,969	−351	2.17	2.30
1971–72	6,440	5,895	−545	2.30	2.51

* Program cost including administration, and data processing.

The workload reductions in the personal income tax program shown in Table 5 have not resulted in year-end savings because the board spends these funds on temporary help and overtime to reduce backlogs primarily in alphabetizing, filing, and math verification. The board uses large amounts of temporary help because its workload traditionally has been uneven throughout the year. Of the 2,189 positions authorized during the current year 635 will be used for temporary help. The new withholding program will eliminate many of the workload items which have been backlogged in the past and in addition will result in a more even flow of workload during the first five months of the year. This should give the board the opportunity to convert some of its temporary staff and overtime funds into permanent positions, thereby reducing the high cost of training inexperienced temporary personnel.

Demand for Taxpayer Service Increases

We recommend approval of 22.5 man-years of temporary help in the southern and northern regional offices.

This request is based upon an estimated 40 percent increase in regional office workload generated by public requests for information relating to filing an income tax return under the new withholding program. The board proposes to replace the presently expensive auditor and tax representative time with lower-cost temporary help for over-the-counter type service requiring a general knowledge of tax forms and their preparation. The board intends to convert these temporary positions into permanent staff when the service demand under withholding has been established.

II. BANK AND CORPORATION TAX PROGRAM

The Bank and Corporation Tax Law imposes a tax on corporations doing business in California and an income tax on those having incomes from California sources but not doing business in this state. The 1973–74 requested increases relate primarily to the audit of out-of-state corporations. Table 6 shows the composition of the audit program proposed in 1973–74.

We recommend approval of five new auditor positions for the New York and Chicago offices. We recommend disapproval of 1.1 man-years of unallotted audit time requested at headquarters for a General Fund saving of $36,007. The request for five new positions for the multistate corporations audit is based upon a projected workload increase of 80 multistate audit

FRANCHISE TAX—Continued

Table 6
Bank and Corporation Tax
Audit Revenues and Costs

	Proposed 1973–74		
	Net assessments in thousands	*Man-years*	*Net assessments per dollar of cost*
Math verification	$2,500	23	$6.41
Federal audit reports	11,000	8	51.16
California corporations			
Headquarters	2,500	20	7.62
Field	6,000	62	6.34
Multistate corporations			
Headquarters	2,500	17	7.84
Field—in-state	7,000	54	7.56
Field—out-of-state	20,000	93	12.59

cases in the budget year. The staff requirement is based upon a production rate of 16 audit cases per audit man-year. The $12.59 assessment per dollar of cost generated from out-of-state audits justifies the increase requested. We believe that the revenues which will be generated by these new audit positions will substantially exceed their added state cost.

We recommend disapproval of the 1.1 auditors which are unallotted in the budget year. These positions are requested to replace the loss of personnel assigned to departmental task forces and special management studies. Two new management analysts will be added during 1973–74 and these new positions should relieve staffing demands placed on the audit programs.

III. SENIOR CITIZENS' PROPERTY TAX ASSISTANCE PROGRAM

We recommend approval of 15 temporary help positions to administer the 13 percent increase in workload which was not funded during the current year.

The board experienced a fivefold increase in workload in this program during 1972–73 with the number of claims increasing from 56,000 processed under former law to 293,000 processed as a result of the expanded assistance provided by Chapter 1, Statutes of 1971, First Extraordinary Session. The current-year budget was based upon an initial estimate of 260,000 claims filed, which is 33,000 less than the number actually processed. The requested increase will result in a direct line item cost of $2 per claim processed during the current year, which is significantly below the $3.77 per claim experienced under former law.

Program Costs Shifted

Last year we stated that a "program" cost of $7.25 per claim processed could not be justified and the Legislature reduced the board's senior citizens' property tax assistance budget request to $6 per claim processed. The board has apparently reevaluated its method of charging administrative costs to this program and during the current year has reallocated $366,000 in senior citizens' property tax assistance costs to the personal income tax program as shown in Table 7.

Table 7
Franchise Tax Board Reallocation of Program Costs
1972–73 Budget

Program	*Authorized 1972–73 budget*	*Reported 1972–73 budget*	*Change from budgeted amount*
Personal income tax	$25,232,735	$25,740,000	$+507,265
Bank and corporation tax	7,485,898	7,373,000	−112,898
Senior citizens' property tax	1,671,199	1,305,416	−365,783
Reimbursements	−86,238	−114,822	−28,584
Total	$34,303,594	$34,303,594	—

Most of the reallocation of funds shown in Table 7 relate to a change in the method of allocating data processing costs. We anticipate that the implementation of the data processing consolidation center (discussed on page 148) will result in a more uniform and accurate method of charging for data processing services.

IV. ADMINISTRATION

Table 8 shows the increase in staff authorized in 1972–73 to administer the withholding program.

Table 8
Franchise Tax Board Administration
(1972–73 in authorized man-years)

Administration	*Authorized 1971–72*	*Increase for AB 1 administration*	*Total 1972–73 budget*
Executive	13	3	16
Legal	51	8.2	59.2
Fiscal	17	5.7	21
Program	46.7	13.4	60.1
Total	127.7	30.3	156.3

We recommend approval of two assistant management analysts requested in the budget year. The management analysis unit has a permanent staff of 10 professional positions. The workload of this unit has increased under withholding with no increase in staff. New programs planned for the budget year include the completion of the withholding reorganization, conversion of manual procedures to data processing, the implementation of video terminals for file reference, and the implementation of an EDP consolidated service center plan.

We recommend approval of two technical analysts and two accounting technicians requested for the budget year. These positions were approved for the 1972–73 year only because withholding workload requirements were uncertain at that time. The two technical analysis positions should be continued during the budget year because the requirements for forms design and administration in the technical analysis unit have exceeded expectations. The two accounting technicians should be continued during the budget year because there will continue to be a significant increase in workload related to the reorganization of operating units under withholding.

We recommend approval of one personnel assistant and one clerk I to

FRANCHISE TAX—Continued

staff the new employment office. These two personnel will be used to staff, on a full-time basis, a visitors' reception area and a clerical testing and placement office located outside Gate 3 at Aerojet Center.

DEPARTMENT OF GENERAL SERVICES

Item 147 from the General Fund — Budget p. 70 Program p. I-413

Requested 1973–74	$3,563,540
Estimated 1972–73	5,875,614
Actual 1971–72	4,895,261
Requested decrease $2,312,074 (39.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Land Inventory. Recommend department report to the fiscal committees at the budget hearings on department plans to improve use of automated proprietary land inventory. 266
2. Space Plans. Recommend department submit to the Joint Legislative Budget Committee by November 1, 1973 for each major metropolitan area in California in which state offices are located, a report of state building space requirements and plans for satisfying them. 268
3. Rental Rates. Recommend department develop a plan and schedule for applying standard rental rates to all buildings the state owns or leases. 270
4. Information Management. 272
   - (a) Recommend department organize an Information Management Services Division (IMSD) within the Department of General Services.
   - (b) Recommend State EDP Education program be expanded and placed in the IMSD.
   - (c) Recommend Department of General Services develop an improved system for evaluating EDP consultants hired by the state.
5. Accounting Systems. Recommend Departments of General Services and Finance continue to use experienced state personnel to adapt existing automated state accounting systems for use in other departments. 274
6. Jet Rental. Recommend department submit to the fiscal committees at the budget hearings the economic justification for the administration's leasing of jet air service. 277
7. Controls. Recommend department develop and enforce controls to ensure state vehicles are acquired only when 277

needed and prevent misuse of General Services pool vehicles.

8. Limousine Service. 277
   (a) Recommend state employees use commercial limousine service from Sacramento to the Sacramento Metropolitan Airport.
   (b) Recommend department issue regulations to prevent state cars from being parked overnight at airports.
9. Car Pool. Recommend department improve its car pool services and report to the Joint Legislative Budget Committee by September 1, 1973 on actions taken and results achieved. 277
10. Transportation. Recommend an interdepartmental task force be formed to: 277
    (a) Develop plans to improve the efficiency of the state's passenger vehicle system through consolidations and interagency sharing of resources.
    (b) Plan implementation of a pilot multipassenger service for transporting employees on state business between Sacramento and the Bay Area.

The task force should submit bimonthly progress reports in the budget year beginning August 1, 1973 to the Joint Legislative Budget Committee.

GENERAL PROGRAM STATEMENT

The Department of General Services was created October 1, 1963, by Chapter 1768, Statutes of 1963, to administer various service functions adminstered formerly by the Department of Finance, the Division of Architecture in the Department of Public Works, and the Secretary of State's Central Records Depository.

The responsibilities of the Department of General Services are contained primarily in Sections 14600 to 14973 of the Government Code. These responsibilities relate to supervision of financial and business matters and providing certain centralized services.

The department has three main objectives: (1) perform certain management and support functions as assigned by the Governor and specified by statute; (2) provide central services to operating departments more efficiently and economically than they can provide themselves; (3) improve the effectiveness and efficiency in state government administration by establishing, maintaining and enforcing statewide standards and guidelines and by developing and implementing improved government policies and procedures.

Table 1 presents a summary of total department expenditures by source of funds for the three-year period ending with fiscal year 1973–74. The department is funded by (1) direct support appropriations, (2) revolving fund appropriations and (3) reimbursements. Direct support refers to moneys appropriated directly to accounts to support department operations. Revolving fund appropriations and reimbursements facilitate the expenditure of specified amounts from revenues earned by the department through the provision of services or products to customer agencies.

DEPARTMENT OF GENERAL SERVICES—Continued

From a control perspective, there is little difference between reimbursements and revenues to revolving funds. Table 1 shows that 94.7 percent of department costs are supported from revenues earned while only 5.3 percent of the costs are funded by direct support.

Item 147 represents a total of $3,563,540 support from the General Fund. Sources of other funds supporting the department are identified in subsequent budget items. General Fund support has declined because program costs are being paid to a greater extent from revenues received through the Service Revolving Fund.

Table 1
Department of General Services
Total Expenditures by Source of Funds

Source of funds	*1971–72*	*1972–73*	*1973–74*	*Percent of total*
Direct Support Appropriations:				
General Fund	$4,895,261	$5,875,614	$3,563,540	
State School Building Aid Fund	886,884	1,010,374	1,023,002	
Architecture Public Building Fund	1,229,347	1,496,328	1,514,815	
Total	$7,011,492	$8,382,316	$6,101,357	5.3%
Appropriations from Revolving Funds:				
Service Revolving Fund, printing	$17,401,579	$19,895,223	$24,810,199	
Service Revolving Fund, other activities	26,378,586	71,958,016	77,791,223	
Architecture Revolving Fund	4,791,307	4,828,938	6,269,451	
Total	$48,571,472	$96,682,177	$108,870,873	94.5%
Reimbursements:				
General Fund Activities	$23,784,855	—	—	
Architecture Revolving Fund Activities	96,998	$257,632	$267,632	
Architecture Public Building Fund	4,428	—	—	
Total	$23,886,281	$257,632	$267,632	0.2%
Total Expenditures	$79,469,245	$105,322,125	$115,239,862	100.0%

Table 2 presents total expenditures of the department's program elements by source of funds for the 1973–74 budget year. The department is engaged primarily in providing consolidated services which constitute essential elements in programs of other departments. Table 2 shows that the Department of General Services has three major programs: (1) property management services, (2) statewide support services and (3) administration. The administration program contains executive and staff support elements which provide fiscal, personnel and management services to the department's line programs.

Table 3 represents the allocation of staff among the various program elements over the three-year period ending June 30, 1974. The net increase in positions for the budget year is only 0.1 percent. The most significant staff increases are Office of State Printing (OSP)—40.5, Buildings and Grounds Division—23.5, Communications Division—12, and Office Services Division—11 positions respectively. Major reductions include 59 and 18 positions respectively in the Office of Administrative Hearings and the Office of Architecture and Construction (OAC).

The increase in OSP personnel is based upon projected increases in work volumes at the State Printing Plant. The increase in Buildings and Grounds Division staff results from an addition of 33.5 maintenance positions to transfer the Cal-Expo property maintenance function to Buildings and Grounds. The increase is offset partially by a reduction of 9.3 positions due to reorganization of the division's maintenance and management functions at Squaw Valley.

Table 2
Department of General Services
Total Expenditures by Source of Funds and Programs—1973–74

Operating unit	*Direct support appropriations*	*Revolving fund appropriations*	*Reimbursements*	*Total expenditures*	*Percent of total*
I. Property management services	$3,383,434	$38,055,426	$267,632	$41,706,492	36.2%
A. Architecture consulting and construction	1,514,815	6,269,451	267,632	8,051,898	
B. Buildings and grounds	1,458,612	15,230,914	—	16,689,526	
C. Long-range facilities planning	—	162,690	—	162,690	
D. Real estate services	10,000	1,092,125	—	1,102,125	
E. Space management	—	1,049,472	—	1,049,472	
F. Building standards	42,658	—	—	42,658	
G. Rented buildings	251,469	14,250,774	—	14,502,243	
H. Minor capital outlay	105,880	—	—	105,880	
II. Statewide support services	2,717,923	68,465,455	—	71,183,378	61.8%
A. Administrative hearings		1,376,797	—	1,376,797	
B. Communications	40,000	10,821,572	—	10,861,572	
C. Data processing	70,803	4,315,721	—	4,386,524	
D. Insurance services	—	2,471,629	—	2,471,629	
E. Legal services	—	362,263	—	362,263	
F. Local assistance	1,023,002	11,191	—	1,034,193	
G. Management assistance	314,861	630,719	—	945,580	
H. Office services	—	3,758,591	—	3,758,591	
I. Procurement	—	9,985,433	—	9,985,433	
J. Security and protection	1,195,011	2,890,693	—	4,085,704	
K. State printing	—	24,810,199	—	24,810,199	
L. Transportation	74,246	7,030,647	—	7,104,893	
III. Administration	—	2,349,992	—	2,349,992	2.0%
Totals	$6,101,357	$108,870,873	$267,632	$115,239,862	100.0%
Percent of total	5.3%	94.5%	0.2%	100.0%	

The increase in Communication Division staff results from the addition of 12 radio maintenance positions to satisfy projected workload increases. The Office Services Division requests eight additional typewriter repairmen, two mail and messenger positions and one duplicating machine operator to satisfy anticipated increases in work volumes. The reduction in Office of Administrative Hearings personnel is due to the expiration of a special program to conduct fair hearings for the Department of Social Welfare through the 1972–73 fiscal year pursuant to the Welfare Reform Act of 1971. The OAC staff is reduced pursuant to a ceiling specified in the Budget Act of 1972 which allows OAC staff to perform design and engineer work for projects having a total construction value of $25 million. Design and engineering of additional state construction is to be performed by the private sector.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 3
Department of General Services
Staff by Programs 1971–72 Through 1973–74

Operating unit	*Filled positions 1971–72*	*Authorized positions 1972–73*	*Authorized positions 1973–74*	*Percent of total*
I. Property management services	1,590.8	1,624.0	1,626.5	40.2%
A. Architecture consulting and construction	290.3	300.7	282.7	
B. Buildings and grounds	1,215.8	1,213.2	1,236.7	
C. Long-range facilities planning	7.3	9.0	9.0	
D. Real estate services	44.5	49.5	49.5	
E. Space management	32.9	51.6	48.6	
II. Statewide support services	1,999.7	2,261.2	2,264.0	56.0%
A. Administrative hearings	70.1	120.9	61.9	
B. Communications	178.2	238.3	250.3	
C. Data processing	154.6	169.9	169.9	
D. Insurance services	6.0	6.0	8.3	
E. Legal services	16.4	16.0	16.0	
F. Local assistance	56.5	62.5	57.5	
G. Management assistance	52.7	51.5	54.5	
H. Office services	162.8	185.3	196.3	
I. Procurement	161.6	175.1	173.1	
J. Security and protection	221.2	284.8	284.8	
K. State printing	770.4	796.0	836.5	
L. Transportation	149.2	154.9	154.9	
III. Administration	147.2	153.9	151.9	3.8%
Totals	3,737.7	4,039.1	4,042.4	100.0%
Percent increase	(3.2%)	8.1%	0.1%	

Table 4 presents total expenditures by program element during the three-year period ending June 30, 1974. The $25.9 million increase in the department's total budget for fiscal year 1972–73 is more apparent than real. Approximately $12.5 million is a "paper increase" in the rented buildings' program element pursuant to Chapter 992, Statutes 1971 (AB 2614). This measure required that effective July 1, 1972, all rent received by the Department of General Services be deposited in the Service Revolving Fund, thereby enabling the department to use the fund as a mechanism for standardizing rental rates. Requested increases include the OSP—$5 million, the OAC—$1.5 million, the rented buildings program—$1.2 million, and the Communication Division—$1 million. The $5 million increase in the OSP budget includes: (1) a $3.1 million increase for contracting with private firms to provide printing when OSP does not have sufficient capacity available; (2) a $400,000 increase in equipment costs (the acquiring of a new 2-unit web press to replace two obsolete presses), and (3) the staff increase request of 40.5 positions. The increase in the OAC budget results from the addition of $1,687,500 for acquiring private architectural and engineering services as required. The increase is offset partially by the reduction in staff of 18 positions. The increase in the rented buildings program is due to increases effective July 1, 1973 in standard monthly rental rates from 40 cents to 43 cents per square foot for office space and from 10 cents to 11 cents per square foot for warehouse space. The increase in Communication Division costs results mainly from an increase in telephone lease line costs and from the 12 additional radio maintenance positions requested.

Table 4
Department of General Services
Total Expenditures by Programs 1971–72 Through 1973–74

Operating unit	*Actual 1971–72*	*Estimated 1972–73*	*Estimated 1973–74*
I. Property management services	$22,547,844	$38,452,936	$41,706,492
A. Architecture consulting and construction	6,122,080	6,582,898	8,051,898
B. Buildings and grounds	13,788,825	16,140,833	16,689,526
C. Long-range facilities planning	126,480	155,745	162,690
D. Real estate services	842,597	1,088,558	1,102,125
E. Space management	731,404	1,054,041	1,049,472
F. Building standards	12,299	14,016	42,658
G. Rented buildings	834,125	13,316,845	14,502,243
H. Minor capital outlay	90,034	100,000	105,880
II. Statewide support services	54,902,170	64,520,080	71,183,378
A. Administrative hearings	1,376,141	2,518,353	1,376,797
B. Communications	8,051,173	9,853,290	10,861,572
C. Data processing	3,237,091	4,315,834	4,386,524
D. Insurance services	2,473,336	2,128,557	2,471,629
E. Legal services	318,301	354,634	362,263
F. Local assistance	933,110	1,054,373	1,034,193
G. Management assistance	811,494	899,018	945,580
H. Office services	2,768,588	3,384,719	3,758,591
I. Procurement	9,063,237	9,614,514	9,985,433
J. Security and protection	2,839,469	4,043,062	4,085,704
K. State printing	17,401,579	19,895,223	24,810,199
L. Transportation	5,628,651	6,458,503	7,104,893
III. Administration	2,019,231	2,349,109	2,349,992
Totals	$79,469,245	$105,322,125	$115,239,862
Percent of increase	(1.4%)	32.5%	9.4%

New Management Philosophy

The current policy of the department is to impose throughout the department a more business-oriented philosophy and practice of providing to customer agencies services of appropriate quality which are responsive to their wishes at the lowest possible cost as shown in the following examples.

Workload Measures and "Value-Oriented" Budgeting

We have recommended in previous analyses that the Department of General Services develop and use result-oriented workload standards. The department is now implementing a management system based upon quantitative output standards of many of its operations. This system is moving the department from "cost-oriented" budgeting to "value-oriented" budgeting. In its efforts to implement the system, the department applied the following steps to applications that generate outputs which can be quantified:

1. Measurable "customer outputs" were identified.
2. The "true value" of each output was established by determining either (a) what the unit cost would be from obtaining the service

DEPARTMENT OF GENERAL SERVICES—Continued

elsewhere or (b) what the unit cost is at the federal or local government level to deliver comparable service.

3. Rates were reduced to charge General Services customers an average of 90 to 91 percent of the "true value" of the outputs provided.

We understand that the department has applied the concept to approximately 60 percent (by total revenue) of its operations in developing the 1973–74 budget. Examples of outputs which have been standardized include real estate appraisals (eight percent of land value), space planning and layout services ($11.15 per 100 square feet of space planned) and office machine preventive maintenance ($39 annually per electric typewriter). Examples of outputs found to be difficult to standardize (and which have not been standardized yet) include long-range facilities planning, administrative hearings and security services.

Extensive Delegation/Intensive Central Review

Responsibility for management planning, decision making and budget preparation has been delegated extensively to the various division chiefs. This is a radical departure from the way the department has been managed previously. Each division chief now is responsible for developing his division's budget and for developing and applying result-oriented workload measures and we understand that each division's budget for 1973–74 was thoroughly reviewed by the department's fiscal specialists.

Each division's management also meets monthly to review its operations with representatives of the department's executive management. The department Comptroller's Office is scheduled to have a reporting system operational early in 1973 which is intended to provide for each division up-to-date income and expense reports of its various operations. We understand that these reports are to be used to evaluate and improve the performance of the department's programs, personnel and managers.

Department Issues Directory of Services and Costs

In December 1972, the department distributed to all state agencies the first edition of its *Price Book and Directory of Services.* This looseleaf publication lists services the department offers, the charge rate for each service and how each service may be obtained.

The department's stated objective is to commit itself to a price consistent with the true value of each service it provides. This important change from charging primarily on a "cost-per-hour basis" to charging on a "cost-per-result basis" should enable customer agencies to budget more accurately for services they require.

Duplicate Efforts Must Be Prevented

We support the department's efforts to operate, charge and publish its costs on a result-oriented basis. We understand that since the price book was published, however, certain agencies have indicated that they intend to provide some services for themselves rather than continue to receive them from General Services because they can do so at less "out-of-pocket" cost. In our opinion, it is the responsibility of the Department of Finance to assist the Department of General Services to prevent unnecessary duplication of services. In most cases, if such services proliferate, the overall cost to the state may be more even though some departments may be able to perform some services economically by using existing resources.

We will continue to monitor state costs for duplicate services and also review the cost of central services to ensure that General Services rates are reasonable and based upon efficient operations.

More Emphasis on Service than Control

Since 1971 a determined effort has been made to improve the department's image and the quality, economy and timeliness of services it provides. Late in 1971 a client services program was initiated to enable the department to identify and correct deficiencies in its services. Division chiefs and executive staff members were required to spend at least one day each month with their customers, client-opinion surveys were taken to pinpoint problems, and after problems were identified teams of executive staff members, division chiefs, and customers worked together to develop practical ways to improve the service.

Each division chief recently has been delegated responsibility for developing a separate client services program tailored to needs of customers of his division. The legal services division, for example, conducts one-day seminars for employees who interact with or are served by that division.

More Control and Leadership Needed

The Department of General Services was established to improve the efficiency and economy of certain elements of state government. During the past year and a half the department has taken important steps to improve its services. However, we believe the department can do more to provide more effective control.

We find the department has:

(1) Emphasized service to the extent of not exercising adequate control,

(2) Focused upon its own operations while not adequately taking into account the statewide purposes the operations should be serving.

An example of the first tendency is the department's stated policy regarding surplus state land that the agency most appropriate for determining if a parcel is surplus is the agency that uses it. We believe, on the contrary, that it is General Services responsibility to examine critically the use of each state parcel, challenge the controlling agency when a parcel appears not to be used sufficiently, and, when appropriate, reassign or dispose of the property to the state's best advantage. An example of the second tendency is the lack of initiative by the department's transportation division in finding improved ways for transporting employees on state business (this is discussed in detail in our analysis of the transportation division).

ANALYSIS AND RECOMMENDATIONS

This analysis is presented in the sequence of expenditures for operating units found in Table 2. The analysis for each unit is preceded by a statement of funding which specifies the type of support, source of funds, proposed expenditures and proposed staff.

DEPARTMENT OF GENERAL SERVICES—Continued

Although the department groups its functions into three major programs, we treat each as a separate program in this analysis because of the magnitude of the functions and their degree of specialization.

I. PROPERTY MANAGEMENT SERVICES

Central Coordination and Control of State-Owned Lands

1. *We recommend that the Department of General Services report to the fiscal committees at the budget hearings on how the department intends to utilize its automated proprietary land inventory to improve property management functions.*
2. *We also recommend that the department specify in the report advantages to the state property management program which would result from automating and centralizing within General Services the property inventories maintained currently by the Division of Lands, State Controller's office and the Department of Water Resources and specify an implementation plan and schedule for achieving those advantages.*

Proprietary Land Inventory Automated. The Department of General Services, pursuant to Section 14730 of the Government Code, maintains an inventory of all proprietary lands (lands acquired for state government use). This inventory consists of approximately 25,000 parcels including lands acquired by the University of California. It does not include lands acquired by the Division of Highways, sovereign lands or tax-deeded and escheated lands (properties that revert to the state when owners die with no known heirs). The inventory is verified with state agencies at five-year intervals as required by law. Each agency receives information only about those property items entered under its name and the inventory is not published otherwise.

The inventory which was maintained previously on edge-punched cards recently has been automated. It is maintained by the Real Estate Services Division.

Need to Capitalize on Automated File. We are informed that the automated inventory is used only to generate lists by computer that formerly were produced manually (a marginal advantage according to Real Estate Services Division staff). We understand that when the inventory was automated no consideration was given to using it to improve other property management functions such as disposing of surplus state property.

The speed, flexibility and exception reporting capability of the computer should be capitalized upon to improve state property management operations. In our opinion, the department's property management staff, with assistance from its data processing or management analysis staff, should develop specific objectives and plans to use the automated inventory to the state's best advantage. We recommend, therefore, that the department report to the fiscal committees by May 1, 1973 specific plans for making better use of the inventory to improve state property management.

Study Required. The department was required by the Supplementary

Report of the Committee on Conference (1972) to conduct a study to determine the feasibility of (1) placing an inventory of all state-owned lands in a central organization, (2) charging that organization with the responsibility for statewide coordination and control of all state-owned land and (3) computerizing the inventory to the state's optimum advantage.

Department Opposes Central Control. In an October 31, 1972 report to the Joint Legislative Budget Committee made pursuant to the Committee on Conference requirement, the Department of General Services states that excess property should be identified as surplus by the department that uses it.

In our judgment, it is General Services responsibility to challenge controlling departments regarding their property holdings. As a control agency, General Services should insure that surplus state property is disposed of or reassigned in the best interest of total state government.

Department Recommends Consolidation. In its October 31, 1972 report to the Joint Legislative Budget Committee, the department recommends that the following inventories be added to its computerized inventory: (1) state lands inventory (approximately 1,500 parcels of school lands and tide and submerged lands), (2) State Controller's inventory of tax-deeded and escheated lands (approximately 18 parcels) and (3) an inventory of proprietary lands held by the Department of Water Resources which have been declared surplus (approximately 600 parcels which, although included in General Services proprietary land inventory, are not currently identifiable).

The Department of General Services recommends that Division of Highways property dedicated to streets and highways (approximately 500,000 parcels) not be included in the central inventory because the parcels have lost their individual identity and inventorying of them would offer no advantage. General Services recommends also that Division of Highways surplus lands (approximately 13,000 parcels) not be included in the central inventory because (1) the parcels cannot be identified without accompanying highway maps and (2) the annual inventory maintenance cost would be approximately $15,000. The Department of General Services proposes, however, that the Department of Public Works provide General Services with periodic printouts of its surplus property inventory to enable General Services to respond to public inquiries regarding this land.

Need to Plan Purpose and Use. The department's property management staff should determine the purposes and uses that should be made of the expanded inventory before any such consolidations are made to insure that the consolidations (1) are worth the cost and effort and (2) are implemented in a manner that will yield the maximum practical improvements possible.

The department's report to the Legislature should show the specific advantages that would result from automating and centralizing within General Services the property inventories maintained currently by the Division of Lands, State Controller's office and the Department of Water

DEPARTMENT OF GENERAL SERVICES—Continued

Resources and include in the report an implementation plan and schedule for achieving those advantages.

A. Architecture Consulting and Construction

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 153	$1,514,815	282.7
Revolving fund	Item 152	6,269,451	—
Reimbursements	Item 151	267,632	—
Total		$8,051,898	282.7

This program element is discussed under our analysis of Items 152 and 153 which make separate appropriations from the Architecture Revolving Fund and Architecture Public Building Fund respectively.

B. Buildings and Grounds

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$1,458,612	1,236.7
Revolving fund	Item 151	15,230,914	—
Total		$16,689,526	1,236.7

The buildings and grounds division is responsible for maintaining state buildings and grounds and making minor building alterations.

C. Long-Range Facilities Planning

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 151	$162,690	9.0

Building Space Plans

We recommend that the Department of General Services submit to the Joint Legislative Budget Committee by November 1, 1973 for each major metropolitan area in California in which state offices are located, a report of state building space requirements and plans for satisfying those requirements. The reports should include but not be limited to: (1) an inventory of existing state-occupied space and lease terms, (2) identification of agencies that could be consolidated, (3) five-year projections of agency space needs and (4) recommendations as to how the projected space needs should be satisfied based on economic analyses of each alternative solution and based on an estimated 50-year life of each building. Once compiled, these reports should be updated by the department at least annually.

The Department of General Services reported in December 1972 that the state, in addition to the space it owns, leases 632,021 square feet of office space in the Sacramento area alone. It leases an additional 241,081 square feet of office space at the Aerojet facility. According to General Services staff there was an unmet state office space need of 160,000 square feet in Sacramento as of December 1972 and the need for additional office space in Sacramento has been increasing steadily. This need is being met almost exclusively by the leasing of additional space with no consideration given to the construction of state-owned buildings.

A coordinated statewide program is needed to enable the state to satisfy its total building space requirements more efficiently and economically. Such a program should include construction of state buildings whenever it is most feasible economically to do so. The building space program must be founded upon regional plans that accurately indicate current and future space needs.

The long-range facilities planning division was established as a separate division effective July 1, 1972 to (1) develop long-range facilities plans for counties and major metropolitan areas to determine future agency space requirements in those areas, (2) plan major building programs (includes space, economic and financial analyses), (3) develop a five-year capital outlay program, (4) make economic analyses for proposed agency field offices, (5) analyze state parking requirements and (6) review agency building space requests to ensure consistency with long-range state objectives.

D. Real Estate Services

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$10,000	49.5
Revolving Fund	Item 151	1,092,125	—
Total		$1,102,125	49.5

The real estate services division performs three major real estate functions for state agencies: acquisition, management and sales.

E. Space Management

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 151	$1,049,472	48.6

The space management division provides services for assignment, coordination and lease management of noninstitutional office and warehouse space. The division provides two basic types of services: (1) leased space services and (2) space planning for state-owned and leased facilities.

F. Building Standards

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$42,658	—

The Building Standards Commission, which is responsible for reviewing proposed building code regulations and conducting hearings of construction industry appeals, receives staff support from the Office of Architecture and Construction (OAC).

The $28,642 increase budgeted for the 1973–74 fiscal year results from increased involvement anticipated by OAC in working with code writing agencies (such as the International Conference of Building Officials who writes the Uniform Building Code, Uniform Mechanical Code and Uniform Plumbing Code) and from inclusion of OAC overhead expenses which formerly had been excluded.

DEPARTMENT OF GENERAL SERVICES—Continued

G. Rented Buildings

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$251,469	—
Revolving fund	Item 151	14,250,774	—
Total		$14,502,243	—

The Department of General Services collects rent on a nonprofit basis from occupants of a number of state buildings. All such rent is deposited in the Service Revolving Fund. Payments are made from the fund for all building costs including insurance, building maintenance and amortization of loans of Public Building Construction Fund buildings. The standard monthly rental rate for 1973–74 is 43 cents per square foot for office space and 11 cents per square foot for storage space.

Standard Rental Rates

We recommend that the Department of General Services develop a plan and schedule for applying standard rental rates to all buildings the state owns or leases with explanations wherever such standards should not be applied.

Effective July 1, 1972, the Department of General Services implemented a procedure for averaging costs among the 12 debt-free buildings owned by the General Fund, office buildings Nos. 8 and 9, and the eight buildings purchased by loans from the Public Employees' Retirement System. Individual rates remained in effect for buildings and the state leases and buildings the state has purchased with special fund moneys. We support the standard rate concept because (1) agencies pay for space needs on a more equitable basis, (2) organization units can be placed and relocated more flexibly and (3) the quality level among facilities would tend to be more consistent provided substandard facilities are upgraded by General Services.

No Standard Rate Plan

In December 1971 the assistant director then in charge of the department's property management functions (who since has retired) stated that the department intended to standardize rental rates for *all* state buildings possibly beginning as soon as fiscal year 1974–75.

The department in an October 26, 1972 report submitted to the Joint Legislative Budget Committee pursuant to the Supplementary Report of the Committees on Conference (Budget Bill of 1972) states that implementation of standard rental rates is progressing satisfactorily. Based upon recent discussions with the department's management, however, we understand that the department has no specific plans regarding its standard rate program. We believe the standard rate approach offers substantial advantages if implemented properly and that it should be applied as soon as practicable to other buildings the state owns or leases. We believe, therefore, that the Department of General Services should develop a plan and schedule for applying standard rental rates to all other buildings the state owns or leases. If the program is not to be expanded, the reasons should be explained.

H. Minor Capital Outlay

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$105,880	—

The minor capital outlay element consists of eight minor alterations planned to state facilities during the 1973–74 fiscal year. The largest single alteration expenditure item is $28,000 for installation of basement exits at State Office Building No. 1.

II. STATEWIDE SUPPORT SERVICES

A. Administrative Hearings

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 151	$1,376,797	61.9

The Office of Administrative Hearings performs three functions: (1) conducts administrative hearings, (2) compiles and publishes the California Administrative Code which consists of rules and regulations of state agencies and (3) conducts studies of administrative law and procedure. The major function of this office is conducting hearings which are adjudicatory proceedings under the Administrative Procedure Act and other laws. The purpose of this function is to prevent abuse of licensing authority given to state agencies by providing fair and impartial hearings to denied applicants and licensees charged with legal violations.

B. Communications

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$40,000	250.3
Revolving fund	Item 151	10,821,572	—
Total		$10,861,572	250.3

This program element involves planning for and managing the state's telecommunication facilities, assisting agencies in defining and satisfying their telecommunication requirements, providing installation and maintenance services and insuring system reliability. Microwave radio, VHF radio, telephone, teletype and data communication functions involve communication system planning, design, installation, alteration and maintenance. Telephone services consist of managing the state's leased-line telephone system, operating state switchboards and preparing state telephone directories.

C. Data Processing (EDP)

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$70,803	169.9
Revolving fund	Item 151	4,315,721	—
Total		$4,386,524	169.9

DEPARTMENT OF GENERAL SERVICES—Continued

Information Management

We recommend that the Department of General Services with assistance from the Department of Finance organize an information management services division (IMSD) within the Department of General Services. We recommend also that the state EDP education program be expanded and placed in the IMSD. We recommend further that the Department of General Services study the state's central consultant index process and develop an improved system for performance evaluations of private management and EDP consultants retained by the state.

The Department of General Services through its data processing service office provides a variety of EDP services including data processing systems analysis and design, computer programming, input data preparation and computer processing.

Prior to November 1972 the department operated two computer centers. Data Processing Service Center I (DPSCI) operates a UNIVAC/Series 70/45 computer which provides EDP services to the Office of State Printing, other divisions within General Services, and certain other state agencies. Data Processing Service Center II (DPSC II) operated an IBM 360/50 computer which provided EDP services to various state entities including the Department of Finance, Department of Education and the Legislature. On November 1, 1972, as part of the state's Master Plan for EDP Consolidation, the DPSC II computer processing workload was transferred to an interim Business and Services Consolidated Data Center. General Services continues to provide systems analysis and programming services to its DPSC II customers and serves as liaison between these customers and the new consolidated center.

The data processing services office also administers the central state EDP education program which was transferred from the State Personnel Board July 1, 1972.

State EDP Education Program Makes Satisfactory Progress

This office consistently has supported the development of an improved EDP education program. Since its transfer to General Services the program has operated on a fully reimbursable basis and has expanded significantly. In addition to providing training to EDP specialists on a variety of technical subjects, the program offers particularly effective nontechnical education for managers and users of EDP systems.

In a forthcoming report on electronic data processing in California state government, scheduled for distribution in early February 1973, we describe in detail the need for the state to form a highly skilled interdisciplinary staff of information management specialists which can be made available on request to assist state agencies in developing more useful information systems.

Such a staff could offer the following range of services to customer agencies on a reimbursement basis:

1. Assist agencies identify and document information needs.
2. Analyze existing information systems and conceptualize system improvements (EDP or non-EDP).

3. Develop feasibility studies and implementation plans.
4. Design new systems (EDP or non-EDP).
5. Identify and acquire additional technical expertise when needed from either within state service or from the private sector.
6. Serve as the customer agency's representative in dealing with consolidated EDP centers, outside consultants or EDP control entities.
7. Monitor system design and development work performed by others for the customer agency and take corrective action where needed, particularly before an outside contractor receives final payment.
8. Provide to customer employees general and technical training to satisfy their specific knowledge needs.

D. Insurance Services

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 151	$2,471,629	8.3

The insurance office provides services to protect the state's large investments in manpower, equipment and facilities by transferring risks to insurance companies through the purchase of insurance. The office administers a comprehensive program for recovering damages to state-owned vehicles, advises agencies on risk management problems, analyzes agencies' insurance needs and negotiates for insurance procurement based on such analyses.

During fiscal year 1972–73 the insurance office assumed responsibility for administering the Governor's driver accident prevention program which provides safe driver training to state employees.

In the 1973–74 fiscal year the state's central defensive driver training program is to be transferred to the Insurance Office from the State Personnel Board. Two positions and $134,658 are to be transferred from the board effective July 1, 1973 to support the program.

E. Legal Services

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 151	$362,263	16.0

The legal office provides direct services to the Department of General Services, Department of Finance and various boards and commissions. These services include reviewing and drafting legal documents and rendering legal advice. The office also reviews contracts, leases and real property transactions entered into by other state agencies which are subject to approval by the Department of General Services. A major purpose of the office is to assure that the state follows appropriate procedures to avoid becoming involved in unnecessary litigation.

F. Local Assistance

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 148	$1,023,002	57.5
Revolving fund	Item 151	11,191	—
Total		$1,034,193	57.5

DEPARTMENT OF GENERAL SERVICES—Continued

The main activity of this office is the administration of the State School Building Aid Law. Under this law, financial assistance is made available to school districts for the acquisition and development of school sites, construction of school buildings, and purchase of school furniture and equipment. Other activities include (1) allocation of funds to local agencies under the Emergency Flood Relief Law for repair and restoration of local streets and roads damaged by natural disasters, (2) partial reimbursements to counties for providing legal counsel to indigents and (3) administering other financial assistance programs to local agencies.

G. Management Assistance

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$314,861	54.5
Revolving fund	Item 151	630,719	—
Total		$945,580	54.5

Adaptation of Accounting Systems

We recommend that the Department of General Services and the Department of Finance continue to use experienced state personnel to adapt existing automated state accounting systems for use in other departments.

The management assistance division provides service in areas of accounting and fiscal management, management analyses, operations research and state records management. The services include maintaining the State Administrative Manual, assisting state agencies install effective paperwork management systems (which in some cases involves microfilming), maintaining the state's accounting system as required in Section 14626 of the State Administrative Manual, providing staff assistance to the State Board of Control and providing management assistance to divisions with the Department of General Services.

Pilot Accounting System Development

Traditional accounting systems do not support adequately program budgeting and, therefore, a number of departments through the use of outside consultants have developed their own program-oriented automated cost accounting systems. In our 1971–72 analysis we recommended that the Management Assistance Division develop a pilot project to test the feasibility of a central accounting system development program using a task force approach. We stated that, in our judgment, the state could save up to 50 percent of the cost of developing such accounting systems by using state personnel who have gained experience from working with private consultants in developing similar systems used currently by the state.

Task Force Organized

Pursuant to Resolution Chapter 160, Statutes of 1971 (ACR 88), the Department of General Services in cooperation with the Department of Finance began to develop a task force of experienced state personnel to undertake such a pilot project. The task force consisted of one full-time accounting systems analyst from the Department of General Services, two accountants from the Department of Education, a systems programming specialist from the Department of Public Health and a data processing system analyst from the Department of Water Resources.

Department of Education Designated as Pilot Department

In response to a desire expressed to improve its accounting system, the Department of Education was selected as the pilot agency. A two-year federal grant of $500,000 was acquired to fund the effort. The task force evaluated the Department of Public Health's program accounting and management information system (PAMIS) and the Department of Water Resources program cost accounting system (PCA) to determine if either were adaptable to the pilot project. The PCA system was selected because it was determined that it would best meet the needs of the Department of Education and have more potential for use as a statewide model.

Current Status of Department of Education's System

The Department of Education's pilot cost accounting system became operative in July 1972 and produces expenditure information by program and by organization unit 20 days after the end of each month. This represents a substantial increase in responsiveness, for the previous system produced such information quarterly and by organization unit only (not by program).

The Department of Water Resources PCA system was installed in the Department of Education on an "as is" basis rather than tailored to the specific requirements of the Department of Education. The system is in the process of being adapted to satisfy the Department of Education reporting requirements more precisely. Computer processing is provided by the Department of Water Resources. We understand that the Department of Education intends to expand the capability of the present system by including, for example, time reporting by each program and organization unit and a subsystem to automate much of the hand posting required to prepare the department's annual budget.

The Department of Education's fiscal management staff has estimated that it would have cost the state approximately $1 million to design and develop such a system if done by outside consultants. They estimate that, because state talent was used to modify the existing PCA system, actual design and development cost was held to approximately $300,000.

We are informed by the Department of Education that other state agencies have expressed interest in developing similar program-oriented cost accounting systems. Members of the management assistance division staff, however, recently have indicated to us that they have little interest in continuing to apply the task force concept to develop such systems in other agencies. Assuming that the state continues in its efforts to use program budgeting and that other agencies are required to move toward more program-oriented cost accounting, we believe the Department of General Services and the Department of Finance should make a joint effort to continue to use state talent to adapt existing automated state accounting systems for use in other departments.

DEPARTMENT OF GENERAL SERVICES—Continued

H. Office Services

Funding	Source of funds	Proposed expenditures	Proposed staff
Revolving fund	Item 151	$3,758,591	196.3

The office services division provides office machine repair, reproductive services and clerical services to state agencies.

I. Office of Procurement

Funding	Source of funds	Proposed expenditures	Proposed staff
Revolving fund	Item 151	$9,985,433	173.1

The procurement element contains three program components: (1) direct purchasing, (2) warehouse-resale and (3) traffic management.

J. Security and Protection

Funding	Source of funds	Proposed expenditures	Proposed Staff
Direct support	Item 147	$1,195,011	284.8
Revolving fund	Item 151	2,890,693	—
Total		$4,085,704	284.8

The state police division provides protection services for state property and buildings, their occupants and visitors from hazards and criminal actions. Division activities include patrol and surveillance; responding to calls relating to accidents, injuries, fires and other complaints; conducting investigations and making reports; making arrests and appearing in court; providing for the safety and security of individuals on state property; and administering a bomb protection program. State police escort cashiers carrying large sums of money; provide escort and chauffeur services for state and other officials; control crowds; patrol state-owned canals and hydroelectric facilities; investigate bomb threats; maintain security at public ceremonies; and assist other organizations in major emergencies or disasters.

K. State Printing

Funding	Source of funds	Proposed expenditures	Proposed staff
Revolving fund	Item 150	$24,810,199	836.5

The Office of State Printing (OSP) provides printing services for the Legislature and for all state agencies except the University of California. It also produces textbooks.

Legislative services include (1) the printing of all bills, files, histories, journals and special reports required by both houses of the Legislature and (2) operation of the Legislative Bill Room which provides legislative printed material to the Legislature and public.

State Agency Printing

The OSP prints a variety of materials including forms, reports and records needed to support operations of customer state agencies.

The OSP prints elementary textbooks as requested by the Department of Education for distribution by the state to local school districts.

The OSP intends to purchase for $510,000 a new two-unit web press for legislative and agency printing to replace two obsolete sheet-fed presses now in use. The replacement should improve printing efficiency substantially because the new press will operate five times faster than the present ones. An additional 40.5 printing trades positions are added in the budget year to satisfy increased work volumes projected for textbook and agency printing.

L. Transportation

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Direct support	Item 147	$74,246	154.9
Revolving fund	Item 151	7,030,647	—
Total		$7,104,893	154.9

Justification and Evaluation

1. *We recommend that the Department of General Services submit to the fiscal committees at the budget hearings the economic justification for the administration's leasing of jet air service.*
2. *We recommend that the Department of General Services develop and enforce adequate controls to (a) insure that state vehicles are acquired only when needed and (b) prevent the misuse of General Services pool vehicles.*
3. *We recommend that (a) state employees use commercial limousine service from Sacramento to the Sacramento Metropolitan Airport and (b) the Department of General Services issue regulations to prevent state cars from being parked overnight at airports.*
4. *We recommend that the department improve the car pool services at its Sacramento garage and report to the Joint Legislative Budget Committee by September 1, 1973 of corrective actions taken and results achieved.*
5. *We recommend an interdepartmental task force similar in structure to the heavy equipment task force (described below) be created to:*
   - *(a) Evaluate the state's passenger vehicle system and develop immediate and long-range plans to improve its efficiency through consolidations and systematic interagency sharing of passenger vehicles, repair services and automotive personnel.*
   - *(b) Plan and monitor the implementation of a pilot multipassenger service for employees who travel on state business directly between Sacramento and the Bay Area (Berkeley, Oakland and San Francisco). At the conclusion of the pilot program the task force should make recommendations as to whether the service is to be continued and whether and where such service should be provided elsewhere.*

We recommend, further, that the task force submit bimonthly progress reports during the budget year beginning August 1, 1973 to the Joint Legislative Budget Committee. We recommend finally that after the task force has discharged its responsibilities to the satisfaction of the Legisla-

DEPARTMENT OF GENERAL SERVICES—Continued

ture and the administration that responsibility for monitoring the statewide system for transporting employees on state business be permanently transferred to the Heavy Equipment Council.

The transportation program element consists of a number of vehicle service activities. These activities include vehicle pool operations, garage operations, preventive maintenance, statewide inspection services, parking services for state employees and the public, and central management and coordination. We believe there are major problems with this program which we discuss below.

Jet Rental Service

The transportation program element contains an augmentation of $241,000 for providing jet rental service for state officials. We are informed that the state recently has leased the services of an executive jet airplane and crew for the two-year period ending December 31, 1974. This represents a change in administrative policy and practice. We believe it is important, therefore, that the department report to the fiscal committees on the economic feasibility of leasing the jet air service.

Interdepartmental Sharing of Heavy Equipment

The state through an interagency task force effort has made an excellent beginning in making more efficient use of its vehicles (in this case heavy equipment resources). We present the approach in detail because we recommend later in the analysis that a similar approach be used to improve the state's system for transporting employees on state business.

Task Force Formed. Late in 1971 a nine-member interdepartmental task force was formed to develop a system for interagency sharing of the state's heavy equipment. Each member was selected for his specific skills and knowledge. The Director of the Department of Veterans Affairs was designated as chairman to ensure that an objective perspective would be maintained (the Department of Veterans Affairs uses no heavy equipment). Six members were selected from departments that use heavy equipment most because of their extensive knowledge of such equipment. The other two members were management analysts.

Task Force Achieves Results. The task force devised and initiated a "loadleveling" system whereby agencies rent heavy equipment from one another in a coordinated fashion. Specific tasks accomplished by the group in the endeavor include the following:

1. "Heavy equipment" was defined.
2. Standard rental rates were set.
3. A heavy equipment inventory was published. It identifies types and locations of equipment and persons to contact to rent it. Rental conditions and terms also are included.
4. Formal procedures were written to facilitate interagency equipment rental with a minimum of red tape (the procedures recently have been incorporated into the State Administrative Manual).
5. A July 27, 1972 report was completed which contains recommendations for implementing and monitoring the program.

Permanent Heavy Equipment Council. After the report was completed, a Heavy Equipment Council was formed which reports to the Director of the Department of General Services. It is responsible for coordinating the acquisition and use of this equipment among the various agencies from a statewide perspective. The council currently is in the process of developing uniform specifications for various types of equipment to assure that such equipment satisfies requirements common to many departments, thereby facilitating its interdepartmental use. The council, which includes most of the specialists who served on the task force, is chaired by the Assistant Equipment Engineer from the Department of Public Works.

Coordinated interagency sharing of heavy equipment is beginning to take place and appears to be gaining momentum. Estimates of cost savings are expected to be available by June 1973. The council now indicates that a state department can rent heavy equipment from another state agency at about 45 percent of the rate required to rent similar equipment from the private sector.

Transportation Division Problems

We have observed significant problems in transportation division operations which are discussed below.

Controls Inadequately Enforced. The division is responsible for "statewide automotive coordination and administration," which includes approving purchases, replacements and dispositions of automotive equipment by the various state agencies. We have detected a tendency in the division to rubber stamp such agency actions. For example, the Department of Water Resources, with transportation division approval, disposed of 48 commercial vehicles (half-ton pickups and larger trucks) as surplus during fiscal year 1971–72 and later purchased 42 new vehicles of the same general types. The state typically operates such vehicles for 100,000 miles before it sells them. Based on this standard, the "surplus vehicles" above had an average remaining useful life of 33,100 miles. If the transportation division had exercised proper control and coordination over the above transactions alone, we estimate that the state could have avoided the unnecessary purchase of at least 25 new vehicles for a saving in excess of $65,000.

We understand also that it is common practice for a state employee to check out a pool car from General Services Sacramento garage indicating the destination as another city such as San Francisco and then return the car a day or two later with only a few additional miles on the odometer.

We therefore recommend that the department enforce adequate controls so that state vehicles are acquired only when needed and misuse of General Services pool vehicles is prevented.

Poor Service at Sacramento Garage. At General Services Sacramento garage it is not uncommon for state employees to wait up to 45 minutes to check out a pool car. On some days (especially Tuesdays and Wednesdays) 15 to 20 customers are turned away because no cars are available. It is our understanding that 30 to 50 General Services pool cars typically are parked idly at the Sacramento Metropolitan Airport for an entire

DEPARTMENT OF GENERAL SERVICES—Continued

week. They are driven by employees to the airport on Monday and returned to the pool on Friday. A study completed early in 1972 by the department's management assistance division indicated that General Services should provide limousine service to the airport in order to keep such cars available for pool service. Transportation division management has informed us, however, that because it has received no directions to pursue the limousine approach it does not intend to consider it further. It seems clear that state employees should use commercial limousine service between Sacramento and the Sacramento Metropolitan Airport and that General Services should issue regulations preventing employees from parking state cars at airports overnight.

We are informed that approximately 10 percent of the cars checked out are not serviced adequately (e.g. not gassed, windows not cleaned, tires not checked or credit cards not checked). Garage employees have no policy guidance as to whether or under what conditions they should provide unserviced cars or keep customers waiting. We believe it is essential that the department take steps to improve car pool services at its Sacramento garage.

Fragmented Approach to Employee Transportation

The state has over 14,000 passenger cars (excluding California Highway Patrol patrol cars) which are owned by over 43 separate state entities. About 20 agencies own 100 or more such vehicles. Over 40 percent of the passenger cars are operated by the Departments of Public Works and General Services. The Department of Public Works operates approximately 4,900 cars and the Department of General Services operates approximately 1,500 cars.

The Departments of Public Works, Water Resources and General Services have automotive repair facilities in numerous locations. Each facility, however, services only vehicles owned by its respective department. The following shows where two or more of the departments have repair facilities in the same areas and indicates the general magnitude of services available at each facility.

Automotive Repair Facilities

Locations	*Public Works*	*Water Resources*	*General Services*
Bakersfield	Major	Major	—
Fresno	Major	—	Intermediate
Los Angeles	Major	—	Major
Oakland-East Bay	Major	—	Minor
Sacramento	Major	Major	Intermediate
San Diego	Major	—	Minor
San Francisco	Minor	—	Intermediate

A number of minor consolidations have been made in which some agencies have turned over their cars to the Transportation Division for control, management, storage and maintenance. Little or no attention, however, has been given to (1) consolidating existing car pools or repair facilities; (2) systematic sharing of cars, repair services or automotive personnel among departments; or (3) providing limousine service for state agencies to the Sacramento Metropolitan Airport.

Management Initiative Needed

We have discussed the above concepts with transportation division management and found them to be unconcerned about resolving statewide transportation problems and unresponsive to ideas for change. In our opinion, central leadership and direction is needed to enable the state to improve its system for transporting employees.

Legislative Interest in Shuttle Bus Service

We received a legislative request early in 1972 to explore the feasibility of having a multipassenger shuttle service transport employees on state business over commonly travelled routes. General Services staff believes that such an approach would not be economically feasible because employee costs greatly exceed automotive costs and, therefore, employee time lost in coordination efforts would more than offset any other economies realized. We believe, however, that the concept could yield significant improvements if implemented properly, particularly in comparison to the ineffective car pool service General Services provides now.

Task Force Recommended

In our judgment, an interdepartmental task force similar to the group which worked on the heavy equipment problem should be selected to (1) evaluate the state's passenger vehicle system and develop immediate and long-range plans to improve its efficiency and (2) plan and monitor the implementation of a pilot multipassenger shuttle service between Sacramento and the bay area.

In order to ensure that the multipassenger shuttle-base concept discussed above is tested adequately we recommend that the following steps be taken: (1) Procedures to evaluate the concept be developed *before* the program is initiated, (2) improvements be made to the program *during* the pilot test (not afterward) based upon customer responses, (3) the Department of General Services require that employees of participating departments use the multipassenger service during the trial period rather than pool vehicles or personal cars and (4) General Services executive management be involved from the outset in planning and selling the program and enforcing its use.

Task Force Structure

Under this plan, following the heavy equipment task force approach, the Director of General Services should request approval of the Governor's Cabinet to appoint as task force chairman an executive from a department that does not operate a major car pool or use heavy equipment. We recommend that the current chairman of the Heavy Equipment Council serve as assistant task force chairman and assist the chairman in selecting the balance of the task force. Members of the Heavy Equipment Council and General Services management assistance division staff should be made available to the task force to serve as members or provide technical assistance.

We believe that after the task force has discharged its responsibilities to

DEPARTMENT OF GENERAL SERVICES—Continued

the satisfaction of the administration and the Legislature, the responsibility for monitoring the statewide employee transportation system should be transferred to the Heavy Equipment Council.

III. ADMINISTRATION

Funding	*Source of funds*	*Proposed expenditures*	*Proposed staff*
Revolving fund	Item 151	$2,349,992	151.9

The administration program consists of central overall management, fiscal and personnel functions that support the department's operational programs. These functions are performed by the department's executive management, Comptroller's office and Personnel Office. Costs of the services are distributed among the department's line programs. The department also provides on a reimbursement basis accounting, budgeting and personnel services for approximately 30 separate small state entities including the State Board of Control and Lieutenant Governor's office.

DEPARTMENT OF GENERAL SERVICES

Item 148 from the State School Building Aid Fund — Budget p. 70 Program p. I-413

Requested 1973–74	$1,023,002
Estimated 1972–73	1,010,374
Actual 1971–72	886,884
Requested increase $12,628 (12.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides support for the Office of Local Assistance chargeable to the School Building Aid program. Analysis of the program is included in our analysis of Item 147.

DEPARTMENT OF GENERAL SERVICES

Item 149 General fund Transfers to Service Revolving Fund

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides the authority whereby funds appropriated from the General Fund or special funds for the purchase or replacement of automobiles or reproduction equipment may be used to augment the Service Revolving Fund which finances the Department of General Services car pool and reproduction services.

DEPARTMENT OF GENERAL SERVICES
OFFICE OF STATE PRINTING

Item 150 from the Service Revolving Fund — Budget p. 70 Program p. I-413

Requested 1973–74	$24,810,199
Estimated 1972–73	19,895,223
Actual 1971–72	17,401,579
Requested increase $4,914,976 (24.7 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item is discussed in our analysis of Item 147.

DEPARTMENT OF GENERAL SERVICES

Item 151 from the Service Revolving Fund — Budget p. 70 Program p. I-413

Requested 1973–74	$77,791,223
Estimated 1972–73	71,958,016
Actual 1971–72	26,378,586
Requested increase $5,833,207 (8.1 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item is discussed in our analysis of Item 147.

Department of General Services
OFFICE OF ARCHITECTURE AND CONSTRUCTION

Item 152 from the Architecture Revolving Fund — Budget p. 71 Program p. I-414

Requested 1973–74	$6,269,451
Estimated 1972–73	4,828,938
Actual 1971–72	4,791,307
Requested increase $1,440,513 (29.8 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Agency Architectural Activities. Recommend survey of architectural capabilities of state agencies.	287
2. Administrative Procedures. Recommend "special services" charge procedures performed by OAC be simplified.	287

GENERAL PROGRAM STATEMENT

The Office of Architecture and Construction functions primarily as an architectural and engineering service organization essentially similar to private architectural organizations. However, it is comparable only to the larger private organizations in that it provides a full spectrum of architectural and engineering services whereas the smaller private architectural organizations often provide only architectural services and must go outside their own organizations to obtain the various engineering services such as mechanical, electrical and civil.

One major difference between the state organization and private organizations is that it also operates an on-the-job inspection service during the construction period. This service is performed as a matter of course for all state projects which by law fall within its purview. In addition, it renders both an architectural and inspection service to the state college system on a contract basis because the latter system is not required by law to use the services of the Office of Architecture and Construction but may do so at its discretion. The University of California is not required by law to use the services of the organization and it never has, but has relied entirely on private architects and engineers for its major projects.

The method of compensation used for the Office of Architecture and Construction differs from a private architect in that the state organization is reimbursed for all of its out-of-pocket and overhead expenses in connection with any one job. On the other hand, the private architect agrees in advance to a method of compensation which is determined by the conditions of a specific project.

For the current fiscal year, the average fee of the Office of Architecture and Construction is projected to be 7.52 percent of the cost of construction. This is larger than the 7.21 percent computed average rate of compensation for basic architectural services recommended by the California Council of the American Institute of Architects. Consequently, it appears that the cost to the state will be more than if the services were contracted. However, for the budget year the costs are being calculated at 7.22 percent which is reasonably comparable with costs of architectural services in the private sector.

Comparisons cannot be made between the service fees charged by the Office of Architecture and Construction for on-the-job inspection work and those of private architects who normally do not provide this service as part of their regular contracts. Usually, in relationships between private architects and private clients where a client desires constant on-the-job inspection, he employs one or more inspectors, directly paid by him, although the individuals may be recommended by the architect. For the current fiscal year the Office of Architecture and Construction estimates that the average cost of this service is 2.89 percent of the project construction cost as compared with 2.38 percent in the 1970–71 fiscal year. The goal for the budget year is 2.2 percent.

The Office of Architecture and Construction also performs a service which is rarely if ever rendered by a private architect to a private client. This is concerned with so-called "day labor" projects in which the state organization acts as architect and engineer, inspector and construction contractor. This is almost exclusively in connection with complex alteration or modernization projects. However, the level of activity in this area has been at a low ebb.

The office also performs a somewhat unusual service under a separately funded special program in which it does not perform any architectural or engineering design work but instead reviews the elementary and secondary school construction plans of private architects to ascertain whether they meet the minimum standards for seismic, wind and fire safety generally as set forth in the "Field Act." This is discussed in Item 153.

The Architectural Revolving Fund from which the activities of the office are financed receives no revenues in the ordinary sense. Instead, funds appropriated by the Legislature for specific projects are deposited in the revolving fund, as required, and assessments are made against each project for the services of the office. Consequently, the actual volume of work for the office, and hence the potential amount of service funds which it may expend, is completely dependent upon the level of capital outlay appropriations provided by the Legislature. As a practical matter, the revolving fund is continuously appropriated to the office, but for some years it has been the practice to include a specific appropriation from the revolving fund in the Budget Bill in order that the Legislature may have an opportunity to review the activities of the office and the cost of its services.

ANALYSIS AND RECOMMENDATIONS

The program budget for the Office of Architecture and Construction, as proposed for the 1973–74 fiscal year in connection with the Architectural Revolving Fund activities, is categorized in six major service functions.

OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued

(1) Basic architectural and consulting services.
(2) Nonbasic architectural and consulting services.
(3) Contract architect program-planning and administration.
(4) Basic construction services.
(5) Nonbasic construction services.
(6) Special services.

In addition, there is a category referred to as "contract architect-flow-through fee" which represents the service payments or fees paid to private architects who function under the control of the Office of Architecture and Construction and hence, their fees "flow through" the Architectural Revolving Fund.

The first category is limited to a construction project value of $25 million which was established as a ceiling by specific language contained in Item 141 of the Budget Act of 1972, which directed that the Office of Architecture and Construction gradually reduce its staff, "in-house" capabilities in architecture and engineering to a workload volume of $25 million by June 30, 1973.

The second category, "nonbasic architectural and consulting services", represents the kind of architectural and engineering consulting services for which a private architect would receive fees over and above the normal percentage he would receive for the design and engineering of a specific project. These could include changes in scope of the project, changes in design directed by the client, and advice and services dealing with a prospective project which ultimately might not be undertaken.

For both of the above categories the staff in the functional organization called "Architectural and Engineering Services" is proposed at 121 positions. This is within the staffing level we have recommended in previous years for the anticipated workload level of $25 million.

It is estimated that the basic architectural and consulting service costs will represent 7.22 percent of the construction value of the projects designed. As previously mentioned, this is in line with the percentage fees charged by private architects for similar types of projects.

In addition, the third category liaison, planning and administrative work in connection with the private contract architect's program will be charged at the rate of 0.75 percent of the construction value of projects turned over to private architects.

The fourth category, "basic construction services", represents the ongoing, onsite inspection services performed during the construction phase of a project. This is a vital service to insure that the state receives a finished project which meets the plans and specifications in every respect, including quality of materials, quality of work, quality of workmanship, construction techniques and final finishes.

The fifth category, "nonbasic construction services", represents principally the inspection services performed under contract for the Trustees of the California University and Colleges in connection with private architects plans and contract inspection performed for libraries other than state libraries.

The above two categories are to be staffed by 78.2 positions which include various grades of construction supervisors, construction inspectors, electrical inspectors and mechanical inspectors plus clerical and other office help. As has been previously pointed out it is estimated that the cost of the inspection of projects designed by, and under the control of, the Office of Architectural Services will represent 2.2 percent of the construction value of the projects supervised.

The sixth category, "special services", is a catchall covering many types of services that are not directly part of an on-going project or a project under design. The services represent requests for assistance by state agencies which may require engineering services in connection with maintenance problems or surveys in connection with proposed site acquisitions and many others of a similar nature. These are services which are not furnished free of charge by private architects except occasionally on a promotional basis in the hope of obtaining an architectural commission.

Other Agency Architectural Activities.

We recommend a survey to determine the appropriate level of architecturally related acivities in the agencies.

In recommending that the staffing level be reduced to an in-house capability of architectural design and engineering for projects having a construction value of $25 million annually, it was not our intention that other state agencies increase staffing to provide their own architectural or architecturally related in-house capabilities. Furthermore, we do not believe this was the intention of the Legislature but there is evidence that this has, in fact, occurred and is continuing to occur. We suggest that the Department of General Services make a careful survey to determine the appropriate level of architectural or architecturally related capability needed in each agency and that all other work should be turned over to the Office of Architecture and Construction. Any additional work so generated would fall within the $25 million limitation and any work exceeding that would be contracted to private architects by the Office of Architecture and Construction.

Administrative Procedures

We recommend simplified "special services" charge procedures.

We have previously mentioned "special services" which we believe is being handled in a cumbersome and unnecessarily complex manner. The documentation now required to perform these special services appears to be unwarranted. We suggest that a procedure be established whereby (1) the cost of the service requested by an agency is estimated by the Office of Architecture and Construction, (2) the agency signifies agreement with the service and cost and (3) the Office of Architecture and Construction bills the agency after the service has been rendered. We believe the services should be rendered with the least red tape and the lowest possible administrative cost.

OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued

Budget Increases

We recommend approval.

The apparent increase of $1,440,513 or 29.8 percent for the budget year over the current fiscal year is deceptive because it contains a category not previously carried in the budget.

The construction cost value of projects estimated to be contracted to private architects during the budget year is $25 million. This is based on expectations of projects which will be included in the Governor's Budget, particularly the design of new correction facilities, the Governor's Mansion, and additional general office space in Sacramento. In any case this is only an estimate. The fees to be paid to private architects have been calculated at 6.75 percent of the construction value of the projects. This represents $1,687,500 which is included in the budget as a "flow-through" amount. If this is deducted from the amount requested for the 1973–74 fiscal year the budget would be $4,581,951 which is approximately $250,000 less than the amount estimated to be expended in the current fiscal year. As a consequence, it is accurate to say that the proposed budget for the in-house capability of the Office of Architecture and Construction is less than that anticipated for the current fiscal year. On that basis we recommend that the proposal be approved.

Department of General Services
OFFICE OF ARCHITECTURE AND CONSTRUCTION

Item 153 from the Architecture Public Building Fund — Budget p. 71 — Program p. I-414

Requested 1973–74	$1,514,815
Estimated 1972–73	1,496,328
Actual 1971–72	1,229,347
Requested increase $18,487 (1.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

In addition to its primary architectural and engineering functions, the Office of Architecture and Construction performs a plan checking function for all public school entities in the state. Education Code Section 15401 and following directs that all plans for construction or alterations to any public school building exceeding $10,000 in cost be submitted to the Department of General Services for approval. The Office of Architecture and Construction is also responsible for checking plans for compliance with fire and panic safety requirements. Currently, this service is provided by contracting with the State Fire Marshal's office for the staff required to perform this function.

The Office of Architecture and Construction performs no design work of any kind with respect to this program. It merely reviews the structural plans submitted by private architects and engineers for compliance with the wind and seismic load design criteria and in general checks the overall safety of the structural design concept. The plans which are not approved are returned to the source with exceptions noted and a request that corrections be made and the plans resubmitted. Following this review and approval procedure, the Office of Architecture and Construction inspects and monitors construction progress to insure compliance. Revenue to support this program is generated by a filing fee of one-half of 1 percent of the estimated project cost ($50 minimum) which must accompany each set of plans submitted for checking.

ANALYSIS AND RECOMMENDATION

We recommend approval.

The estimated construction value of proposed schoolhouse work in the state serves as the basis for determining total workload for the schoolhouse plan review function as well as projecting the revenue from fees which go toward offsetting the cost of the program.

In the 1972 Governor's Budget, the estimate of the workload for the then current year of 1971–72 was $300 million in the construction value of school plans to be checked. This year the Governor's Budget shows 1971–72 (now an actual figure) as slightly over $264 million. To some extent this is probably a reflection of a downward trend of the number of square feet of new elementary and secondary school construction plans resulting from the downward trend in enrollments.

Also, in the 1972 document the estimate for the then budget year, now current fiscal year, was $320 million and the new document uses the same figure. The difference between $320 million and the last completed year of $264 million does not necessarily indicate an increase in total space constructed. Rather it indicates the rise of the construction cost index for approximately the same space that was constructed or designed in the prior year.

For the budget year a projection of $320 million, in construction value is again made. For the current year 61 positions are authorized and for the budget year this is reduced to 60 man-years. Nevertheless, the cost of the total operation rises slightly by $18,487 or 1.2 percent which is the result, principally, of upward salary and wage adjustments and increases in the cost of operations and equipment. Therefore, the total increase from the current fiscal year to the budget year can be attributed to increases particularly in staff benefits and in operating expenses and equipment. Because the total cost of operations falls slightly below anticipated revenues, based on one-half of 1 percent of the estimated project values, the proposal appears to be reasonable and the Architecture Public Building Fund will not go further into deficit. However, it should be pointed out that to the extent that the projected workload fails to materialize, the expenditure of this operation could exceed revenue and the deficit would increase. The deficit has been falling steadily from $449,729 in the 1971–72 fiscal year to $230,872 projected for the budget year.

Based on the falling birth rate, it may be that the need for new elemen-

OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued

tary and secondary school construction will drop significantly, in which case the staff would need to be reduced accordingly. However, there is also a potential offsetting element: the large number of existing nonearthquake conforming buildings that will need to be replaced. As a workload substitute this could totally offset the decrease in the need for new space and thereby maintain the projected budget figures.

Agriculture and Services Agency

DEPARTMENT OF INDUSTRIAL RELATIONS

Item 154 from the General Fund — Budget p. 74 Program p. I-460

Requested 1973–74	$25,863,619
Estimated 1972–73	24,462,737
Actual 1971–72	21,587,310
Requested increase $1,400,882 (5.7 percent)	
Total recommended augmentation	$100,924

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Conciliation Contract. Delete one conciliator position and reduce offsetting reimbursements of $22,979.	292
2. Mediation of Transit Authority Labor Disputes. Recommend legislation requiring that costs incurred by the Division of Conciliation for fact-finding committees and hearing officers in connection with the mediation of transit authority labor disputes be shared equally by the parties to the dispute.	293
3. *Industrial Safety. Augment $100,924.* Recommend implementation of legislation involving inspection of aerial tramways and the Tom Carrell Memorial Tunnel and Mine Safety Act.	295
4. Pressure Vessel Inspection. Withhold recommendation pending receipt of backlog data.	296
5. Divisions of Labor Law Enforcement and Industrial Welfare. Recommend legislation to consolidate the divisions.	298

GENERAL PROGRAM STATEMENT

The Department of Industrial Relations was created by the Legislature in 1927 to "foster, promote, and develop the welfare of the wage earners of California, improve their working conditions, and advance their opportunities for profitable employment."

To fulfill these broad objectives, the department provides services through the following eight divisions: (1) Industrial Accidents, (2) Industrial Safety, (3) Industrial Welfare, (4) Labor Law Enforcement, (5) Apprenticeship Standards, (6) Labor Statistics and Research, (7) Fair

Employment Practices, and (8) State Compensation Insurance Fund. In addition, the department provides a Conciliation Service and administers the workmen's compensation self-insurers plan. With the exception of the State Compensation Insurance Fund, which operates as a public service nonprofit enterprise, the department's programs will be discussed separately in the analysis and recommendations which follow.

ANALYSIS AND RECOMMENDATIONS

The department's proposed General Fund appropriation of $25,863,619 is $1,400,882 or 5.7 percent above estimated General Fund expenditures for the current year. Federal funding estimated at $837,760 and reimbursements amounting to $347,079 produce a total budget-year expenditure program of $27,048,458. The level of federal support drops by $150,372 or 15.2 percent under the current-year level, reflecting the completion of work on a state industrial safety plan undertaken pursuant to the federal Occupational Safety and Health Act (OSHA) of 1970, which authorized federal cost-sharing for approved industrial safety programs. As discussed later in this analysis, the question of such federal financial support for California's industrial safety program remains uncertain for the budget year.

The department requests a net increase of 86 positions for a budget-year cost of $942,223 and reports the administrative addition of 56 positions in the current year at a cost of $278,658. These adjustments are discussed under the program headings below.

DIVISION OF ADMINISTRATION

The Division of Administration serves the administrative needs of the department's eight program divisions by providing the ancillary services of management analysis, fiscal management, personnel and training, duplication, data processing, and technical assistance in the compilation of statistical reports. The office of the director, which has the responsibility for planning, coordinating and executing the services provided by the semiautonomous program divisions, is also budgeted within the Division of Administration.

Regulation of Workmen's Compensation Self-Insurance Plans

Section 3700 of the Labor Code provides that the director of Industrial Relations may issue certificates to self-insure to those enterprises demonstrating financial capability to fully compensate their workers for industrial injuries. The unit handling this function processes new applications for self-insurance certificates, maintains security deposits, administers examinations, provides consultative services to plan managers, and reviews payment of claims for promptness and adequacy.

This program, which has 13.6 positions and a budget-year cost of $255,000, is now fully self-supporting as a result of the enactment, based on our recommendation, of Chapter 1758, Statutes of 1971, which established a schedule of license fees for self-insured employers. Last year we recommended and the Legislature added 10 new positions to this program to provide for audits of self-insurers on a three-year cycle as required by Chapter 1758. As a result, the number of locations audited has increased

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

from four in fiscal year 1971–72 to a projected 180 in the budget year as shown in Table 1.

Table 1
Selected Self-Insurer Data
Department of Industrial Relations

	1969–70	*1970–71*	*1971–72*	*1972–73 (est.)*	*1973–74 (est.)*
New applications	57	106	123	127	127
Total self-insurers	382	417	512	610	710
Locations audited	75	8	4	84	180
Cases reviewed	7,343	1,136	396	10,080	21,600
Personnel (man-years)	5	4.1	4.1	13.6	13.6

INVESTIGATION, MEDIATION, AND ARBITRATION PROGRAM
(Division of Conciliation)

The Labor Code specifies that the department shall (1) investigate and mediate labor disputes on the request of any bona fide party involved in the dispute, (2) proffer mediation services to both parties when there is a threat of work stoppage and neither party requests intervention, (3) endeavor to promote sound union-employer relationships in the interest of preventing labor disputes, and (4) arrange for the selection of boards of arbitration on terms agreeable to all concerned parties.

In addition, the department has statutory responsibility for settling labor relations disputes or grievances relating to the nine transit districts or authorities (viz., the San Francisco Bay Area Rapid Transit District) now authorized by state law.

Including reimbursements of $22,979, the proposed expenditure for this program is $431,820, which represents an increase of $28,635 or 7.1 percent over estimated current-year expenditures of $403,185.

Conciliator Position

We recommend the deletion of one conciliator position and a corresponding reduction of $22,979 in departmental reimbursements.

Requested for continuation in the budget-year is a conciliator position which was established administratively in the current year to provide conciliation services for the Department of Conservation on a reimbursement

Table 2
Division of Conciliation Workload
Department of Industrial Relations

Labor disputes	*1970–71*	*1971–72*	*1972–73 (est.)*	*1973–74 (est.)*
Private sector				
Mediation cases closed	330	479	490	520
Representation cases closed	199	80	150	184
Total private sector	529	559	640	704
Public sector				
Mediation cases closed	209	146	167	205
Representation cases closed	84	57	110	99
Total public sector	293	203	277	304
Grand Total	822	762	917	1,008

basis. In view of the administration's proposal to establish an employer-employee relations unit under the Secretary for Agriculture and Services (see Item 28), we have questioned the feasibility of continuing this special arrangement for the Department of Conservation. We have subsequently been advised by both departments that the contract will not be renewed in the budget year and, accordingly, they concur with our recommendation to delete the position.

Table 2 shows workload projections for this program.

Transit Authority Disputes

We again recommend legislation requiring that costs incurred by the State Conciliation Service for factfinding committees and hearing officers in connection with the mediation of transit authority labor disputes be shared equally by the parties to the dispute.

The various transit district acts of the Public Utilities Code require the State Division of Conciliation to settle disputed bargaining unit and representation issues by holding hearings and elections. In some cases, an arbitrator may be appointed to settle a dispute, and in such cases the arbitration costs are shared equally by the contending parties. In cases where the disputing parties do not wish to submit to arbitration, the State Conciliation Service appoints and must bear the costs of fact-finding committees and hearing officers.

The conciliation service does not pay the cost of fact-finding committees and hearing officers for any other of the public or private disputes which it conciliates. However, because the law does not require the transit authorities to pay for this service, the Division of Conciliation has been forced to absorb this expense, which can amount to as much as $9,000 for a single committee. We believe such costs should be shared equally by the parties to the dispute.

PREVENTING, SETTLING, ADJUDICATING, AND ADMINISTERING DISPUTES UNDER WORKMEN'S COMPENSATION LAWS
(Division of Industrial Accidents)

The Workmen's Compensation Appeals Board and the referee teams in the Division of Industrial Accidents are responsible for the adjudication of workmen's compensation claims. The appeals board is composed of seven persons appointed by the Governor, who also designates the chairman of the board. The division's staff, under the supervision of an administrative director who is also appointed by the Governor, provides supportive services to the board.

The objective of the program is to insure the prompt payment of workmen's compensation benefits to workers who suffer industrial injury in the course of their employment. These benefits include medical expenses, rehabilitation costs, legal fees, awards for loss of earnings not to exceed $105 per week, and death benefits.

The division proposes an expenditure of $10,589,417, which is an increase of $497,803 or approximately 4.9 percent over estimated current-year expenditures of $10,091,614. This increase reflects the full-year cost of a total of 47 new positions which are being administratively created in the current fiscal year and proposed for continuation in the budget year. Forty of these positions resulted from Chapter 892, Statutes of 1972 (SB

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

628), which authorized 10 additional referee teams for the division. Each team consists of a referee, a court reporter, a legal secretary and a clerk. The remaining seven new positions are three rating specialists and four clerks to provide greater support for the referee teams.

Workmen's Compensation Appeals Board

Last year the Legislature approved one new management analyst position provided that it be utilized to (1) examine division staff allocations, local caseloads and backlog, calendaring procedures and administrative rules with a view to expediting the flow of cases both in critical areas and statewide, (2) review the recommendations of the Governor's task force of 1971, (3) study recent experiments and innovations in court administration for possible adaptation to the workmen's compensation appeals system, and (4) to report to the Joint Legislative Budget Committee findings and recommendations on the above matters before February 1, 1973.

In recent communications, the board has informed us that this study has not yet been undertaken because the position was filled only last October and it has been assigned temporarily to reviewing organizational problems affecting the new Uninsured Employers Fund established by Chapter 1598, Statutes of 1971. The board advises, however, that the directed study will commence in the near future and that a report will be forthcoming later this year. We are unable to report backlog statistics in this program for the current and budget years because of a procedural change in scheduling hearings on appeals resulting from Chapter 393, Statutes of 1971 (SB 476), which requires the filing of "declarations of readiness" to proceed before workmen's compensation cases may be set for hearing. The department advises that its information system has not yet been programmed to accommodate to this change. Hence, meaningful backlog data are not available. However, the 10 additional referee teams authorized by Chapter 892 will enable the board to expedite the handling of disputes. Further improvement in case flow should result from the implementation of procedural changes following completion of the management analyst's study.

PREVENTION OF INDUSTRIAL INJURIES AND DEATHS
(Division of Industrial Safety)

We recommend an augmentation of $100,924 to implement recent legislation requiring inspection of aerial tramways (+$16,500) and the Tom Carrell Memorial Tunnel and Mine Safety Act (+$84,424).

The Labor Code provides that the Division of Industrial Safety "has the power, jurisdiction, and supervision over every employment and place of employment in this state, which is necessary to adequately enforce and administer all laws and lawful orders requiring such employment and place of employment to be safe, and requiring the protection of the life and safety of every employee in such employment or place of employment." Specifically excluded from the jurisdiction of the division are maritime workers, household domestics, federal employees and operating employees of interstate railroads.

The division provides services through seven program elements: construction, electrical, elevator, radiation, fumes and gases, industrial vessels, and educational activities. A temporary eighth element provides for a federally funded task force (previously mentioned) which is charged with adapting the California industrial safety program to the requirements of the 1970 Federal Occupational Safety and Health Act.

Division Reorganization

The Division of Industrial Safety has reorganized its program partly as a result of problems in the enforcement of California Industrial Safety Laws revealed by last year's investigations conducted by the Assembly Select Committee on Industrial Safety and the Joint Legislative Audit Committee. It has placed responsibility for enforcement of all seven program elements under a single manager assigned to each of the five separate regions. Supervision of the five regional managers is divided between two assistant chiefs, headquartered in San Francisco, who report to the chief of the division. The seven program specialists in San Francisco, who once headed all enforcement activities in the state, now act as staff advisors to the chief, the assistant chiefs and regional managers. It is too early to evaluate the effectiveness of these changes, especially in view of the far-reaching effects which the federal Occupational Safety and Health Act of 1970 will undoubtedly have upon this program.

The budget proposes a General Fund expenditure of $6,445,927 for the division, which is an increase of $506,694 or 8.5 percent over the current-year estimated expenditure of $5,939,233. Reimbursements of $46,000 for radiation inspection services rendered to the Department of Public Health bring total program expenditures to $6,491,927. Work is expected to be completed in the current year on the federally funded project which is developing a California industrial safety program as required by the federal Occupational Health and Safety Act of 1970. The budget proposes staff increases in three safety program elements involving: (1) elevators, escalators and aerial tramways; (2) mines and (3) pressure vessel inspection.

1. *Elevator, Escalator and Aerial Tramway Safety (recommend augmentation of $16,500 for 1 position).* Chapter 1347, Statutes of 1972 (AB 780), which was passed late in the 1972 legislative session, increased the maximum permissible fees for elevator inspections and provided immediate authorization for additional staff for this function. Consistent with this legislation, a total of 14 new positions (11 engineers and 3 clerical) are requested to enable the division to comply with the statutory requirement that all elevators in the state be inspected at least once annually.

In addition, a number of measures were passed during the 1972 legislative session (Chapters 477, 478, 479, and 519, Statutes of 1972) which increased the frequency of tramway inspections, expanded the jurisdiction of the division to include aerial tramways (operated by private ski clubs or by voluntary help) which require the division to develop standards for people who operate passenger tramways. In order to implement these measures, which were enacted too late for their workload to be reflected in the proposed budget, we recommend an augmentation of $16,500 to provide one additional man-year (including related expenses).

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

Since Chapter 478, Statutes of 1972, also authorizes the division to increase aerial tramway inspection fees, the full cost of this position will be recovered by increased General Fund revenues.

2. *Tunnel and Mine Safety (recommend augmentation of $84,424 for 5 positions)*. The Tom Carrell Memorial Tunnel and Mine Safety Act of 1972 (Chapter 1430) also was enacted too late for its staffing requirements to be included in the budget. This act established a statutory program for ensuring safe practices at mines and construction sites of tunnels. Among other things, it requires (1) the establishment of a separate unit of safety engineers within the Division of Industrial Safety to administer the program, (2) development of standards for inspecting mines and tunnels, (3) classification of mines and tunnels according to potential danger and (4) special plans for insuring safety at extra hazardous mines and tunnels. Although the budget proposes one additional man-year at a cost of $12,576 to inspect an increased number of mines under the U.S. Bureau of Mines State Plan Agreement, an additional five positions at a cost of $84,424 are needed to implement the Tom Carrell Memorial Tunnel and Mine Safety program.

Pressure Vessel Inspection—Recommendation Pending

The workload data reflected in the Governor's Budget do not justify the four additional positions requested for this program. The data shown indicate workload increases of less than 1 percent while staff is proposed to increase by more than 5 percent. In subsequent discussions with the department, we have been informed that the workload data in the budget is erroneous and that additional staff is required to deal with a growing backlog. However, current backlog data are not available at this time. *We are, therefore, withholding our recommendation on these positions pending receipt of these data.*

Status of California's Occupational Safety and Health Plan Uncertain

As previously indicated, the disposition of California's Occupational Safety and Health Plan is uncertain at this writing. The federal Occupational Safety and Health Act of 1970 (OSHA) required the states to obtain approval by December 28, 1972, of their plans to assure occupational safety and health in places of employment or face preemption of enforcement responsibility in this area by the federal government. The act provides up to 50 percent reimbursement by the federal government of the operating costs for occupational health and safety programs of states which have approved plans. In October 1971 federal guidelines were issued giving states until the end of December 1971 to indicate a desire to develop a plan and until September 1972 to submit a plan for approval. Using a federal planning grant, a special task force under the direction of the Secretary of the Agriculture and Services Agency developed a plan for the State of California, but it was not submitted for final federal approval until December 19, 1972. A U.S. district court in Washington, D.C., has blocked attempts by the U.S. Labor Department to give California and other states a six-month extension to obtain approval. At this writing, the decision has been appealed.

Should the state obtain federal approval of its plan, major revisions are required in existing state law governing occupational safety and health. The administration has prepared legislation which it plans to submit later this year and is currently developing a budget to carry out the plan for submission to the federal government. If these issues are resolved in the next several weeks, OSHA's fiscal implications can be reflected in the Budget Bill.

PROMULGATION AND ENFORCEMENT OF A MINIMUM WAGE FOR ALL EMPLOYEES AND LABOR STANDARDS FOR WOMEN AND MINORS (Division of Industrial Welfare)

The Division of Industrial Welfare enforces wage orders promulgated by the Industrial Welfare Commission and other state laws relating to the wages, hours and conditions of employment. A total of 14 such wage orders have been publicized by the commission. The orders are adopted by the commission in accordance with the Administrative Procedures Act and, therefore, have the effect of law. Historically, the activities of this division have been confined mostly to women and minors. However, recent Supreme Court decisions have declared certain labor laws affecting wowen, such as weightlifting restrictions and maximum hours, to be unconstitutional on the grounds that they are discriminatory. Moreover, as reflected in the program heading above, Chapter 1122, Statutes of 1972, extended the authority of the Industrial Welfare Commission to include men for the purpose for setting minimum wages and this will necessitate reopening of the wage orders.

The division proposes an expenditure of $1,458,929, which is an increase of $45,240 or 3.2 percent over the estimated current-year expenditure of $1,413,689. It is requesting one new position, a payroll auditor, on a workload basis. Table 3 summarizes division workload data.

Table 3
Division of Industrial Welfare Workload
Department of Industrial Relations

	1970–71	*1971–72*	*1972–73*	*1973–74*
Total caseload	24,230	21,837	21,490	22,490
Cases completed	17,478	15,347	14,800 [1]	14,800 [1]
Cases backlogged	6,936	6,490	6,690	7,690
Permits and licenses issued	3,879	3,884	4,000	5,000
Expenditures	$1,285,815	$1,198,715	$1,337,004	$1,342,244
Man-years	76	69.2	71.3	71.2

[1] The reduced level of cases completed reflects the transfer of one agent position to the Industrial Welfare Commission for use in reopening wage orders pursuant to Labor Code Section 73.

ENFORCEMENT OF LAWS RELATING TO WAGE PAYMENTS, CONDITIONS OF EMPLOYMENT, LICENSING AND ADJUDICATION (Division of Labor Law Enforcement)

The enforcement of all labor laws, including child labor laws, not specifically delegated to any other agency, is the responsibility of the Division of Labor Law Enforcement. The laws enforced cover such matters as payment of wages, collection of unpaid wages, and the licensing and registering of artists' managers and farm labor contractors.

The division requests a General Fund expenditure of $3,351,249, which

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

is an increase of $243,772 or 7.8 percent from the estimated current-year expenditure of $3,107,477. Twelve positions, which were authorized last year on the basis of implementing an amendment to the Labor Code prohibiting the employment of illegal residents, were never established because the courts declared the law unconstitutional. However, 12 new positions (eight technical and four clerical) are requested in the budget year to handle a growing backlog of complaints involving payment of wages and other employment matters.

During the three-year period 1969–70 to 1971–72, complaints increased by approximately 7 percent while staff decreased by 9 percent. In addition, a backlog of complaints, which amounted to over 3,500 cases in 1971–72, is projected at 8,000 in the current year. Table 4 shows the increase in the number of complaints received, the decline in staffing and the resulting impact on backlog.

Table 4
Division of Labor Law Enforcement Workload
Department of Industrial Relations

	1970–71	*1971–72*	*1972–73*	*1973–74*
Complaints				
Total complaints received	59,734	59,898	65,000	66,000
Total complaints disposed of	54,000	56,386	57,000[1]	58,500
Difference	5,734	3,512	8,000	7,500
Controversies settled	41	29	30	30
Licenses issued	1,358	1,188	1,200	1,200
Total staff	188.5	182.1	180.9	192.9

[1] The division advises that this figure is overstated because it was based on the assumed availability of 12 positions authorized for enforcement of the law prohibiting employment of illegal residents. However, as noted earlier, that law was declared unconstitutional and the positions consequently were not established.

Consolidate Divisions of Labor Law Enforcement and Industrial Welfare

We recommend legislation to consolidate the Divisions of Labor Law Enforcement and Industrial Welfare for a General Fund saving of at least $34,170 annually.

Over the years, this office has urged the consolidation of the Divisions of Labor Law Enforcement and Industrial Welfare on the basis that their functions and responsibilities are very similar, involving recovery of unpaid wages, review of wage records, licensing and enforcement of labor laws. The historical reason for maintaining two separate divisions is that the industrial welfare unit was needed to enforce special labor laws designed to protect women and minors. However, recent court decisions have declared many such laws affecting women unconstitutional on the ground that they are discriminatory toward men. Thus, there appears to be no justification for maintaining Labor Law Enforcement and Industrial Welfare as separate programs.

Last year the administration proposed consolidation of the divisions for the reasons outlined above, but the Legislature did not accept the proposal. In the interest of organizational efficiency, we again recommend consolidation of the programs for a minimal General Fund saving of $34,-

170 annually, representing deletion of one division chief and secretary. Additional program savings should accrue through more efficient use of field personnel and offices.

PROMOTION, DEVELOPMENT AND ADMINISTRATION OF APPRENTICESHIP AND OTHER ON-THE-JOB TRAINING
(Division of Apprenticeship Standards)

The Division of Apprenticeship Standards has the responsibility under law to promote and foster apprenticeship programs and other "on-the-job" training opportunities for apprentices and journeymen. The division also attempts to promote equal opportunity practices in apprenticeship selection procedures, cooperate with other state agencies in training inmates of correctional institutions and placing them in jobs when they are released on parole, and administers the California Plan for Equal Opportunity in Apprenticeship. This plan requires apprenticeship programs registered with the U.S. Department of Labor or the Division of Apprenticeship Standards to be representative of the ethnic composition of the labor market areas in which they operate. In addition, the division inspects, approves and monitors apprenticeship and other on-the-job training programs for veterans under a contract with the U.S. Veterans Administration.

The proposed General Fund expenditure for this program is $1,863,434, which is $59,826 or 3.3 percent above estimated expenditures of $1,803,608 in the current year. Federal funds in the amount of $564,962, representing reimbursement for monitoring functions performed for the federal Veterans Administration, bring total proposed program expenditures for the budget year to $2,428,396. Five new positions (three consultants and two stenographers) were administratively established in the current year and are proposed for continuation in the budget year to increase the level of services for this program in conformity with the agreement with the federal government.

The division reports a current total of 35,118 apprentices, 7,691 or 21.9 percent of whom are from minority groups. The number of apprentices is expected to increase to 37,682 in the budget year, with 8,704 or 23.7 percent of that number representing minorities.

COLLECTION, COMPILATION, ANALYSIS AND DISSEMINATION OF CALIFORNIA LABOR STATISTICS
(Division of Labor Research and Statistics)

The Division of Labor Statistics and Research is required by statute "to collect, compile, and present facts and statistics relating to the condition of labor in the state." Pursuant to this general directive, the division compiles statistics on (1) work injuries, (2) provisions of collective bargaining agreements, (3) work stoppage, (4) union membership, and (5) negotiated work settlements. The division also provides statistical services to the other departmental divisions.

The division proposes a total expenditure of $708,411 including a General Fund request of $420,613, $272,798 in federal funds and $15,000 in reimbursements. The increase of $6,621 is less than 1 percent above the current level. The federal funds will enable California to fulfill its respon-

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

sibilities under the federal Occupational Safety and Health Act of 1970 to participate in a National Work Injuries and Illness Survey and to provide reports and statistical information as required by the federal government. California's participation in this program is necessary if the state is to administer provisions of the Occupational Safety and Health Act. A total of 15 positions have been administratively added to this program during the current fiscal year and one additional man-year is requested for the budget year. The cost of these positions is fully covered by the grant.

PREVENTION AND ELIMINATION OF DISCRIMINATION IN EMPLOYMENT AND HOUSING (Division of Fair Employment Practices)

The Division of Fair Employment Practices, under the direction of the Fair Employment Practices Commission, is responsible for the administration and execution of (1) the provisions of the Fair Employment Practice Act (Labor Code Sections 1410–1433) relating to the rights of individuals in employment, and (2) that portion of the Health and Safety Code (Sections 35700–35745) relating to equal opportunities in housing. The director of the division, who serves as the executive officer of the commission, and the seven members of the commission are appointed by the Governor.

Chapter 1144, Statutes of 1972, expanded the provisions of the Fair Employment Practice Act to include prohibiitions against employment discrimination on the basis of age, thereby giving the commission enforcement authority in this area. The division also provides assistance to employers who wish to institute affirmative actions to expand equal employment opportunities for minorities.

The division proposes a budget-year expenditure of $1,325,209 which is $38,296 or 3 percent above estimated expenditures of $1,286,913 for the current year. Workload data are shown in Table 5.

Table 5
Division of Fair Employment Practices
Selected Workload Data

	1969–70	*1970–71*	*1971–72*	*1972–73*	*1973–74 (est.)*
Formal cases (complaints) filed	1,347	2,033	2,399	2,700	2,700
Formal cases closed	*1,213*	*1,652*	*2,206*	*2,700*	*2,900*
Man-years	51.7	57	54	67	67

Private Medical School Affirmative Action Program

Chapter 1519, Statutes of 1971, created a State Medical Contract Program which allows the State Scholarship and Loan Commission to contract with private medical schools for the purpose of increasing enrollment by paying the schools $12,000 annually for each student enrolled above the number enrolled during the 1970–71 academic year. To qualify for such aid, medical schools must have an affirmative action program approved by the Fair Employment Practice Commission (FEPC).

Last year, the Legislature approved eight new consultant positions for the Division of Fair Employment Practice, four requested by the department plus an additional four recommended by our office on a workload basis. On our recommendation, the Legislature denied a supplemental request for one additional position to implement Chapter 1519 on the basis that workload arising from the three affected medical schools could be handled by the existing staff. The Legislature subsequently stipulated in the Supplementary Report of the Conference Committee on the 1972 Budget Bill that the required affirmative action certifications be performed with authorized staff and directed our office to report thereon in the 1973 Analysis. Discussion of this subject follows.

To permit the State Scholarship and Loan Commission to proceed immediately with the program, the FEPC gave temporary approval to the state's three private medical schools and devoted one man-year to the examination of the schools' affirmative action programs. The University of Southern California School of Medicine was the first such school surveyed, and its affirmative action program was approved on a one-year basis beginning April 1972. The FEPC reports that since the study was concluded, minority student enrollment in the school has increased from 19.6 percent to 20.5 percent, minority employment has risen from 17.8 percent to 25 percent, and enrollment of women had increased from 41 to 48 percent. An annual evaluation of the school's program will be conducted in April 1973. The FEPC is now in process of evaluating the Stanford School of Medicine and expects to complete its survey this spring. The Loma Linda University School of Medicine will be reviewed upon completion of the Stanford survey.

Agriculture and Services Agency

WORKMEN'S BENEFITS FOR SUBSEQUENT INJURIES

Item 155 from the General fund Budget p. 77 Program p. I-485

Requested 1973–74	$2,368,225
Estimated 1972–73	2,274,000
Actual 1971–72	1,945,000
Requested increase $94,225 (4.1 percent)	
Total recommended reduction	$1,800,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Funding. Reduce $1,800,000* Recommend reduction to reflect the additional revenues which will be paid into the fund as a result of the passage of Chapter 1334, Statutes of 1972, which provides that where there are no surviving dependent heirs, workmen's compensation death benefits are paid to the subsequent injury fund.	302
2. *Legislative Intent.* Recommend such legislation as may be necessary to clarify the manner in which no-dependency death benefit payments are to be administered.	302

WORKMEN'S BENEFITS—Continued

GENERAL PROGRAM STATEMENT

This item funds the state's payment for injury compensation claims awarded by the Workmen's Compensation Appeals Board under Section 475 of the Labor Code which provides that when a worker with a preexisting permanent disability or impairment suffers a subsequent industrial injury resulting in a combined permanent disability of 70 percent or more, the employer is responsible only for that degree of permanent disability arising from the subsequent injury. The balance of the disability benefit obligation is assumed by the Subsequent Injury Fund.

The purpose of this program is to provide an incentive for employers to hire persons who have a permanent (but partial) disability or impairment. The liability of the employer for any subsequent injury which aggravates the original disability is limited to that portion of the combined disability which is directly attributable to the latter injury. The difference between the employer's portion of the award and the total award, as determined by the appeals board, is funded through this appropriation.

The award payments are administered by the State Compensation Insurance Fund (a public enterprise), and the money appropriated by this item includes the service charges of that agency and those of the Attorney General who represents the state's interests in the hearings before the appeals board or court.

ANALYSIS AND RECOMMENDATIONS

The requested appropriation of $2,368,225 is $94,225, or 4.1 percent, above the estimated expenditures for the current year.

Table 1 shows the growth of the appropriation and the outstanding liabilities of the state for the years indicated.

Table 1
Selected Data, Workmen's Compensation for Subsequent Injuries

	1969–70	*1970–71*	*1971–72*	*1972–73*[1]
Benefits paid	$1,312,823	$1,436,365	$1,626,628	$1,905,000
Service charges—S.C.I.F.	65,654	71,818	81,331	95,000
Attorney General fees	148,219	185,978	247,829	368,225
General Fund appropriations	1,444,000	1,653,000	1,945,000	2,274,000
Emergency Fund allocations	82,697	41,162	210,000	270,000
Number claims	238	270	274	NA
Outstanding obligations	$23,176,542	$25,381,055	$26,612,593	NA

[1] Estimated midyear.

No-Dependency Death Benefits

(1) *We recommend that this item be reduced by $1.8 million to reflect the revenues from the no-dependency death benefits which will be paid to the state for support of the subsequent injuries program.*

(2) *We recommend such legislation as may be necessary to clarify legislative intent concerning (a) the manner in which no-dependency death benefits are to be paid to the state and (b) the fund through which payments for subsequent injuries will be disbursed.*

In our Analysis last year, we recommended constitutional and statutory changes to provide for payment of the industrial death benefit to the state in cases where the deceased employee had no legal heirs, thereby reducing the cost of the subsequent injuries program to the General Fund by an estimated $1.8 million annually. An amendment to the Constitution (Proposition 13) was approved by the voters in the 1972 general election enabling the Legislature to implement this recommendation. Subsequently, the Legislature enacted Chapter 1334, Statutes of 1972 (SB 401), requiring employers (or their insurance carriers) to pay "a sum to the State Treasurer equal to the total dependency death benefit that would be payable . . . to a surviving spouse with no dependent minor children." Enactment of this measure was too late for its fiscal implications to be reflected in the Governor's Budget.

The death benefit awarded to a surviving spouse with no dependent children is $25,000, payable at the rate of $105 per week for approximately 238 weeks or a period of nearly five years. It is our understanding that the Legislature intended (and the language quoted above from Chapter 1334 would appear to support this position) that the benefit is to be paid to the state in a single lump sum. However, the State Compensation Insurance Fund reports that some insurance companies may interpret the law as requiring payment on the installment basis applicable to survivors. Payment to the state in this manner would create severe accounting problems for both the state and insurers and reduce first-year revenue to the state to about $360,000.

A second potential problem concerns the accounting procedures which will apply to the death benefit payments received by the state. Chapter 1334 provides that the payments shall be made to the State Treasurer and shall be "placed in the fund for subsequent injuries. . . . The payments so received are hereby appropriated for such purpose." Although Chapter 1334 does not specifically create a "subsequent injuries fund" in the State Treasury into which these payments will be deposited, we understand that the legislative intent was to do so and to continuously appropriate revenues in that fund for the payment of benefits for subsequent injuries. That being the case, the General Fund appropriation for support of the subsequent injuries program is only supplemental to the special fund and the revenues anticipated from Chapter 1334 should be used as a partial offset to the General Fund support. The State Treasurer's office advises that it has not yet determined how it will handle these revenues.

To clarify the above matters, we have requested the Legislative Counsel to render an opinion on the question of legislative intent and, if necessary, to recommend corrective legislation. Assuming that the resolution of these issues will result in the originally estimated level of state revenue from industrial death payments and that such payments will be deposited in a special Subsequent Injuries Fund, which fund is continuously appropriated, we recommend that this item be reduced by $1.8 million. This estimate is based on data supplied by the Division of Labor Statistics and Research, Department of Industrial Relations, which indicate that over the past six years industrial-related deaths have remained fairly constant at approximately 725 per year. In about 72 of these cases there are no legal heirs. Hence, 72 cases times $25,000 equals $1.8 million.

WORKMEN'S BENEFITS—Continued

STATE PERSONNEL BOARD

Item 156 from the General Fund — Budget p. 78 Program p. I-487

Requested 1973–74	$13,290,446
Estimated 1972–73	14,122,660
Actual 1971–72	6,255,170
Requested decrease $832,214 (5.9 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Salary Compaction. Recommend State Personnel Board and Department of Finance jointly prepare a schedule of salary rates for all levels of state employees including statutory and constitutional officers designed to eliminate salary compaction. The schedule should be submitted to the fiscal committees at the budget hearings. 307
2. Military Leave. Recommend state law be changed to make military leave benefits provided state and local government employees comparable to such benefits provided to federal employees. 307
3. Evaluation Criteria. Recommend, beginning July 1973, the board's bimonthly reports to the Legislature on the Jobs for Welfare Recipients program contain information showing program results measured in relation to costs. 312

GENERAL PROGRAM STATEMENT

The State Personnel Board is a constitutional body of five members appointed by the Governor for 10-year staggered terms. Through constitutional and statutory authority the board adopts state civil service rules and regulations. The state civil service system is administered by a staff of approximately 550 employees under direction of an executive officer appointed by the board. The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health and civil defense employees to ensure compliance with federal requirements. The board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments. Pursuant to the Welfare Reform Act of 1971 responsibilities were assigned to the COD program for creating jobs for welfare recipients in state and local governments and supplementing welfare grants for the recipients' salaries. The board provides administrative support on a reimbursement basis for the Advisory Coordinating Council on Public Personnel Management (ACCPPM) which was created May 20, 1971 by the Governor's Executive Order R-30-71.

MAJOR REORGANIZATION

In April 1971, the State Personnel Board appointed the current executive officer who immediately set about reorganizing the board staff. In accordance with the executive officer's request, a five-member advisory committee of state executives was formed to assist in defining the board's role and objectives. As a result of the committee's deliberations and research by the board's staff, a major functional reorganization of the board was implemented September 1, 1971. Four of the nine divisions were eliminated by consolidating a number of functional elements. A number of organizational adjustments have been made since September 1971. The current organization is illustrated in Figure 1.

Key Structural Changes

The current organizational structure appears to be functioning well. The three most important changes which resulted from the reorganization are:

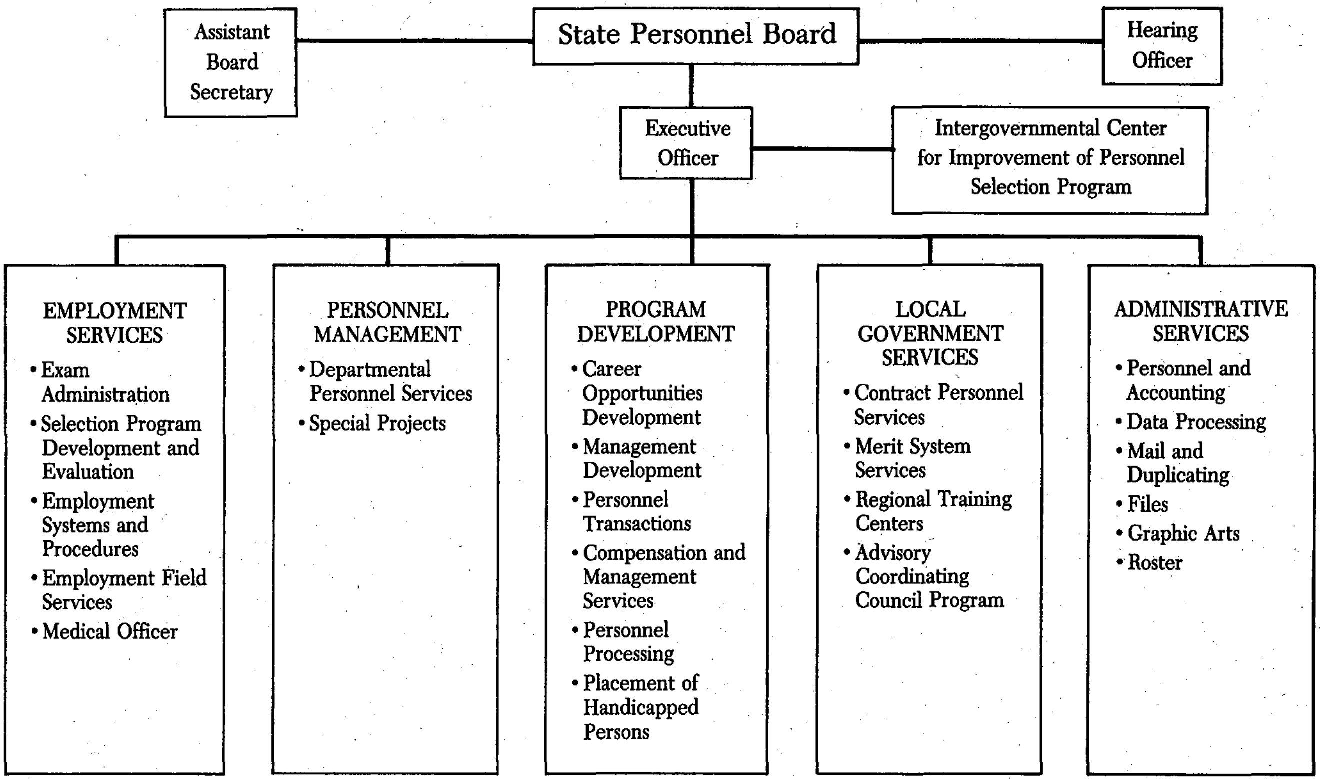
1. All administrative support functions were combined under the administrative services division. Prior to the reorganization such functions were dispersed throughout the board.
2. Recruitment, selection and placement activities were combined within the employment services division where they operate now in a more coordinated fashion.
3. A personnel management services division was formed which consists of personnel specialists who develop employee classifications and allocation standards and provide general consultation to agencies. The specialists now are organized into separate groups that are assigned to specific agencies in order to provide more responsive service. Prior to the reorganization such functions were organized by occupation groups and an agency had no central contact point within the board.

Study of Employee Compensation

The State Personnel Board has contracted with a private management consulting firm to study the state's employee compensation program. The study is to be conducted in two phases. During the first phase the consultant is to evaluate the state's salary survey techniques and job classification system, and compare state salaries and benefits with those provided by other employers. A report containing findings and recommendations based upon the first phase of the study is required by February 23, 1973. During the final study phase the consulting firm is to evaluate state salary setting and fringe benefit policies and determine preferences of state employees regarding fringe benefits. The final report recommending methods for improving the state's total employee compensation program is to be submitted by May 14, 1973.

The total cost of the study is $147,000 which includes a $135,000 contract cost and $12,000 for costs associated with project administration. The study is being funded by an assessment to each state department of 1,000 or

Figure 1
State Personnel Board Organization
As of December 1972



more employees.

ANALYSIS AND RECOMMENDATIONS

Salary Compaction

We recommend that the State Personnel Board and Department of Finance jointly prepare and submit to the fiscal committees at the budget hearings, a schedule of proposed salary rates for all levels of state employees up to and including statutory and constitutional officers to eliminate salary compaction. We recommend further that the board and Department of Finance include an estimate of additional state cost that would result if the proposed rates were adopted.

Many exempt and higher level civil service state employees are not compensated equitably relative to their responsibilities because their salaries are "compacted" beneath those of their immediate superiors which in some cases are within only one dollar of each other. Salary compaction exists in many departments and is particularly severe in the Departments of Public Works, Mental Hygiene and Public Health. It is our understanding that approximately 1,000 state civil service employees did not receive a full pay increase July 1, 1972 because of compaction. Salary compaction is a problem because it (1) prevents employees from being compensated equitably, (2) deters competent individuals from accepting promotions to responsible state jobs and (3) accumulates salary distortions which ultimately call for major readjustments.

We recommend, therefore that the State Personnel Board examine the state compaction problem and that the board and Department of Finance cooperatively prepare and submit to the Legislature a schedule of proposed salary rates to eliminate such compaction.

Need to Examine Military Leave Benefits

We recommend that state law be changed to make military leave benefits provided to state and local government employees comparable to those provided to federal employees.

State and local government employees receive greater military leave benefits than do federal employees or employees of most major private companies. According to state law, state and local government employees are allowed to receive their full salaries while on military leave for up to 30 calendar days annually. The law provides, further, that such employees are allowed up to 180 calendar days leave of absence annually for temporary military duty. The federal government allows only 15 calendar days annually for paid military leave. State and local government provisions are more costly than those allowed by the federal government. In addition, the requirement that the state or local government allow an employee to remain absent from his job for up to six months can result in significant staffing difficulties. We believe, therefore, that military leave benefits of state and local government employees should be made comparable to those of federal employees.

STATE PERSONNEL BOARD—Continued

PERSONNEL INFORMATION MANAGEMENT SYSTEM (PIMS)

The State Personnel Board has contracted with a private firm to (1) provide direction and assistance to the board, State Controller's office, Public Employees Retirement System and the California State University and Colleges in their joint efforts to conceptualize an integrated personnel information system and (2) develop a plan to implement such a system. A PIMS implementation committee composed of representatives of the above state entities distributed on January 3, 1973 a preliminary system design and implementation plan. The plan provides for implementing the new system on a pilot basis late in 1974 and for full system implementation by December 1975.

In previous analyses we have recommended consistently an integrated approach to payroll and personnel master files to simplify and streamline the complex processes of personnel transactions and records. Such an approach if implemented properly would eliminate duplicate efforts, reduce costs, minimize errors and improve system responsiveness.

It is our understanding that the State Controller's office intends to request budget augmentations for the 1972–73 and 1973–74 fiscal years in order for the entities involved to participate collectively in the detailed design and implementation of the system. The Controller's office would reimburse the other participating entities for their increased costs associated with system design and implementation.

PERSONNEL BOARD PROGRAMS AND RESOURCES

To fulfill its responsibilities the State Personnel Board conducts seven programs. Item 156 represents General Fund support of $13,290,446. The balance of funds supporting the programs is received as reimbursements from the federal and local governments. Table 1 presents a summary of the resources required for each of the programs during the three-year period ending June 30, 1974. The table shows that the decrease in the board's 1973–74 budget results from a $1.7 million reduction in the career opportunities development program (COD). The COD program reduction is illusory, however, because the program's 1972–73 cost includes payments under the jobs for welfare recipients program (JWR) intended initially to have been made in the 1971–72 fiscal year. Many such payments were deferred until the 1972–73 fiscal year because (1) the Welfare Reform Act of 1971 did not take effect until October 1971 and (2) because of problems in initiating the JWR program.

Significant Staff Changes

The most significant staff changes are increases of 14.5 positions in the employment services program and 8.5 positions in the administrative services program and a reduction of 6.6 positions in program support for Advisory Coordinating Council on Public Personnel Management (ACCPPM). In the employment services division, 12 positions are requested for a limited period ending June 30, 1975 for improving job relatedness and validity of state examinations. One and one-half positions are for expediting and coordinating examinations. One-half medical officer

Table 1
State Personnel Board
Summary of Resources Expended by Program

	1971–72		1972–73		1973–74	
Program	*Man-years*	*Budget*	*Man-years*	*Budget*	*Man-years*	*Budget*
1. Employment services	187.0	$3,360,338	177.9	$3,735,654	192.4	$4,173,843
2. Personnel management services	41.0	853,417	42.6	964,038	42.6	1,090,667
3. Program development	36.6	1,170,952	35.6	1,329,384	38.2	1,472,467
4. Career opportunities development	17.3	2,021,541	35.3	8,855,450	33.0	7,143,377
5. Local government services	80.0	1,038,891	110.8	1,881,018	109.8	1,789,644
6. Program support for Advisory Coordinating Council on Public Personnel Management	4.0	101,600	14.0	265,937	7.4	144,800
7. Administrative services (distributed to other programs)	142.3	(2,365,724)	137.3	(2,583,856)	145.8	(2,473,334)
Totals	508.2	$8,546,739	553.5	$17,031,481	569.2	$15,814,798

position is for responding to additional requests from departments for medical guidance and one-half clerical position is for processing increased document workloads. In the administrative services program, seven clerical positions, one personnel analyst position and one-half hearing officer position are requested to satisfy increasing work volumes. In the program support for ACCPPM, 6.6 technical positions are deleted because of anticipated completion of an employment opportunities evaluation function by June 30, 1973.

EMPLOYMENT SERVICES PROGRAM

The employment services program includes the responsibility for recruiting, selecting and placing qualified candidates in state jobs. A competitive process consistent with the state's merit system is used to satisfy the quantitative and qualitative personnel needs of state agencies on a timely basis. The program consists of a variety of functions including planning new examining approaches, establishing eligibility lists, administering examinations, screening applicants with questionable medical or criminal records, providing employment information, and evaluating the relevancy and validity of examinations planned or in use.

PERSONNEL MANAGEMENT SERVICES PROGRAM

The purpose of this program is to maintain the state classification and pay plan and to provide personnel consultation and service to state agencies. The classification and pay functions include (1) establishing, revising and abolishing job classes, (2) developing allocation standards for individual classes, (3) making job audits, (4) conducting salary surveys and (5) making recommendations for salary adjustments.

The State Personnel Board through its personnel management services division has made a determined effort during the last two years to provide responsive personnel services to the various state agencies.

STATE PERSONNEL BOARD—Continued

PROGRAM DEVELOPMENT PROGRAM

Improvement of employee performance is the primary objective of this program. Elements of the program are (1) special personnel services, (2) employee development, (3) employee status system and (4) employer-employee relations.

Special Personnel Services

The main functions of this element are making special studies (such as determining the adequacy of the state's overtime policy) and conducting research to respond to information requests from the Legislature, Governor's office, employee groups and others.

Employee Development

The activities of this element are organization and team development, manager selection and development, course and program development, and course and program implementation.

Employee Status System

Activities of this element include (1) evaluating and improving the personnel transactions system; (2) coordinating implementation of the personnel information management system (PIMS); (3) auditing personnel transactions; and (4) providing technical consultation to departments, employees and employee organizations and State Personnel Board staff.

Employer-Employee Relations

The purpose of this element is to provide consultant services in employer-employee relation matters to Personnel Board staff and to state agencies.

CAREER OPPORTUNITIES DEVELOPMENT PROGRAM

The career opportunities development (COD) program represents a relatively recent and rapidly expanding State Personnel Board activity. The program now represents 45.2 percent of the board's total 1973–74 budget.

The objectives of the program are to (1) identify and remove artificial barriers to public employment and (2) establish affirmative approaches for employing disadvantaged persons. Program activities include job analysis, restructuring and development of new entry classifications; development of career ladders; examination of testing, selection and recruitment practices to ensure that unnecessary barriers are removed; development of training opportunities to facilitate career mobility and upgrading of disadvantaged candidates; and experimental and demonstration projects to develop new approaches for satisfying modern public employment needs.

The Welfare Reform Act of 1971 (Chapter 578, Statutes of 1971) assigned additional responsibilities to the COD program of developing and operating (1) a jobs for welfare recipients program (in conjunction with the Department of Human Resources Development), (2) a program of grants to cities and counties for local COD projects, (3) a technical assistance program to aid interested jurisdictions and (4) an expanded level of the COD program in state civil service.

Program elements are (1) State Personnel Board support, (2) state agency coordinators, (3) local government program development and (4) welfare recipients jobs. Resources allocated by program element are displayed in Table 2.

Table 2
State Personnel Board
Summary of Resources by Element—Career Opportunities Development Program

	1971-72		1972-73		1973-74	
Element	*Man-years*	*Budget*	*Man-years*	*Budget*	*Man-years*	*Budget*
State Personnel Board support	17.3	$773,641	35.3	$1,063,167	33.0	$845,221
State agency coordinators	—	—	—	638,753	—	298,156
Local government program development	—	—	—	1,444,430	—	500,000
Welfare recipients jobs	—	1,247,900	—	5,709,100	—	5,500,000
Total	17.3	$2,021,541	35.3	$8,855,450	33.0	$7,143,377

State Personnel Board Support

This element includes all administration and development activities required to manage the entire COD program. It also includes responsibility for conducting research and demonstration projects in manpower and employment fields. Activities include developing jobs for the disadvantaged in state and local government; developing, funding and evaluating COD projects of local governments and state agencies; and providing technical assistance to all program participants. The board expects that during the 1973–74 fiscal year the state will have 80 COD job classes filled with 2,400 state employees and that by the end of that fiscal year 2,000 "prior COD employees" will have advanced to non-COD positions.

State Agency Coordinators

To facilitate participation of state agencies, the COD program provides technical assistance and direct financial support to provide full-time COD coordinators in various state departments. Currently 18 state agencies have full-time COD coordinators. The board expects that two additional agencies will have such coordinators in the 1973–74 fiscal year.

Local Government Program Development

The Welfare Reform Act provided for direct financial grants by the board to cities and counties to establish COD programs. The board now provides to such governments the same type of technical assistance that it provides to state agencies. The Personnel Board anticipates that during the 1973–74 fiscal year COD programs will be funded in eight cities and 10 counties.

Welfare Recipients Jobs

Pursuant to enactment of the Welfare Reform Act, the jobs for welfare recipients program was created providing for full reimbursement of employer payroll costs of COD employees during their initial on-the-job training period through payment of such reimbursements to state and local government entities. The board anticipates that during the 1973–74

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STATE PERSONNEL BOARD—Continued

fiscal year 1,930 welfare recipients will be placed into training jobs and 2,088 recipients (including some placed in training jobs in 1972–73) will advance to unsubsidized jobs.

Jobs for Welfare Recipients Program

The jobs for welfare recipients program operates on a matching funds basis with the work incentive program (WIN) administered by the Department of Human Resources Development (HRD). The board's COD unit prepares contracts with government jurisdictions to hire welfare recipients and provides technical assistance to them in restructuring jobs. HRD provides candidates to the hiring entities.

Initial Problems

The board anticipated in January 1972 that 1,700 to 2,000 welfare recipients would be hired and started toward permanent employment by June 30, 1972. By August 31, 1972, however, only 423 recipients had been hired. Problems in placing recipients in jobs resulted from a variety of factors including federal law changes that affected the WIN program.

Program Gains Momentum

Most of the initial problems have been overcome and the program is gaining momentum. The board in a November 10, 1972 report stated that during the period September 1, 1972 through October 31, 1972 the number of welfare recipients placed in training jobs increased from 454 to 756 and the number of welfare recipients moving into regular full-time jobs increased from 25 to 95.

Program Evaluation Needed

We recommend that beginning July 1973 the board's bimonthly reports to the Legislature on the jobs for welfare recipients program contain cost information to enable the Legislature to measure the program's results in relation to its costs.

The Welfare Reform Act of 1971 requires that the State Personnel Board report bimonthly to the Legislature the following information about the jobs for welfare recipients program: (1) number of jobs created, (2) number employed, (3) cost to the state and (4) number who enter permanent employment. The bimonthly reports the board has submitted to the Legislature include no cost information. Such information is needed to enable the Legislature to assess the program's impact on a cost-benefit basis. It also is needed to improve program management.

Manpower programs are particularly difficult to evaluate because: (1) evaluative data usually does not exist or is unreliable and (2) specific quantifiable objectives usually are lacking.

Our office recently developed an approach for evaluating the jobs for welfare recipients program on a cost-benefit basis and discussed it with the board's executive management and program staff. The board has now formed a task force and is initiating an interagency effort to use the approach in developing such an evaluation system. We suggest, therefore, that beginning July 1973 the board's bimonthly reports to the Legislature contain cost information that will enable the Legislature to evaluate the program's results in comparison to its cost. The development of similar systems for evaluating other state manpower programs should also be required.

LOCAL GOVERNMENT SERVICES PROGRAM

Many local government jurisdictions are unable to provide all of the personnel management services necessary to support a public work force. Moreover, in order to acquire certain federal grants, a local jurisdiction must have a merit system approved or operated by a central state agency. To satisfy such needs, the State Personnel Board provides recruitment, selection and other technical personnel and consultant services to many local governments and approves or operates merit systems for a number of local government jurisdictions. Such services are provided on a fully reimburseable basis. This program also includes the operation of a selection consulting center that provides consultative, research and training services in public personnel selection. The center is funded through a federal grant and reimbursements from local government jurisdictions. Another federal grant was awarded to the board to begin establishing several regional training centers which eventually will become self-sustaining through tuition charges. The board estimates that four such centers will be established by July 1, 1973 and that a fifth center will be established by July 1, 1974.

PROGRAM SUPPORT FOR ADVISORY COORDINATING COUNCIL ON PUBLIC PERSONNEL MANAGEMENT (ACCPPM)

The State Personnel Board provides staff and overhead support to the Advisory Coordinating Council on Public Personnel Management (ACCPPM). ACCPPM program activities are designed to strengthen personnel programs of state and local government through providing federal grants for (1) developmental projects in personnel administration, (2) training and education for the public service and (3) improving the use of manpower in public service projects.

ADMINISTRATIVE SERVICES PROGRAM

This program consists of executive management and central support services including accounting and budgeting, personnel, mail, duplicating and graphic arts. Cost of the administrative services program is distributed among the board's line programs.

STATE PERSONNEL BOARD—Continued

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Items 157, 158 and 159 from the General Fund, Public Employees' Retirement Fund, and the State Employees' Contingency Reserve Fund Budget p. 81 Program p. I-509

Requested 1973–74	$5,591,221
Estimated 1972–73	5,489,014
Actual 1971–72	4,402,975
Requested increase $102,207 (1.9 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Consolidate Investment Counsel. Recommend boards of the Public Employees' Retirement System and the State Teachers' Retirement System jointly select a single stock investment counsel. 318
2. Social Security Termination. Recommend the Legislature take necessary action to terminate social security coverage for state employees and utilize a major portion of the resulting state savings to improve employee retirement benefits. 321

GENERAL PROGRAM STATEMENT

The objective of the Public Employees' Retirement System (PERS) is to provide the state and other public employers and their employees the opportunity to participate in the retirement and health benefits plans (including four major medical plans) administered by the system, thereby aiding in the recruitment and retention of competent personnel by assuring a measure of post-retirement financial security for older or long-term employees and financial assistance for active and retired employees in times of illness or other temporary physical impairment. All of these plans are statutorily controlled and are funded jointly in different proportions by the employer and the employee.

Responsibility for establishing policy direction and guidance for the system is vested in its Board of Administration, which consists of eight members when considering matters related to the retirement programs, but it is increased by three public members when health benefits and medical plans are under consideration. The board submits two annual reports to the Governor and the Legislature, one summarizing the system's operation and stating its recommendations for legislation affecting retirement benefits and the administration of the system, and the other summarizing its investments and financial operations. The day-to-day activities of the system are performed by an authorized staff of 361.6 positions under the direction of the system's board-appointed executive officer.

The Public Employees' Retirement System administers three distinct programs: a Retirement program, a Health Benefits program, and a Social Security program. The latter program consists of the administration of the coverage and reporting aspects of the Federal Old Age Survivors, Disability, and Health Insurance program which applies to most state employees on a mandatory basis and to local public employees whose employers have elected such coverage.

The costs of administering these three programs are funded from different sources. The Public Employees' Retirement Fund (representing the contributions of all participating public employers and employees), supports the administrative costs of the retirement program from its annual interest earnings; the General Fund supports that portion of the administrative costs of the Social Security program relating to the state's participation; and the State Employees' Contingency Reserve Fund supports the administrative costs of the Health Benefits program from an assessment (not more than 5 percent), made on the total premiums paid to that program. Table 1 details the support by fund.

Table 1
Fund Support for Administration of Public Employees' Retirement System

	Actual 1971–72	*Estimated 1972–73*	*Requested 1973–74*
General Fund (Item 157)	$18,000	$18,000	$18,000
Public Employees' Retirement Fund (Item 158)	3,856,279	4,872,078	4,954,939
State Employees' Contingency Reserve Fund (Item 159)	528,696	598,936	618,282
Totals	$4,402,975	$5,489,014	$5,591,221

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Including reimbursements of $733,935 and requested appropriations totaling $5,591,221, the system is proposing a total expenditure program of $6,369,156 for fiscal year 1973–74, which exceeds the current year's estimated expenditures by $164,545 or 2.6 percent. This increase is composed of $97,261 for personal services and $67,284 for operating expenses, equipment and EDP services. However, because reimbursements are expected to increase by $62,338, primarily as a result of the Teachers' Retirement System contributing a greater share of the expense for the shared investment staff, the net cost of the program (expenditures less reimbursements) will increase by $102,207 of 1.9 percent.

Estimated expenditures in the current year have increased by $245,058 over the amount originally budgeted largely due to legislation which increased the workload of the system as described later in this analysis. Thus, the net proposed expenditure for the budget year is $413,084 or 8 percent higher than the amount originally budgeted for the current year.

The system is proposing a total of 36.5 new positions for the budget year. These positions are discussed under separate program headings later in this analysis.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Most of the system's internal administrative costs, which comprise over half of the total proposed expenditure, are distributed among the three previously mentioned functional programs. The Board of Administration and staff of the Public Employees' Retirement System also administer the Legislators' Retirement System, as well as the investments of the Legislators' Retirement Fund. The system is not reimbursed for the cost of these services, which amounts to approximately $30,000 annually. The Legislators' Retirement Fund is reviewed under Item 16 of this analysis.

Recent Legislation

Chapter 170, Statutes of 1971, which became operative July 1, 1971, changed the basic retirement formula for the miscellaneous members of the system from one-sixtieth to one-fiftieth of final compensation for each year of service at age 60, which represented a 20 percent benefit increase over the old formula. The measure also increased the vesting requirement to a period of five years and reduced the mandatory retirement age in scheduled increments from age 70 to age 67 in 1973. This benefit improvement and the lowering of the mandatory retirement age increased the retirement application workload in 1971–72 (the first year of the new benefits) by 35 percent over the 1970–71 level. Due to the aging of the general membership and application of the new mandatory retirement age to all employees in 1973, the retirement workload is expected to remain at a high level. The impact of Chapter 170 on the system's program elements is discussed later in this analysis. Table 2 shows the historic and estimated retirement workload.

Three bills chaptered in 1972 are responsible for increasing current-year costs by $165,157. The first, Chapter 560, will exclude persons employed in local criminal identification positions (fingerprint examiners, etc.) which presently qualify them for local safety member retirement status and place them under the 2 percent at age 60 miscellaneous formula. However, persons presently employed in such positions will be given the option of retaining safety member status. An estimated $15,188 will be expended to notify and obtain decisions from the some 500 members who are affected by this measure.

The second, Chapter 767, changes the nonindustrial disability retirement benefit rate from 1.5 percent per year of service to 1.8 percent for future as well as for currently retired members to conform to the one-fiftieth retirement formula adopted in 1971. An estimated 6,000 member files will have to be reviewed and some benefits recalculated at a cost of $100,719.

The third, Chapter 1035, terminates social security coverage for safety employees of the Department of Corrections and the Youth Authority. The cost of changing the records of the approximately 5,000 affected employees is estimated at $49,250.

DEPARTMENTAL ADMINISTRATION

Of the total proposed expenditure of $6,369,156, the sum of $3,316,228 or 52.1 percent is budgeted for the department's internal administration program, and of this amount $2,820,613 or 85.0 percent is distributed to the three functional programs in proportion to the services provided. These services consist of executive guidance and policy implementation, actuarial, legal, and investment services, electronic data-processing (EDP) services, and routine administrative activities. Under our discussion of each of the system's functional programs, we indicate the amount charged for these administrative services.

The remaining 15.0 percent or $495,615 of the administrative cost is undistributed and is composed entirely of reimbursements: namely, $200,000 for investment services rendered to the State Teacher's Retirement System, and $295,615 for EDP services provided for the Department of Veterans Affairs and the State Teachers' Retirement System.

Table 2
Public Employees' Retirement System
Retirement Workload

Fiscal year	*Total annuitants July 1*	*Annuitants added*	*Annuitants deleted*	*Total annuitants June 30*	*Percentage increase in annuitants*
1965–66	34,551	5,189	1,510	38,230	—
1966–67	38,230	5,502	1,602	42,130	10.2%
1967–68	42,130	5,766	1,541	46,355	10.0
1968–69	46,355	6,976	1,893	51,438	11.0
1969–70	51,438	7,735	2,087	57,080	11.0
1970–71	57,086	8,353	2,331	63,101	10.5
1971–72	63,108	11,936	2,473	72,571	15.0
1972–73 [1]	72,571	13,035	2,681	82,925	14.3
1973–74 [1]	82,925	14,072	3,038	93,959	13.3
1974–75 [1]	93,959	11,367	3,318	102,008	8.6
1975–76 [1]	102,008	12,504	3,624	110,388	8.2

[1] Projections.

Proposed New Positions and Current Year Adjustments

For fiscal year 1973–74, the system's administration program shows a $179,259 or 5.4 percent decrease in costs compared to the current expenditure level. This reduction, which reflects the first full-year of the transfer of EDP personnel to the consolidated data center, is offset by added costs for this center as indicated under the operating expenses and equipment category.

Four new positions are requested for administrative workload increases: (1) one clerk for the central file unit, (2) one associate analyst to review internal workflow procedures, (3) one analyst for the bond investment section, and (4) one investment officer which was administratively added in the current year to implement Chapter 870, Statutes of 1971. Chapter 870 authorizes the Teachers' Retirement system to invest in common stocks, and requires it to retain private investment counsel for this purpose.

As discussed below, a situation now exists in which the PERS investment staff, which also serves the State Teachers' Retirement System (STRS), will receive investment advice from two firms under separate contracts with PERS and STRS. In our judgment, this practice should not continue.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Need to Consolidate Investment Counsel

We recommend that the boards of the Public Employees' Retirement System and the State Teachers' Retirement System select a single investment counsel.

The PERS investment staff of 20 positions (16 professional and 4 clerical) provides the marketing and research functions necessary to execute the investment programs approved by the PERS and STRS Retirement Boards. Under an interagency agreement concluded several years ago, STRS will defray 50 percent of the cost of this investment staff in the budget year. To supplement this "in-house" staff as required by law, PERS retains outside stock investment counsel on a (newly instituted) flat-fee basis and is requesting $175,000 in the budget year for this purpose. (Pursuant to Chapter 1277, Statutes of 1972, the provision now requiring outside investment counsel will become permissive, but PERS proposes to continue using such counsel.)

As indicated in our analysis of STRS, that system has recently contracted for outside stock investment counsel (the STRS law is mandatory in this regard), but it anticipates a smaller fee ($100,000) for this service in the budget year than does PERS. The two contracts are with different companies and, therefore, the PERS "in-house" investment staff will be receiving investment advice from two different sources. Because the legal constraints on the kinds of stocks held and the basic long-term investment policies and objectives of the two systems are similar, the need for duplicate consultants is questionable. By eliminating this duplication and utilizing one firm for both systems, a saving of at least 50 percent ($137,500 annually based on the proposed PERS contract of $175,000 and the projected STRS contract for $100,000) could be realized.

Because Chapter 1277 will also require the PERS board to obtain proposals from all interested investment firms before executing a consultant contract for fiscal year 1974–75, that would be an appropriate time to begin the joint counsel arrangement. That date would also allow the necessary lead time to coordinate efforts for the bidding process.

RETIREMENT PROGRAM

The administration of a number of alternate retirement plans is the major program of the system. Through this program, the state and various contracting agencies (57 county offices of superintendent of schools, the Los Angeles City School District, the Los Angeles City Junior College District, 288 cities, 35 counties, and 361 special districts and other agencies), offer their employees on a mandatory (as a condition of employment), but mutually contributory basis, retirement benefits based on service or disability, death benefits, survivor coverage (if not covered by social security), and special benefits to certain occupational groups for death or disability incurred in the line of duty. The contracting agencies are granted by statute a number of optional retirement plans from which they may choose.

The proposed expenditure level of $5,010,939 for this program, which is $82,861 or 1.7 percent higher than estimated expenditures in the current year, is derived from an appropriation of $4,954,939 from the Public Employees' Retirement Fund and $56,000 in reimbursements from local agencies for actuarial and insurance services.

To meet the system's workload, the following 23 permanent positions (4 professional and 19 clerical) and 8.5 man-years of temporary help are requested for the budget year: (1) four clerks to process records for new members and provide information regarding the purchase of optional service credit, (2) one clerical and two professional positions for additional workload in the Los Angeles area office, (3) two accounting positions to handle fund receipts and assist in central accounting and (4) 14 clerks to compute and pay retirement allowances. The 8.5 man-years of temporary help are needed to prepare the system's records for conversion to the consolidated data center.

Departmental administration costs in the amount of $2,631,613 have been allocated to the retirement program. This is 93.3 percent of the administrative costs which are distributed to the system's three programs. Table 3 shows workload data for the retirement program over a five-year period.

Table 3
Retirement Program, Selected Workload Data

Detail	*1967–68*	*1968–69*	*1969–70*	*1970–71*	*1971–72*
Membership					
State and U.C.	161,490	168,723	171,584	169,084	172,319
Public agencies	223,571	240,627	254,084	264,342	291,007
Total	385,061	409,350	425,668	433,426	463,326
Retired members	46,355	51,438	57,086	62,623	72,571
Number contracting agencies	604	640	670	715	743
Public employers' contributions [1]	$187.1	$218.6	$248.9	$273.7	$298.8
Public employees' contributions [1]	$154.3	$171.9	$191.8	$209.2	$221.0
Benefit payments [1]	$89.0	$105.4	$120.1	$131.1	$168.1
Death benefits [1]	$10.3	$12.4	$13.6	$13.5	$14.8

[1] In millions of dollars.

HEALTH BENEFITS PROGRAM

Through the Health Benefits program, the state and (since 1968) other public employers who so elect offer their employees a number of health benefits and major medical plans on a premium-sharing basis. Pursuant to Chapter 907, Statutes of 1972, the state increased its share of the premium cost for its employees from $14 to $16 (the maximum set by Chapter 212, Statutes of 1972) per month per individual premium in the current year, with the employee paying any remaining difference.

The funds proposed to support the administration of the Health Benefits program in the budget year total $618,282, which is $19,346 or 3.2 percent greater than estimated expenditures in the current year. Support for this program is derived from the State Employees' Contingency Reserve Fund, which receives as revenue annual contributions from all participating employers as a percentage of the total premiums paid, including those for annuitants. The maximum percentages are fixed by statute, but the levels are set annually by the Board of Administration. The proposed levels for the budget year are 1.0 percent for administration and 1.0 per-

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

cent for reserves.

Departmental administrative costs of $155,000, representing 5.5 percent of internal administrative costs for the system, will be charged to the Health Benefits program in the budget year. Table 4 illustrates the growth and scope of this program. Due to growth, the system is requesting one clerical position to handle the increased workload in this program.

Table 4
Health Benefits Program, Statistical Data

Detail	*1967–68*	*1968–69*	*1969–70*	*1970–71*	*1971–72*
Average monthly enrollment [1]	109,056	178,134	191,597	206,216	222,289
Number basic plans	10	10	11	11	11
Number supplementary (to medicare) plans	6	6	6	6	6
Number major medical plans	—	4	4	4	4
Premium Payments (millions)					
State enrollees' share	$19.9	$21.0	$24.5	$28.5	$32.2
State share	7.5	9.4	10.8	14.0	17.0
Public agency costs [2]	—	—	0.6	1.8	3.9
Total premium cost	$27.4	$30.4	$35.9	$44.3	$53.1
State administrative (millions) cost [3]	0.90	0.94	1.3	1.8	2.0
Total state cost [4]	$8.4	$10.3	$12.1	$15.8	$19.0

[1] A member enrolled in two plans is counted as two enrollments.
[2] Includes employer and employee contributions. Public agencies did not participate in this program until December 1, 1968; thus, figures for 1968–69 are insignificant in dollar amounts.
[3] Includes contributions to the State Employees' Contingency Reserve Fund for reserves.
[4] Includes administrative and premium contributions.

SOCIAL SECURITY PROGRAM

The Social Security program provides public employers and their employees with an opportunity for coverage under the Federal Old Age, Survivor, Disability and Health Insurance program through a master agreement with the federal Social Security Administration. Pursuant to such an agreement between the state and the federal government, state employees in 1961 were given the option to join social security, but all new state employees after that year (except those in law enforcement and related "safety" classifications) are automatically covered by this program. The retirement formula which applies to employees covered by social security has been modified to reflect the fact that they will receive dual retirement benefits—one from the state and another from the federal system.

Public agencies may also contract for social security coverage of their employees through the Public Employee's Retirement System. Such coverage may be exclusive of, coordinated with, or in full supplementation to a local retirement plan, at the option of the agency. As in private employment, the employee and the employer contribute equal amounts to the federal Social Security Administration.

The Public Employees' Retirement System is responsible for submitting to the federal government quarterly wage reports on all public agencies in the state which are covered by the social security agreement, as well as the employer and employee contributions due on the wages. To accomplish this objective, the system proposes an expenditure of $244,320, which is $3,615 or 1.5 percent greater than estimated expenditures in the current year. The system proposes that the number of authorized positions remain at the same level as in the current year, 15.8.

The system requests an $18,000 appropriation from the General Fund for the state's share of administrative costs. The remainder of the funding consists of reimbursements totaling $226,320 from the various public agencies covered by the social security agreement. Included in these reimbursements is $34,000, representing 1.2 percent of the general administrative costs which are allocated to the three programs. Table 5 shows the growth of the program and the magnitude of wages covered in public employment in the State of California for a five-year period.

Table 5
Social Security Program, Selected Workload Data

Detail	*1967–68*	*1968–69*	*1969–70*	*1970–71*	*1971–72*
Public employers [1]	2,566	2,601	2,611	2,631	2,646
Public employees	379,000	416,000	441,000	457,509	495,744
Employer and employee contributions [2]	$170.6	$209.2	$248.4	$278.7	$310.7
Net covered wages [2]	$1,930.0	$2,310.0	$2,630.0	$2,830.0	$2,990.0

[1] Variations in number reflect mergers and consolidations of districts and other governmental entities as well as creation of new entities.
[2] In millions of dollars.

Termination of Social Security Coverage

We recommend legislation (1) directing the Public Employees' Retirement System to notify, no later than March 31, 1974, the Federal Department of Health, Education and Welfare that the state desires to terminate social security coverage for state employees and (2) providing for the utilization of a major portion of the resulting state savings to improve PERS benefits.

Since 1961, when the state entered its social security agreement with the federal government, the maximum employer cost for each covered employee has risen from $144 per year (3 percent of the first $4,800 of salary) to $631.80 (5.85 percent on the first $10,800 effective January 1, 1973) an increase of 339 percent in 12 years. Because these taxes apply equally to the employer and employee, the combined maximum contribution to social security now totals $1,263.40 annually. Using July 1, 1972, State Personnel Board statistics adjusted for salary increases, we estimate that more than one-half of the state's employees will pay the maximum tax in 1973.

Future Increases in Social Security Costs

Under current federal law, the maximum employer cost for 1974 will increase to $702 (5.85 percent on the first $12,000 of salary) with the tax rate rising, in scheduled increments, to 6.25 percent in 1993. Beginning in 1974, whenever the Consumer Price Index increases by an annual amount of 3 percent or more, the social security wage base will be automatically increased to fund higher social security allowances.

State costs for social security will also continue to increase as the per-

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

centage of state workers covered by the federal system grows. Approximately 70 percent of the state work force is now covered and, due to the attrition of employees who elected not to come under social security in 1961, PERS estimates that about 90 percent of the state employees will be covered by the 1980's. All state "safety" members of PERS either have been excluded from social security or are in the process of terminating coverage under a provision of the federal law which permits exemption of employees who are classified as "policemen."

Table 6 shows actual and projected state costs for social security from fiscal years 1970–71 through 1977–78. The addition of employee contributions would double the amounts shown.

Table 6
Estimated Annual State Costs for Social Security

Year	*Employees covered*	*Tax rate*	*Tax base* [1]	*Maximum tax*	*State cost (in millions)*
1971–72	111,572	5.2 %	$9,000	$468.00	$37.2
1972–73	114,823	5.85	10,800	631.80	54.1
1973–74	119,415	5.85	12,000	702.00	63.1
1974–75	124,191	5.85	12,480	730.08	67.6
1975–76	127,917	5.85	12,979	759.27	71.3
1976–77	130,477	5.85	13,498	789.65	74.1
1977–78	133,087	6.05	14,038	849.30	81.1

[1] Assuming a 4 percent increase in Consumer Price Index beginning in 1974.

Heavy Cost Burden on Employees

In addition to the 5.85 percent social security tax withheld from most paychecks, state employees are subject to mandatory deductions ranging from approximately 5.2 percent to 6.5 percent for PERS benefits (the range reflects the effect of the social security offset on the normal 7 percent employee contribution), plus state and federal income tax withholdings. If employees wish to enroll in a state-sponsored health benefits program, premiums for this protection further reduce (in most cases) take-home pay.

Table 7, illustrating the deductions for a state employee with three dependents at various salary levels, shows that at salary levels below $1,000 per month social security costs exceed or approximate contributions to PERS. State Personnel Board statistics indicate that the average employee's salary was $909 monthly as of July 1, 1972. Table 7 shows that this employee (assuming three dependents) has approximately 27 percent or $245 withheld each month, leaving a net salary of $664. The combined impact of social security and PERS contributions represents approximately 45 percent of these deductions. This level of retirement cost appears excessive in light of a 1970 study which reported that only one of over 200 industrial retirement plans (covering 7.8 million workers) require employee contributions other than for social security. Withdrawal from social security would reduce this burden for state employees.

A June 30, 1972, survey by the National Association of State Retirement Administrators reveals that the retirement contribution rate applicable to California state employees is the highest among the 36 states which extend both a state retirement benefit and social security to their employees. In addition, the California employee rate for PERS is higher than that in 10 of the 14 states which do not provide social security coverage. This is further evidence that the retirement burden on California employees is excessive, notwithstanding the fact that the benefit structure of the state's program probably ranks among the top five public systems in the nation.

Table 7
Mothly Deductions for a State Worker With Three Dependents

	Deductions					Total deductions	
Monthly salary	*Federal tax*	*State tax*	*Social security*	*PERS retirement*	*Health benefits*	*Dollars*	*Percent of salary*
$500	$31.80	—	$29.25	$25.67	$34.00	$120.72	24.1%
700	62.20	$2.00	40.95	39.67	34.00	178.82	25.5
900	94.20	7.30	52.65	53.67	34.00	241.82	26.9
1,000	115.20	11.10	58.50	60.67	34.00	279.47	27.9
1,300	177.30	22.80	76.05 [1]	81.67	34.00	391.82	30.8
1,500	225.30	32.80	87.75 [1]	95.67	34.00	475.52	31.7
2,000	364.80	68.50	117.00 [1]	130.67	34.00	714.97	35.8

[1] Wages will exceed base in 1974, therefore deductions will not cover all paychecks.

Question Need for Dual Benefits

The combined retirement benefit derived from PERS and social security coverage by many long-term employees (those with 25 to 30 years of service at the age of 63 or above) approaches the employee's gross pay. We question the need for a level of retirement benefits which can exceed an employee's net pay, and believe that most employees would prefer the immediate advantages of greater take-home pay during their working years when the largest demands are placed on family budgets, rather than experiencing high salary deductions for dual retirement benefits which will be payable at a time when family expenses normally subside.

Variations in PERS Benefit Structure

Annually, the Legislature considers numerous proposals to extend the benefits of "safety" membership in the Public Employees' Retirement System to additional employee groups in the system's "miscellaneous" membership category. The most significant differences between the safety and miscellaneous classifications concern survivors and disability benefits, the safety member being covered by considerably more liberal benefits which are fully financed by the employer's contributions to the retirement fund. Thus, the miscellaneous member pays the full cost of providing an allowance for his survivor by taking a modified (reduced) allowance at the time of his retirement, the amount of the reduction being actuarially determined by the age of the beneficiary. In contrast, a full 50 percent post-retirement survivor's allowance to a widow is provided for all safety members without actuarial reduction in the member's benefits.

In the case of disability retirement, the miscellaneous member, regardless of the cause of his disability, may retire with a benefit equal to 1.8 percent of compensation per year of service with a minimum of one-third compensation guaranteed after 10 years of service based on a projection of service to age 60. In contrast, the safety member who sustains an indus-

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

trial or job-related disability is entitled to retire with 50 percent of compensation for life without regard to age or length of service.

The "50 percent continuance" and industrial disability retirement benefits are costly, as reflected in the employer contribution rates to the retirement fund. For most safety categories, the employer's rate is 15.10 percent of salary (27.57 percent for members covered by the highway patrol formula), compared to 7.26 percent for the micellaneous membership.

Savings From Termination of Social Security Could Finance PERS Improvements

In the interest of equality of treatment of all state employees, there is considerable merit in standardizing the post-retirement survivor's allowance at the full 50 percent level and improving to some degree the disability retirement benefit for miscellaneous employees whose disabilities are permanent and specifically job related.

In the 1972 session, the Legislature enacted AB 714, which would have extended the "50 percent continuance" benefit to the miscellaneous membership, but this measure was vetoed by the Governor on the basis that the entire subject of employee benefits needs review. Because of the significantly more favorable treatment granted to safety employees, constitutional officers, and judges, we believe an immediate review of the status of the miscellaneous group is urgent. Such review might begin with the Social Security program and an evaluation of its relationship to PERS.

The state savings derived from social security termination would be more than adequate to fund the "50 percent continuance" benefit and, in addition, permit improvements in other PERS benefits. Table 8 shows the projected costs of specific benefits which could be implemented with the state's portion of the social security savings.

Table 8
Cost of Selected Improvements in PERS Coverable by Social Security Savings

Benefit improvement	*Projected annual cost in 1975–76 (in millions)*
1. Elimination of the social security modification which applies to the PERS benefit	$7.2
2. (a) 50-percent continuance allowance to surviving spouse	34.7
(b) 15-percent increase in retirement benefits for retired members who chose to provide a survivor's allowance	5.0
3. Extension of monthly 1959 survivor benefits ($180 for one dependent, $360 for two and $430 for three or more)	7.5
4. Increase post-retirement death benefit from $500 to $750	.5
5. 12 months' salary for death before retirement	3.5
Subtotal	$58.4
Amount available to increase disability and health benefits in 1975–76	12.9
TOTAL	$71.3 [1]

[1] Estimated state savings from social security termination in 1975–76 (See Table 6).

Legislature Consideration in 1973

Because the federal social security law requires a two-year notice before public entities are permitted to terminate their participation and because social security costs are escalating rapidly, legislation should be enacted this year directing the PERS Board of Administration to notify the federal government of the state's intention to withdraw from the program. In the event the Legislature decides that state employees should remain in the federal program, consideration should be given to reducing their PERS contribution rate as an alternative to future PERS benefit improvements.

STATE TEACHERS' RETIREMENT SYSTEM

Item 160 from the Teachers' Retirement Fund — Budget p. 82 Program p. I-518

Requested 1973–74	$4,309,235
Estimated 1972–73	3,758,085
Actual 1971–72	3,010,283
Requested increase $551,150 (14.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Disability Retirement Benefits. Recommend State Teachers' Retirement System include in its annual report a section detailing utilization of this benefit. 326
2. Consolidated Investment Counsel. Recommend boards of the State Teachers' Retirement System and the Public Employees' Retirement System jointly select a single stock investment counsel. 330

GENERAL PROGRAM STATEMENT

In 1913, the Legislature established a statewide system for payment of retirement salaries to public school teachers in California. A public Teachers' Retirement Salary Fund was established to support the system. It was administered by the State Board of Education, the original governing board of the system. In 1944, the name of the system was changed to the State Teachers' Retirement System (STRS). The retirement system remained under the direct jurisdiction of the State Board of Education until 1963 when it was removed from the Department of Education and placed under the control and management of a nine-member State Teachers' Retirement Board.

Organization

The retirement board consists of three ex officio members (Superintendent of Public Instruction, the Controller, and the Director of Finance) and six members appointed by the Governor for four-year staggered terms. The board is responsible for setting policy and making rules. It has the power and authority to hear and determine all facts

STATE TEACHERS' RETIREMENT SYSTEM—Continued

pertaining to applications for benefits under the retirement system and to make all decisions pertaining to the administration. The board also has exclusive control of the investments of the Teachers' Retirement Fund and the administration of the fund.

The system has a presently authorized staff of 303.3 positions headed by a chief executive officer who is appointed by and responsible to the Retirement Board. The STRS headquarters is organized into five divisions: (1) records and statistics, (2) member service, (3) accounting, (4) management control, and (5) data processing.

Objectives

The objectives of the State Teachers' Retirement System are to: (1) provide retirement allowances, disability benefits and survivor benefits for teachers working in the public schools, (2) aid in the recruitment and retention of a qualified body of teachers, (3) provide for the orderly retirement of aged and infirm teachers, and (4) assure that all members of the retirement program are aware of their rights, benefits and current status.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The State Teachers' Retirement System is proposing net expenditures (expenditures less reimbursements) of $4,309,235 for administrative support in the budget year, which is $551,150 or 14.7 percent higher than estimated net expenditures in the current year. The proposed increase results from increases of $257,342 in personal services and $228,808 in operating expenses, equipment, and EDP services, coupled with an anticipated $65,000 decrease in reimbursements ($15,000 from an expected reduction in administrative charges and $50,000 reflecting a one-time reimbursement for administrative costs incurred in the transfer of records and assets of two Los Angeles teachers' retirement systems which merged into STRS pursuant to Chapter 1305, Statutes of 1971). Budget-year reimbursements, estimated at $260,000, consist entirely of a charge ($25 maximum) for administrative costs relating to applications for withdrawal of inactive member accumulated contributions. Disregarding reimbursements, the total expenditure program of $4,569,235 in the budget year is an 11.9-percent increase over estimated current-year expenditures.

Rising Disability Costs

To monitor more closely the potentially expensive disability program provided by STRS, we recommend that the system include in its annual report a section containing the following details: (1) annual number of disability retirement applications received, described by applicant age and number of dependents, (2) number of new disability retirements granted, (3) amount of disability benefit payments during the year, (4) kinds of disabilities affecting the applicants, and (5) ratio of service retirements to disability retirements for each of the previous five years.

Chapter 1305, Statutes of 1971, (AB 543), which became operative July 1, 1972, made the following comprehensive benefit changes in the State

Teachers' Retirement Law: (1) revised the benefit structure to provide significantly better retirement benefits, (2) improved survivor benefits, (3) provided automatic cost-of-living adjustments to annuitants of up to 2 percent annually, and (4) greatly improved the disability retirement benefit.

This latter benefit was increased from a maximum of 25 percent of final compensation after 10 years of service (higher percentages were allowed with additional years of service) to a maximum of 90 percent of compensation after five years of service, depending on the number of dependents. Primarily as a result of this benefit increase, 506 teachers applied for disability retirement during the period July 1, 1972, to January 1, 1973, whereas under the old formula in each of the last five years only approximately 100 teachers applied for and received a disability retirement. The system estimates that 389 of the 506 applications will be granted (as of January 3, 1973, 274 had been approved). Most of the remaining 117 applications will be denied. As mentioned in our analysis of Item 312 (Contributions to Teachers' Retirement Fund), the system anticipates a 100-percent increase in disability payments (from $600,000 in the current year to $1,200,000 in the budget year) and, as noted below, the increasing utilization of this benefit is reflected in the fact that the system is requesting two additional positions in the budget year to process disability retirement requests.

Current-Year Staffing Adjustments and Proposed New Positions

As a result of workload arising from Chapter 1305, 5.8 clerical positions were administratively added during the current year, and the system is requesting that they be continued in the budget year. In addition, 0.8 of an accounting officer position was administratively added to aid in the implementation of Chapter 870, Statutes of 1971, which authorized the system to invest in common stocks. This position is requested as a full-time position in the budget year.

Including the 5.8 clerical positions mentioned above, the system is requesting 14.5 positions (1 professional and 13.5 clerical) in the budget year for workload increases related to Chapter 1305. These 14.5 positions will be utilized as follows: (1) one clerk for the mail room, (2) one clerk for central files, (3) one retirement officer II and one clerk for the disability retirement program, (4) 9.5 clerks in the retirement program, and (5) one clerk in disbursements.

For other workload increases, the system is requesting eight permanent and 10 limited-term clerical positions (1 professional and 17 clerical) for a total budget-year request of 33.5 new positions. The eight permanent positions will be utilized as follows: (1) two clerks for typing, (2) 0.5 clerk position to handle refunds of member contributions, (3) 0.5 key data operator, (4) three clerks and one accounting officer to schedule data processing, and (5) one clerk for administration. The 10 limited-term clerical positions will be assigned as follows: (1) two clerks (limited to 6-30-76) for refunding member contributions, (2) two clerks (limited to 6-30-76) for central files workload, (3) two clerks (limited to 6-30-76) to investigate discrepancies in member records, and (4) four clerks (limited to 6-30-74) to verify member birthdays.

VERIFICATION PROJECT

Since 1965 when 10 employees began to verify some member service records before retirement applications were received, the verification unit has grown to a currently authorized staff of 75 positions (35 permanent and 40 limited-term to June 30, 1976). The unit has verified the service records of all members over the age of 60 and is currently working on the records of members who are age 59. Thus, the system is able to pay the initial service retirement allowance to an annuitant within 45 days of his effective retirement date. In addition, the staff is now able to verify the service records of all new entrants into the system, all reentrants, and all those members who request clarifications of their records. It is estimated that the verification unit will verify 32,760 (the goal established) service records in the current year, and 43,570 in the budget year. The system anticipates that all member records will be verified by June 30, 1978.

Monthly Reporting and Annual Member Statements

The various employers (such as school districts) report all teacher accounts to the system through 70 different reporting units (usually the county superintendent of schools). These reports, prior to July 1, 1969, were made on an annual basis which caused delays of as much as three years in the preparation of annual member statements. Since that time, the units have been shifting to a monthly reporting procedure and on July 1, 1972, the last 13 counties with approximately 20 percent of the system's membership converted to monthly reporting. This will enable the system to prepare annual statements of members' accounts on a current basis. The system expects to prepare and mail member statements for the 1971–72 fiscal year in May 1973. Thereafter, the statements will be mailed four months after the end of each fiscal year.

MEMBERSHIP

On June 30, 1972, the system had 315,640 active members. An active member is anyone who has money on deposit in the Retirement Fund, including persons who are not currently contributing to the system. Service, disability and survivor benefits were paid to 46,083 persons in 1971–72. By the end of the budget year, the system estimates that active membership will increase to 316,000 persons, and the number of beneficiaries to 50,400 persons. Table 1 illustrates the actual and estimated growth of the active membership and beneficiaries of the system for an eight-year period.

As indicated in Table 1, the number of active members has increased only slightly since June 1970, and this moderate growth trend is expected to continue in the budget year. The State Department of Education estimates that 2,000 new teaching positions will be covered by this system in the budget year, but this increase will be largely offset by the activities of the STRS verification unit, which is finding members classified as active who should be retired or who are deceased. The estimate of 2,000 new teaching positions is based on anticipated reductions in class sizes (necessitating more teachers) and enriched staffing for various educational programs.

Table 1
Number of Active Members and Beneficiaries State Teachers' Retirement System

Fiscal year ending June 30	*Active members*	*Percent increase over previous yr.*	*Benefi-ciaries*	*Percent increase over previous yr.*
1966	263,533	—	31,795	—
1967	274,788	4.3%	33,443	5.2%
1968	290,848	5.8	35,510	6.2
1969	305,707	5.1	37,661	6.1
1970	312,563	2.2	40,238	6.8
1971	314,162	0.5	43,017	6.9
1972	315,640	0.005	46,083	7.1
1973 (est.)	316,000	0.001	50,400	9.4

INVESTMENTS

The marketing and research functions which are necessary to execute the investment program approved by the STRS Retirement Board are performed by the staff of the Public Employees' Retirement System through an interagency agreement. Under this agreement, STRS will support 50 percent of the Public Employees' Retirement System (PERS) investment staff during the budget year at an estimated cost of $200,000. STRS is requesting an additional $100,000 to retain outside stock investment counsel on a flat fee basis to supplement this "in-house" staff as required by law. The investment accounting procedures necessary to maintain the records of the STRS portfolio and collect the earnings due on its investments are performed by STRS personnel.

During the 1971–72 fiscal year, a record 6.01 percent net yield was realized on the system's investments. This net rate is the return after planned losses and administrative expenses on a portfolio whose book value was $2,097,647,631 at the end of the 1971–72 fiscal year. Prior to 1972–73, all of the system's investments were held in corporate and governmental bonds and mortgages. Following approval of a constitutional amendment in 1970, enabling legislation was enacted in 1971 permitting the system to invest up to 25 percent of its assets in common stocks. Since July 1972, the system has held such stocks. Table 2 indicates the book value of the investment portfolio and the rate of return for the past six years.

Table 2
Investment Portfolio

Fiscal year ended June 30	*Investments at book value (millions)*	*Gross rate of return (%)*	*Net rate of return (%)*
1967	1,235	4.38	—
1968	1,367	4.57	—
1969	1,535	4.93	—
1970	1,708	5.44	5.33
1971	1,927	5.87	5.74
1972	2,098	6.13	6.01

STATE TEACHERS' RETIREMENT SYSTEM—Continued

Need to Consolidate Investment Counsel

We recommend that the boards of the State Teachers' Retirement System and the Public Employees' Retirement System select a single investment counsel.

As indicated in our analysis of PERS, that system also maintains a contract for outside stock investment counsel but anticipates paying a larger fee ($175,000) for these services in the budget year than does STRS. These two contracts are with different companies and, therefore, the PERS "inhouse" investment staff will be receiving investment advice from two different sources. Because the legal constraints on the kinds of stocks held and the basic long-term investment policies and objectives of the two systems are similar, the need for two consultant contracts is questionable. By eliminating this duplication and utilizing one firm for both systems, a saving of at least 50 percent ($137,500 annually based on the proposed PERS contract of $175,000 and the projected STRS contract for $100,000) could be achieved.

Because current law (Chapter 1277, Statutes of 1972) will require the PERS board to obtain contract proposals from all interested investment firms before executing a consultant contract for fiscal year 1974-75, that would be an appropriate time to begin the joint counsel arrangement. That date would also allow the necessary lead time to coordinate efforts for the bidding process.

DEPARTMENT OF VETERANS AFFAIRS

Item 161-162 from the General Fund and the Veterans' Farm and Home Building Fund — Budget p. 84 Program p. I-526

Requested 1973-74	$1,198,260
Estimated 1972-73	1,166,402
Actual 1971-72	1,028,111
Requested increase $31,858 (2.7 percent)	
Total recommended reduction	$20,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Minor Capital Outlay. Delete $20,000.* Recommend repair of road project be included as ongoing maintenance. 335

GENERAL PROGRAM STATEMENT

Services to and for qualified California veterans and dependents as set forth in the Military and Veterans Code were first consolidated into a single Department of Veterans Affairs in 1946, which subsequently became a department in the Agriculture and Services Agency.

The code sets forth the services and assistance that may or shall be rendered to veterans or their dependents. The principal aim is to help qualified and needy veterans or dependents obtain direct federal or state aid that may be or become available and to provide a hospital-nursing-home-domiciliary facility for those veterans requiring such services not otherwise available to them.

In addition, the department lends money to enable veterans to own their own homes, farms or mobilehomes on a more economical basis than would be available to them by conventional means. This service is self-supporting and self-liquidating from regular payments made by participating veterans.

PROGRAM ORGANIZATION

The services and operations of the department function under five major designations:

I. Farm and Home Loans
II. Veterans Claims and Rights
III. Educational Assistance to Veterans Dependents
IV. Veterans Home and Hospital
V. General Administration

General Administration is charged back (distributed or prorated) to the other four in order to properly reflect the cost of each operational program. Each of the four major designations is divided into several significant subprograms.

I. FARM AND HOME LOANS

A. Property Acquisition

The loan program differs from conventional private financing in that the department acquires the property desired by the veteran, retains title to it and then sells it to the veteran on a contract of sale. The title passes to the veteran only after he has completely paid off the contract. The department does its own appraising, plan review, applicant evaluation, acquisition processing, title review, escrow instructions and fund disbursement. The program includes low-cost life insurance to cover the term of the contract. Annual applications and appraisals have averaged between 5,500 and 7,000. However, lendable fund limitations cause wide fluctuations in the number of actual purchases from about 1,600 in the 1969–70 fiscal year to 6,500 estimated for the current fiscal year and proposed for the budget year. Loan values committed for the same period increased from $29 million in 1969–70 to $120 million estimated for the budget year.

B. Loan Service

The department operates its own collection services, handles delinquent accounts, insurance claims and, as required, property repossessions. Delinquent accounts had been averaging 6,800 annually and are estimated to continue at the same level based on any three-month period and for which a "notice of intent to cancel contract" has been issued. Actual repossessions have averaged about 45 per year.

DEPARTMENT OF VETERANS AFFAIRS—Continued

C. Loan Funding

The basic source of funds used for the purchase of property is by sale of general obligation bonds authorized from time to time by the electorate. To a more limited extent, funds become available as the result of early repayments which may exceed the needs for servicing the bonds. In any case, the bonds are fully financed by the participating veterans, so that even though these bonds are of the general obligation type the state is not required to contribute directly toward their interest or amortization.

Once authorization by the electorate has been achieved, the actual sale of bonds is dependent upon the need for cash. Usually they are sold in blocks dependent upon bond market conditions. Decisions to sell bonds are made by the Veterans Finance Committee and the State Treasurer.

It is anticipated that available bond funds will approximate $50 million in the current year and $100 million in the budget year. Effective March 7, 1973, Chapter 1410, Statutes of 1972, will provide an additional, but unestimated, supplemental source of loan funds by authorizing the use of funds obtained from real estate lenders.

II. VETERANS CLAIMS AND RIGHTS

The population of California includes in excess of three million veterans who are qualified to participate in both state and federal programs. This number is growing at an accelerated rate each month as Vietnam veterans return. The program of the division is discussed under the following activities.

A. Claims Representation

Claims representation is actually a form of joint venture among the department, the county veteran service offices and various veterans organizations. Collectively, their purpose is to provide assistance to veterans in preparing and submitting claims to the federal Veterans Administration as well as to the department or any agency providing some form of assistance to veterans.

Monetary benefits paid to California veterans by the Veterans Administration have exceeded $200 million annually while the state cost to assist in the recovery has been around $400,000.

B. Cal-Vet Eligibility

All of the services offered by the department are based on a clear demonstration of eligibility of the applicant veteran or dependent. Consequently, it is an important function of the department to establish or help to establish the facts in each case. This includes questions of residency, period of active service, and other factors. Veterans who have received or are now receiving a bonus from another state are not eligible.

The workload in this function has been averaging over 15,000 applications annually for all types of assistance. This is now declining as a result of shifting more of the burden to the county service officers.

C. County Subvention

It was mentioned earlier that the process of assistance in establishing veterans claims and rights involved a joint venture including the county veteran service offices which operate in 55 of the state counties. The state has recognized that the cost of the service rendered by the county offices is to some degree chargeable to the state and as a result the Legislature has provided subvention funds which are allotted to the counties on the basis of a formula in which the state's share has represented about 18 percent of the cost experienced by the counties. For the last several years, the Legislature has subvented $500,000 annually for this purpose. The state financial aid is based on Section 972 of the Military and Veterans Code, which permits the department to set its aid levels but limits the contribution toward the designated county service officer to a maximum of $75 per month.

Since the 1965–66 fiscal year this subvention has been payable from the Farm and Home Building Fund. It is now proposed to return to the prior basis by making it payable from the General Fund at $600,000. The increase of $100,000 is in recognition of the increased workload resulting from accelerated return of Vietnam veterans and shifting of eligibility activities from the department.

III. EDUCATIONAL ASSISTANCE TO VETERANS' DEPENDENTS

Educational assistance to veterans is now largely the responsibility of the federal government. The state no longer provides funds for direct assistance to veterans in pursuing educational betterment. However, the state continues to assume a responsibility for assisting in the cost of education for veterans' dependent children, wives of totally disabled veterans and widows of deceased veterans.

Eligibility is as previously noted and represents the second largest direct State General Fund cost in all areas of services to veterans and dependents. It is exceeded only by the cost of operating the Veterans Home and Hospital. The number of applicants per annum has been dropping. For example, in the 1969–1970 fiscal year 3,141 applications were processed and ongoing enrollments in high schools, colleges and trade schools totaled 8,395. In the current fiscal year it is estimated that applications will have dropped to 1,900 and enrollments will be down to 6,600. For the budget year the same figures are anticipated.

IV. VETERANS' HOME AND HOSPITAL

The state-owned facility at Yountville has a capacity of 1,475 domiciliary beds and 868 for general medical, surgical and chronic purposes plus all of the necessary supporting facilities such as dining rooms, nurses' and employees' quarters, recreational facilities, etc. In the past there has been a steady downward trend in the domiciliary population at the home while there has been a continuing waiting list for the hospital facilities. Of the eight domiciliary buildings on the reservation, only four are partially occupied by veteran members. The average domiciliary membership is rising from an actual 484 in fiscal year 1971–72 to 550 estimated for the current fiscal year. This is a reversal in the prior downward trend.

In September 1970 the home instituted, for the first time, a charge

DEPARTMENT OF VETERANS AFFAIRS—Continued

against members dependent upon type of service and ability to pay. The maximum charges are (1) $60 a month for the domiciliary type of care versus an average monthly cost to the home of $290, (2) $90 a month for nursing or chronic care against an average monthly cost of $382, and (3) $120 per month for hospital care against an average montly cost of $928. It will be recognized that the charge to the veteran represents a diminishing percentage of the cost from domiciliary to hospital care. Nevertheless, these charges have reduced the annual State General Fund costs of operating the entire facility. In addition, the federal government continues to make contributions based on the nature of each member's occupancy. The approximate breakdown in the cost sharing for the operation of the facility for the current fiscal year is 50.2 percent from the General Fund, 27.3 percent from federal funds, and 22.5 percent from reimbursements which includes fees charged to veterans. For the budget year, relationships will remain approximately the same with a slight increase in percentage cost to the General Fund.

The operation of the facilities is divided into three broad categories:

A. Residential Care and Services

This service represents the lowest level and is used principally by fully ambulatory veterans who are housed, clothed, fed, and provided with recreational facilties, occupational therapy facilities and outpatient clinical facilties at the hospital as required. When a domiciliary member requires hospitalization, he is transferred for the required services and then returned to his quarters. As has been noted, domiciliary requirements have been dropping steadily and three of the eight buildings are totally closed. Four are occupied by veteran members at a very low occupancy rate and the eighth building is under lease to both the Napa school system and the State Department of Fish and Game which has its regional headquarters in the building. This returns a minimal income to the General Fund.

B. Hospital Care and Services

The hospital at this facility is a fully accredited medical-surgical institution with a wide range of specialties including surgery, neuropsychiatry, radiology, dentistry, and social services. The hospital provides services not only for the domiciliary veterans but for seriously ill veterans who come directly from the outside into the hospital. Workload for the basic hospital has increased from 151,020 patient-days in the 1971–72 fiscal year to 152,000 estimated for the current and budget years. In the chronic facilities, patient-days were 140,000 in the 1971–72 fiscal year and are estimated the same for the current and budget years. Domiciliary outpatient visits have been dropping as a result of medical team weekly visits to the domiciliary units. Clinical services have been averaging between 155,000 and 160,000 annually. The hospital continues to have a fairly extensive waiting list.

C. Rehabilitation Care and Services

This is an activity which provides services to the domiciliary veterans, to the chronically ill or nursing-home-type members, and to some degree to those in the hospital. The services include occupational therapy, physical therapy, in some cases light work assignments, arts and crafts and counseling. Because the average population age is continuing to increase despite the influx of younger veterans, the need for many of the services continues to increase, particularly physical therapy. Workload statistics indicate a continuing rise from the fiscal year 1970–71 through the current fiscal year and projected for the budget year.

Minor Capital Outlay

The minor capital outlay request for the California Veterans' Home is for six projects with a total cost of $106,100.

We recommend approval of $86,100 for the funding of five projects as outlined below:

(a) Install eight-inch transite sewerline to replace deteriorated six-inch concrete mortar joint sewerline	$23,500
(b) Replace glazed openings and transoms and install fire exit doors in the two hospital annexes complying with State Fire Marshal's report	$13,000
(c) Install nurse-call system in two hospital annexes	$35,000
(d) Extend liquid oxygen distribution system to the two hospital annexes	$7,600
(e) Modify freight elevator to meet industrial safety standards	$7,000

We recommend the following be deleted in the amount of $20,000:

(f) Repair and treat existing road	*$20,000*

This project is an ongoing maintenance project and should be included in the special repairs and maintenance items.

V. GENERAL ADMINISTRATION

General Administration provides overhead administrative leadership, coordination of programs, fiscal and personnel management and all of the other conventional "housekeeping" services incidental to the operation of a department of this size. The level of activity has remained fairly constant. Costs are charged back to each of the programs previously described principally to the farm and home loan program and the next largest chargeback to the Veterans' Home and Hospital.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The two Budget Bill items from the General Fund and the Veterans' Farm and Home Building Fund covered in this analysis represent principally the costs of the veterans' claims and rights services plus the overhead charges to the farm and home loan program, educational assistance to veterans and dependents and the operation of the Veterans' Home and Hospital. The major costs for the farm and home loan program are not included in the Budget Bill because this is a revolving fund operation. The

DEPARTMENT OF VETERANS AFFAIRS—Continued

level of activities covered by these two items is proposed to be approximately the same as for the current fiscal year and the overall cost increase merely represents salary adjustments and the increased cost of goods and outside services. No increase is proposed in staffing levels for the budget year.

The major costs of educational assistance to veterans' dependents and for the operation of the Veterans' Home and Hospital are covered by separate Budget Bill items.

Department of Veterans Affairs
EDUCATIONAL ASSISTANCE TO VETERANS' DEPENDENTS

Item 163 from the General Fund — Budget p. 84 Program p. I-530

Requested 1973–74	$2,085,100
Estimated 1972–73	2,085,100
Actual 1971–72	2,025,306
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Analysis of this item is included with that for the main support Item No. 161.

Department of Veterans Affairs
VETERANS' HOME OF CALIFORNIA

Item 164 from the General Fund — Budget p. 84 Program p. I-526

Requested 1973–74	$4,569,536
Estimated 1972–73	4,376,766
Actual 1971–72	3,514,466
Requested increase $192,770 (4.4 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATION

We recommend approval.

Analysis and discussion of this item is included with that for the main support Item No. 161.

Department of Veterans Affairs

COUNTY VETERANS' SERVICE OFFICES

Item 165 from the Veterans' Farm and Home Building Fund — Budget p. 84 Program p. I-530

Requested 1973–74	$500,000
Estimated 1972–73	500,000
Actual 1971–72	497,993
Requested increase none	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

In the main support Item No. 161 we discussed the role of the county veterans' service offices. We believe these offices are essential to provide the veteran a point of contact and a fund of expertise to help him obtain those services and benefits to which he is legally entitled. The county veterans service offices provide assistance which is instrumental in obtaining monetary benefits paid by the federal Veterans Administration to California veterans in fiscal year 1971–72 in excess of $211 million. In the current fiscal year it will approach $232 million and for the budget year $255 million. Much of these benefits represents assistance which might otherwise have had to be rendered directly by the state or the county and to that degree there has been relief to state and county taxpayers.

It is proposed that $500,000 be appropriated from the surplus of the Veterans' Farm and Home Building Fund for this purpose. The request is for the same level as the current year and we recommend approval.

Business and Transportation Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 166 from the General Fund — Budget p. 87 Program p. I-545

Requested 1973–74	$7,089,396
Estimated 1972–73	6,856,571
Actual 1971–72	5,927,085
Requested increase $232,825 (3.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control, a constitutional agency established in 1954, is headed by the Director of Alcoholic Beverage Control, who is appointed by the Governor with the consent of the Senate and serves at the pleasure of the Governor. Headquartered in Sacramento, the