

COUNTY VETERANS' SERVICE OFFICES—Continued

vention will be paid from the General Fund.

Business and Transportation Agency
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 193 from the General
Fund

Budget p. 79 Program p. I-493

Requested 1974-75	\$7,969,010
Estimated 1973-74	7,685,017
Actual 1972-73	6,803,549
Requested increase \$283,993 (3.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control, a constitutional agency established in 1954, is headed by a director who is appointed by the Governor with the consent of the Senate and serves at the pleasure of the Governor. Headquartered in Sacramento, the department maintains a northern division office in San Francisco, which supervises nine northern district offices and southern division office in Pasadena, which supervises 10 southern district offices. Departmental staff is presently authorized at 443.3 positions.

The State Constitution provides that the department shall have exclusive power in accordance with laws enacted by the Legislature to license the manufacture, importation and sale of alcoholic beverages in California, and to collect license fees on account thereof. The department is given discretionary power to deny, suspend or revoke licenses for good cause.

Responsibilities of the agency are discharged under a single program entitled, "Administration of the Alcoholic Beverage Control Act" which consists of three elements: (1) licensing, (2) compliance, and (3) administration. Each element, together with selected workload data, is described below.

Licensing Element

The objective of licensing premises wherein alcoholic beverages are produced, sold, or consumed is to prevent unqualified persons from engaging in the sale, manufacture or importation of such beverages and to prevent such operations in locations where the peace and quiet of the neighborhood would be disturbed and police problems aggravated. Licensing involves the investigation of applicants' background, character, and financing to assure that those who qualify will be less likely to engage in disorderly or unlawful conduct. The department processes applications from individuals, partnerships and corporations for 52 different licenses.

If a license is denied or its issuance is protested, the matter may be brought before a hearing officer of the Office of Administrative Hearings. The hearing officer prepares a proposed decision which, if adopted by the

director, becomes the department's decision. Departmental decisions on these and other matters may be appealed to the Alcoholic Beverage Control Appeals Board (a separate state agency) and the courts.

Table 1, containing selected workload and input data for the licensing element reflects workload increases ranging from 5 percent to 10 percent in the last two years. License fee transaction activities, which involve a large number of license transfers, have increased partly as a result of legislation which (1) provided for the issuance of on-sale daily licenses (Chapter 1123, Statutes of 1969), (2) revised requirements for the licensing of partnerships (Chapter 654, Statutes of 1969), and (3) provided for the issuance of out-of-state beer manufacturers' certificates (Chapter 1547, Statutes of 1971). The workload, growth of which is reflected in cost and man-year allocations on the basis of activities performed, required 5.5 additional man-years in the 1973-74 fiscal year. Based on present workload trends, a further staffing increase of 6.3 man-years is proposed in the budget year.

Table 1
Selected Workload Data, Licensing Element

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Estimated 1974-75</i>
Total applications	15,184	14,928	16,250	16,500
New on-sale general applications received	465	660	760	800
New off-sale applications received	1,256	1,500	1,600	1,700
Licenses issued	13,067	13,998	14,625	14,850
Total active licenses	50,177	50,594	50,800	51,000
License fee transactions	81,894	84,000	85,500	85,500
Cost	\$2,500,739	\$2,788,171	\$3,217,522	\$3,339,655
Man-years	193.2	176.8	182.3	188.6

Compliance Element

The objective of the compliance or "enforcement" element of the department's program is to prevent the operation of premises dealing in alcoholic beverages from becoming police problems; to prevent practices jeopardizing public safety and welfare; to prevent sales to minors and intoxicated persons and to restrict activities detrimental to public morals. Enforcement comprises investigation of complaints, imposition of disciplinary action and suppression of various trade or business practices prescribed by law. The department shares law enforcement responsibilities

Table 2
Selected Workload Data, Compliance Element

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Estimated 1974-75</i>
Complaints investigated	2,850	3,796	4,000	4,000
Accusations filed	2,218	2,705	2,900	3,000
Hearings held	978	1,004	1,000	1,000
Licenses revoked	159	200	225	225
Arrests	1,628	1,864	1,900	2,000
Disciplinary action other than revocation	2,076	2,000	2,100	2,100
Cost	\$2,179,877	\$2,521,074	\$2,898,334	\$3,008,135
Man-years	139.3	156.2	157.3	160.8

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

with local police and other law enforcement agencies. Table 2 shows selected departmental enforcement data. In the budget year, this element proposes a staffing increase of 3.5 man-years to meet increased investigative workload.

Administration Element

The administration element includes the department's executive staff and personnel responsible for licensing, accounting, legal, price posting, training and personnel duties. This element also drafts and reviews proposed legislation affecting the liquor industry and responds to inquiries from members of the Legislature and the general public. The increase of 2.8 positions from 1972-73 to 1973-74 reflects the overall increase in departmental workload. The department proposes to increase this level by 2.2 positions in the budget year. Cost and staffing data for the administration element are shown in Table 3.

Table 3
Cost and Staffing Data, Administration Element

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Estimated 1974-75</i>
General Administration				
Man-years	85.6	100.9	103.7	105.4
Cost.....	\$1,359,885	\$1,605,503	\$1,691,601	\$1,743,670

Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund, but it is a revenue-producing agency. It collects and distributes fees under a schedule established by statute. Original license fees and license transfer fees, for example, are deposited directly into the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers in compromise" are deposited in the Alcoholic Beverage Control Fund. In April and October of each year, money on deposit in this fund is divided 90 percent to the state's 58 counties and more than 400 cities under a statutory formula, and the remaining 10 percent is then deposited in the General Fund.

The department estimates that deposits in the General Fund during fiscal year 1974-75 will amount to \$8,100,000, which exceeds the departmental cost of operations for the same period by \$130,990.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

For the budget year, the department proposes a General Fund expenditure of \$7,969,010, which is \$283,993 above estimated current expenditures. The department anticipates budget-year reimbursements of \$122,450, representing fees it charges for (1) fingerprinting applicants (2) transcripts of hearings (3) copies of the Alcoholic Beverage Control Act, and (4) information concerning names and addresses of licenses. The increase in General Fund expenditures consists of \$66,299 for operating expenditures and equipment (primarily reflecting price increases) and \$217,704

for salaries, wages, and staff benefits. Of the \$217,704, \$92,021 is for merit salary increases. To meet workload growth, the department proposes to add 12 new positions: 5 special investigators and 7 clerks at a cost of \$125,683, including staff benefits and related operating expenses. Current-year adjustments in salaries and premiums for health benefits increased departmental costs by \$828,446 over the amount appropriated in the 1973 Budget Act.

Legislative Action on Alcoholic Beverage Control Act

As discussed in previous analyses, ~~we have recommended repeal of the price maintenance and price posting requirements in the Alcoholic Beverage Control Act. In December 1973, the Senate Select Committee on Alcoholic Beverages examined this and other issues during two days of hearings which produced testimony from various state agencies and industry groups. Should these hearings result in repeal or modification of the minimum price law, savings could be achieved in the department's support budget and, assuming a decline of at least 10 percent in retail liquor prices, it would be possible to double the state's excise tax on liquor and still pass on savings to the consumer.~~

would result in

Business and Transportation Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 194 from the General
Fund

Budget p. 80 Program p. I-498

Requested 1974-75	\$157,404
Estimated 1973-74.....	155,387
Actual 1972-73	139,115
Requested increase \$2,017 (1.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by a constitutional amendment in 1954 to provide an administrative review for any person aggrieved by a decision of the Department of Alcoholic Beverage Control relating to penalty assessments or to the issuance, denial, transfer, suspension or revocation of any alcoholic beverage license. The board consists of a chairman and two members appointed by the Governor with the consent of the Senate and serving at the Governor's pleasure. The board members are salaried and meet regularly in Los Angeles, San Francisco and Sacramento. Board staff consists of two attorneys and two senior legal stenographers. Approximately 25 percent of the possible appealable decisions rendered by the department over the years have actually been appealed to the board. The board is an independent agency and is not subject to departmental control.

The board's single program consists of providing an intermediate appeals forum between the department and the state's district courts of

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

appeal to which an appellant has access upon a petition to review any board decision. Board workload data for the past several years are shown in Table 1.

Table 1
Appeals Received and Decisions Rendered by the ABC Appeals Board

<i>Fiscal year</i>	<i>Appeals filed</i>	<i>Decisions issued</i>
1964-65.....	267	222
1965-66.....	213	237
1966-67.....	258	213
1967-68.....	229	237
1968-69.....	161	214
1969-70.....	194	160
1970-71.....	223	196
1971-72.....	135	195
1972-73.....	148	146

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The board proposes a budget-year expenditure of \$157,404, which is \$2,017 or 1.3 percent greater than estimated expenditures for the current year. This increase consists of \$1,479 for salaries, wages, and staff benefits and \$538 for operating expenses.

In fiscal year 1972-73, as indicated in Table 1, the board received 148 appeals and issued 146 decisions. Twenty-six of the decisions reversed actions of the department. The department sought court review of 10 of the reversals, and licensees sought court review of 23 cases in which the appeals board had sustained decisions of the department. Most of these cases represented issues involving application denials, violations of the alcoholic beverage minimum price law, and sales to or consumption by minors.

As mentioned in the analysis of the previous item, should the Legislature repeal or modify the price posting program there would be savings in this item because a high proportion of the board's workload involves price posting violations.

**Business and Transportation Agency
STATE BANKING DEPARTMENT**

Items 195 and 196 from the
General Fund and the State
Banking Fund

Budget p. 80 Program p. I-502

Requested 1974-75	\$38,500
Estimated 1973-74.....	35,000
Actual 1972-73	27,949
Requested increase \$3,500 (10 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We recommend approval.

Chapter 1483, Statutes of 1969, established a "local agency security" program under which the Superintendent of Banks is designated as the "Administrator of Local Agency Security" with the responsibility of supervising the handling of county, city and district funds by depository banks, both state and national (see analysis of Item 197).

Although the program is technically financed by the General Fund, there is no cost to the General Fund because the program is fully reimbursed by a loan from the State Banking Fund which is in turn reimbursed by fees assessed to participating banks.

The department's requested increase of \$3,500 for the budget year reflects rising operating costs.

**Business and Transportation Agency
STATE BANKING DEPARTMENT**

Item 197 from the State Bank-
ing Fund

Budget p. 80 Program p. I-500

Requested 1974-75	\$2,359,574
Estimated 1973-74.....	2,063,685
Actual 1972-73	1,691,333
Requested increase \$295,889 (14.3 percent)	
Total recommended reduction	\$49,992

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | | |
|--|------------------|------------|
| 1. <i>New Examiner II Positions. Reduce \$35,568.</i> | <i>Recommend</i> | <i>393</i> |
| deletion of three proposed examiner II positions for supervision of banks and trust company elements. | | |
| 2. <i>New Examiner III Positions. Reduce \$14,424.</i> | <i>Recommend</i> | <i>393</i> |
| deletion of one proposed examiner III position for regulation of transmitters of money abroad program. | | |

*Analysis
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STATE BANKING DEPARTMENT—Continued

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from economic loss resulting from bank and trust company failures. Programs related to this responsibility are regulatory in nature. Not all banks in California are regulated by this department because some choose to operate under federal authority.

The law provides for two types of banking institutions in the state—commercial banks and trust companies. Savings banks no longer exist in California because these banks, unlike commercial banks, could not provide such banking services as checking accounts or issuance of unsecured loans.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Headquarters are located in San Francisco and the department's single branch office is in Los Angeles. Current authorized staff consists of 104 positions. As discussed later in this analysis, the department proposes a net addition of 16 positions in the budget year. The department currently engages in the following five programs:

1. Licensing and supervision of banks and trust companies.
2. Regulation of transmitters of money abroad.
3. Certification of securities.
4. Administration of local agency security.
5. Departmental administration.

LICENSING AND SUPERVISION OF BANKS AND TRUST COMPANIES

This program consists of three elements: (1) investigation of applications for new facilities, (2) continuing supervision of existing banking facilities, and (3) continuing supervision of trust facilities.

Investigation of Applications

The establishment of new banking facilities tends to increase the potential risk of loss to the public. Therefore, all proposed new facilities, including new banks and trust companies, new trust departments of existing banks, new branches of existing banks and trust companies, and new branches and representative offices of foreign (out-of-state) banking corporations, must be approved by the superintendent.

Table 1 shows workload, cost and man-years devoted to this program element.

Table 1
Bank and Trust Company License Applications

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
New banks.....	47	45	45
New branches.....	99	110	125
New trust facilities	1	2	2
Applications for new foreign banking corporations.....	9	7	8
Man-years	5.9	6	6
Cost.....	\$93,578	\$112,717	\$105,488

Supervision of Banks and Trust Companies

The remaining program elements are: (1) continuing supervision of existing banking facilities and supervision of trust activities and (2) periodic examinations (generally annually) of the records of banks and trust companies. The law requires all banks and court-established trusts to be examined at least annually and to submit quarterly financial reports to the department. Private trusts are examined on a random sample basis. "Problem" institutions are examined more frequently.

The examination procedure involves verification and evaluation of assets and identification of unsafe practices and statutory violations which must be corrected. Institutions in serious trouble may be placed in liquidation or under control of a conservator. Table 2 shows workload, cost and staffing data for these two elements.

Table 2
Number of Banks and Trust Companies Supervised

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Type of institutions			
Banks	107	125	138
Branches	723	773	835
Trust companies.....	10	11	12
Foreign bank corporations	36	40	45
International banking corporations	1	1	1
Total bank assets (billions)	\$26.7	\$30.8	\$35.5
Total trust assets (billions)	\$8.8	\$9.7	\$10.9
Bank supervision			
Man-years	64.4	73.4	81.4
Cost	\$1,470,159	\$1,770,370	\$2,029,988
Trust company supervision			
Man-years	5	6.6	8.6
Cost	\$123,724	\$164,348	\$193,848

REGULATION OF TRANSMITTERS OF MONEY ABROAD

The Department of Corporations is responsible for the licensing and supervision of most check sellers and cashers (sellers of money orders, etc.). However, money transmitters (sellers of travelers' checks) who are not incorporated in California, but who engage in interstate and international business from a California location, are subject to supervision and periodic examination by the State Banking Department. Workload, cost and staffing data are shown in Table 3.

Table 3
Regulation of Transmitters of Money Abroad

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Companies supervised	10	11	11
Agents licensed	7,300	10,000	10,000
Man-years	0.3	0.5	1.5
Program cost.....	\$7,500	\$13,000	\$27,000

STATE BANKING DEPARTMENT—Continued

CERTIFICATION OF SECURITIES

"Savings banks" no longer exist in California. However, many public retirement funds, employee benefit trust accounts, and state-chartered credit unions are still required by law to secure from the superintendent a certificate stating that particular securities are legal for investment by "savings banks" before such institutions may invest in them. It is the department's view that under the current regulatory structure covering security issuance, continued supervision in this area by the banking department is no longer necessary. Legislation transferring this responsibility to the Department of Corporations, which is already authorized to supervise the issuance of securities, failed in the 1970 and 1971 legislative sessions. Table 4 shows workload and cost data for the certification of securities element.

Table 4
Certification of Securities

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Applications received	89	100	100
Securities certified	84	95	95
Man-years	0.1	0.1	0.1
Program cost	\$3,000	\$3,250	\$3,250

ADMINISTRATION OF LOCAL AGENCY SECURITY

Chapter 1483, Statutes of 1969, established a new program relating to the management of the collateral required of banks which receive deposits of local agency funds. The law designated the Superintendent of Banks as the "Administrator of Local Agency Security" to act as agent for city, county and district treasurers in verifying the amount of collateral pledged by banks to secure deposits of funds from governmental units. This is a General Fund program the cost of which is fully reimbursed by the participating banks.

Under the old method of handling collateralization of funds deposited by local agencies, each agency treasurer ascertained that collateral equivalent to 110 percent of the deposit was maintained by the depository. The new program centralizes this responsibility in the superintendent's office, and permits the use of pooled collateral, thereby simplifying administration and reducing local agency costs. Table 5 summarizes workload and cost data for the program.

Table 5
Local Agency Security Program

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Participating banks	145	150	155
No. of agency depositors	1,500	1,500	1,500
Aggregate deposits (billion)	5.0	5.5	5.5
Man-years	0.9	0.9	0.9
Program costs	\$27,949	\$35,000	\$38,500

DEPARTMENTAL ADMINISTRATION

This program has three elements: (1) executive and administrative services, (2) legal and legislative services, and (3) information services. The cost of this program is distributed to the other operating programs. Staffing and cost data are shown in Table 6.

Table 6
Administrative Program

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Man-years	(14.1)	(14.5)	(16.5)
Cost	(\$298,370)	(\$333,534)	(\$366,476)

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of \$2,359,574 which is a net increase of \$295,889 or 14.3 percent above estimated current-year expenditures. However, reimbursements estimated at \$38,500 in the budget year (representing recovery of the cost of administering the local agency security program) will produce a total expenditure program of \$2,398,074. The increase consists of \$240,889 in salaries, wages and staff benefits, and \$58,500 in operating expenses. The major portion of the salary increase (\$212,952) is attributable to a proposed increase of 16 positions in the budget year.

New Positions (Supervision of banks and trust company elements)

We recommend deletion of three of the proposed examiner II positions for a salary saving of \$35,568

The department is requesting the addition of 11 examiner positions (three examiner IV, three examiner III and five examiner II) to examine banking facilities, and two examiner positions (one examiner II and one examiner III) to examine trust companies. According to the department, the number and assets of banks and trust companies have increased such that the department will be unable to examine 30 percent of the banks and 40 percent of the trust companies in the budget year. We support effective regulation to prevent bank and trust company failures. However, the department's request for 13 new examiner positions is unrealistic because this number cannot be hired and trained in one year. The department was authorized 10 new examiner positions in the current year. Three of these positions are presently vacant. Furthermore, 11 vacancies presently exist in the department's examination staff. For these reasons, we believe three of the proposed examiner II positions should be deleted for a salary savings of \$35,568.

New Position (Transmitters of money abroad program)

We recommend deletion of the proposed examiner III position for this program for a salary savings of \$14,424.

The Department of Corporations plans to introduce legislation to transfer responsibility for regulating sellers of money orders to the State Banking Department. The Department of Corporations is budgeted to operate this program in the budget year and it cannot be transferred effectively by legislative action until January 1, 1975. However, the State Banking

STATE BANKING DEPARTMENT—Continued

Department is requesting the addition of one examiner position in the budget year to examine sellers of money orders. We believe that a program should not be budgeted in two departments. Therefore, we recommend that the State Banking Department's staffing request not be approved until it acquires the responsibility.

New Positions (Administration)*We recommend approval.*

The department requests the addition of one legal counsel position, one legal clerk-typist position, and one statistical clerk position for this program. The additions to the legal staff (which consists of three attorneys) are required to meet an increasing legal workload and assist in drafting new departmental regulations. The statistical clerk position is needed to compile and disseminate increasing amounts of statistical information for the department and the public.

Departmental Funding

The department is supported by the State Banking Fund, which consists of assessments by banks and trust companies, license and application fees and service charges. Budget-year revenues accruing to the fund are estimated at \$3,527,345, which is \$1,167,771 more than proposed expenditures. Chapter 858, Statutes of 1973, revised certain bank and trust company fee schedules in order that fees charged by the department correctly reflect actual departmental costs. Chapter 858 is anticipated to generate approximately \$100,000 annually to the State Banking Fund.

Departmental Regulations

The Supplementary Report of the Committee on Conference (Budget Bill of 1973) recommended that “. . . the department update and issue its regulations pertaining to state banking operations, functions, duties and responsibilities and that a progress report on such updating be made to the Joint Legislative Budget Committee by November 1, 1973.”

In this report the department states that the legal staff has commenced drafting a comprehensive system of regulations regarding bank and trust company operations. Such regulations are being coordinated with Chapter 963, Statutes of 1973, which eliminates the obsolete distinctions between savings, commercial, departmental, and nondepartmental banks by deleting provisions for all but commercial banks.

The staff is also revising many filing forms and redefining procedures and policies regarding the organization of banks and trust companies, the establishment of branch offices and the conversion of a national bank into a state-chartered bank. The department is in the process of amending existing regulations pertaining to foreign banking corporations and reserves which must be maintained by domestic banks. Implementation of the new regulations and procedures will begin after the drafting is complete and appropriate review has been accomplished.

**Business and Transportation Agency
DEPARTMENT OF CORPORATIONS**

Item 198 from the General
Fund

Budget p. 82 Program p. I-505

Requested 1974-75	\$4,145,002
Estimated 1973-74.....	4,001,804
Actual 1972-73	3,399,063
Requested increase \$143,198 (3.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Name Change. Recommend department be renamed the Department of Securities and Investments. 398

GENERAL PROGRAM STATEMENT

The Department of Corporations is administered by the Commissioner of Corporations, who is appointed by the Governor. Headquartered in Sacramento, the department maintains branch offices in San Francisco, Los Angeles and San Diego. Authorized staff currently consists of 297 positions.

The department's two operating programs (a securities and franchise program and a lender-fiduciary program) protect the public from (1) unfair investment schemes and dishonest or fraudulent sales practices in securities and franchises and (2) dishonest and unsound business practices by certain regulated companies or entities that lend money or hold it in a fiduciary capacity.

The department does not regulate all security transactions. Exempted from its jurisdiction are (1) securities issued by public agencies and (2) securities subject to regulation by the Federal Securities and Exchange Commission or such state agencies as the State Banking Department, the Department of Savings and Loan, and the Public Utilities Commission. Numerous other exceptions are specified in the law.

SECURITIES AND FRANCHISE PROGRAM

The Corporate Finance and Trading and Markets Divisions administer the Corporate Securities Law, the Franchise Investment Law, and the Commodity Advisers Law which require disclosure to the investing public of relevant financial and legal information concerning proposed security issues and franchise offers, and the licensing and regulation of commodity advisers by the Department of Corporations. The program consists of three elements: securities qualification, franchise registration, and regulation and enforcement.

DEPARTMENT OF CORPORATIONS—Continued

Securities Qualification

The Corporate Securities Law provides that all proposed security issues, with certain exceptions, must be "qualified" (approved) by the corporation commissioner before they may be sold in California. Securities which need not be qualified include certain issues offered to a limited number of purchasers under conditions specified in the Corporations Code. To ascertain compliance with the law, the department reviews notices of intent filed by corporations which propose issuance of such securities. Upon application for qualification of nonexempt securities, the commissioner reviews the applicant's business history and financial condition and determines whether the proposed plan of business and security issuance is fair, just and equitable. If he so determines, he allows the proposed issue to become effective, either by issuing a permit or by a process known as "coordination" or, in cases where the securities are already registered with the Federal Securities and Exchange Commission, by "notification." Unless the commissioner issues a stop order, authorization to issue such securities is automatically given at the same time that the federal registration becomes effective under the coordination procedure and at the end of 10 days under the notification procedure. Workload and costs of this activity are shown in Table 1.

Table 1
Securities Qualification Workload and Cost Data

<i>Security issues approved</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Permit method.....	5,899	7,500	7,875
Coordination method	1,464	3,000	3,300
Notification method	202	500	500
Notices of exempt offerings	15,646	18,150	20,000
Orders issued	4,512	6,500	9,500
Consents to transfer	8,562	9,500	10,000
Man-years	97.3	110.3	111.3
Cost of Securities Qualification Element	\$1,913,386	\$2,160,011	\$2,223,462

Franchise Registration

The franchise system of merchandising, whereby the right to transact business under a plan and trademark is acquired for a fee, is regulated under the provisions of the Franchise Investment Law. The law provides for the registration of franchises which are offered for sale and requires the disclosure of pertinent information to prospective buyers. The depart-

Table 2
Franchise Registration Workload and Cost Data

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Franchise registration	137	200	240
Franchise renewals.....	96	110	125
Man-years	1.8	2.2	2.2
Cost of Franchise Registration Element.....	\$32,010	\$36,136	\$37,198

ment reviews applications for registration to determine whether the franchise offer would constitute fraud or misrepresentation or be unfair to prospective franchisees.

Regulation and Enforcement

To transact business in California, broker-dealers, agents, commodity advisers and investment advisers must apply to the department for licenses or certificates and all applicants, other than agents, must file financial statements. The department reviews the background and financial information contained in the applications and issues a certificate or license to qualified applicants. This element also investigates complaints filed by the public and takes disciplinary action or institutes criminal proceedings against licensees as required.

Workload and cost data in Table 3 for the regulation and enforcement element reflect the enactment of Chapter 854, Statutes of 1973, (effective September 25, 1973) which provides for the licensing and regulation of commodity exchanges, solicitors, floor brokers, salesmen, and commodity option issues by the Department of Corporations. Chapter 854 renamed the Commodity Advisers Law the California Commodity Law and to implement other features of the act appropriated \$86,033 from the General Fund for the 1973-74 fiscal year. This provided seven additional positions (one staff counsel II, three corporation examiners, two clerk-typist II and one stenographer II). The department requests that the seven positions be continued in the budget year to enforce the California Commodity Law.

Table 3
Regulation and Enforcement Workload and Cost Data

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Licenses issued.....	32,049	33,500	35,000
Enforcement actions			
Formal enforcement cases	503	600	690
Broker-dealer inspections	154	187	205
Mutual fund inspections	0	2	5
Other regulatory matters	1,585	1,600	1,650
Man-years	62.2	78.5	78.5
Cost of Regulation and Enforcement Element	\$1,035,318	\$1,254,798	\$1,313,080

LENDER-FIDUCIARY PROGRAM

This program, administered by the Division of Lender-Fiduciary Laws, consists of seven elements, each of which involves the enforcement of one or more of the following regulatory statutes and the licensing of participants thereunder: Check Sellers and Cashers Law, Credit Union Law, Escrow Law, Industrial Loan Law, Personal Property Brokers' Law and California Small Loan Law, Retirement Systems Disclosure Law, and Trading Stamp Law. Applicants for licensing are investigated as to financial responsibility, experience, and character, and the books and records of licensees are examined to determine compliance with law. Table 4 indicates the total workload, man-year, and cost data for the lender-fiduciary program.

DEPARTMENT OF CORPORATIONS—Continued

Table 4
Lender-Fiduciary Workload and Cost Data

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Licenses (locations)	3,799	4,144	4,369
Investigations and examinations conducted	2,086	2,453	2,601
Annual transaction reports filed	257	353	355
Consumer complaints processed	2,277	3,150	4,000
Man-years	91.8	93	93
Cost of Lender-Fiduciary Program.....	\$1,561,713	\$1,763,004	\$1,814,792

ADMINISTRATION

The department's administration program is comprised of two elements. The general office element establishes departmental policy, suggests legislation or amendments to current laws, and directs the allocation of personnel between program elements. The accounting and personnel office element prepares the department's budget, maintains financial records, and prepares payroll documents. The administration program, which has an authorized staff of 14 positions, is requesting a 1974-75 budget of \$223,918, which is an increase of \$12,755 over current-year expenditures. Administrative costs are prorated to the department's two operating programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department's request of \$4,145,002 is \$143,198 or 3.6 percent above estimated expenditures for the current year. The department anticipates budget-year reimbursements of \$1,243,530, primarily representing fees for examining financial records of licensees, resulting in a total proposed expenditure program of \$5,388,532.

Departmental Operations

The Department of Corporations is supported by the General Fund. However, the revenue which it produces for the fund through license fees and related charges (exclusive of the reimbursements mentioned above) exceeds the annual cost of departmental operations as shown in Table 5.

Table 5
Departmental Revenue and Expenditures

	<i>Revenue</i>	<i>Expenditures (net)</i>
1972-73 (Actual)	\$6,030,529	\$3,399,063
1973-74 (Estimated)	6,294,250	4,001,804
1974-75 (Proposed)	6,603,750	4,145,002

Departmental Name Change

We recommend that the Department of Corporations be renamed the Department of Securities and Investments in order to more appropriately reflect the actual responsibilities of the department.

The name "Department of Corporations" is a misnomer because it implies a greater responsibility for corporate activity than the department

possesses. The Department of Corporations has some responsibility for the regulation of numerous corporate activities. However, in certain corporate areas, other state departments have jurisdiction. For example, the Secretary of State files: (1) articles of incorporation and changes thereto, (2) designations by corporations of an agent for service of process, and (3) statements of corporate officers and addresses required annually of profit corporations and every fifth year for nonprofit corporations. The Board of Equalization registers corporations in order to collect business taxes. The Franchise Tax Board collects franchise and income taxes from corporations.

Additionally, the name "Department of Corporations" does not clearly reflect the work performed by the Division of Lender-Fiduciary Laws which administers and enforces approximately eight laws pertaining to consumer finance, i.e., escrow transactions, industrial loan companies, state-chartered credit unions, personal property brokers, trading stamp companies, etc.

The Commissioner of Corporations has issued regulations which will become effective early in 1974, reorganizing the divisions in the department to better reflect the work actually performed by each division. The Corporate Finance Division will become the Qualification and Registration Division and the Trading and Markets Division will become the Enforcement Division. The Lender-Fiduciary Division will be renamed the Licensing and Examining Division. Changing the name of the department to the Department of Securities and Investments would more appropriately reflect the actual responsibilities of the department and would also be entirely consistent with the recent reorganization of the operating divisions.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 199 from the General

Fund

Budget p. 83 Program p. I-512

Requested 1974-1975	\$1,914,969
Estimated 1973-74	1,855,938
Actual 1972-73	1,347,236
Requested increase \$59,031 (3.2 percent)	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Codes and Standards. Recommend no action on this item until department formulates a comprehensive plan for meeting the Codes and Standards Division's statutory inspection and enforcement responsibilities.

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COMMUNITY DEVELOPMENT—Continued**GENERAL PROGRAM STATEMENT**

The responsibilities of the Department of Housing and Community Development are divided between two divisions:

1. The Division of Codes and Standards administers the codes and standards program which establishes, enforces and interprets uniform health and safety standards designed to insure a proper housing and living environment for Californians at all socioeconomic levels.

2. The Division of Research and Assistance administers the department's program to provide technical assistance in seeking solutions to California's housing problems.

Rules and regulations of the department are promulgated by a nine-member Commission of Housing and Community Development. Members of the commission are appointed by the Governor from among leaders in the building and housing field.

ANALYSIS AND RECOMMENDATIONS**CODES AND STANDARDS PROGRAM**

The Codes and Standards Program provides for the development, interpretation and enforcement of regulations for structures and vehicles used for human habitation. This program, composed of six elements, includes both direct inspection and "general assistance" activities. A total of 134.5 man-years is estimated for this program in 1973-74, including 67.5 codes and standards inspectors whose time is divided among the six program elements. Time spent in the State Housing Law, Employee Housing Act and Mobilehome Parks program elements is divided between direct inspection and the provision of "general assistance."

General assistance includes such activities as: (1) preparation and dissemination of housing standards information to local officials, (2) direct assistance to local governments in the interpretation of housing standards,

Table 1
Staff and Expenditures of Codes and Standards Program

<i>Program elements</i>	<i>Man-years</i>			<i>Expenditures</i>		
	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
1. State Housing Law and Earthquake Protection Law.....	6.3	7.2	5.2	\$129,424	\$211,425	\$112,535
2. Employee Housing Act	5.9	9.6	8.6	111,287	187,454	175,971
3. Mobilehome parks and accessory structures....	32.8	48.5	54.5	620,208	947,364	1,086,251
4. Mobilehomes	65.3	60.5	58.5	1,183,011	1,200,268	1,194,310
5. Factory-Built Housing Law	6.9	5.8	5.8	149,415	135,589	144,129
6. Special projects	3.3	2.9	2.9	72,275	62,382	70,327
Totals.....	120.5	134.5	135.5	\$2,265,620	\$2,744,482	\$2,783,523
Reimbursements:						
Federal				\$6,902	—	—
Other.....				1,184,938	\$1,200,268	\$1,194,310
General Fund cost.....				\$1,073,780	\$1,544,214	\$1,589,213

and (3) special projects which have statewide implications. These activities receive General Fund rather than fee support.

Table 1 shows proposed expenditures and staff levels for the budget year in each of the six program elements.

Breakdown in Effectiveness of Codes and Standards Division

We recommend that the Legislature direct the department to submit by April 1st a detailed plan for meeting its statutory inspection and enforcement responsibilities during the budget year.

We further recommend that the Legislature take no action on this budget item until the plan is received and evaluated.

At the present time, the division is seriously deficient in the performance of its statutory responsibilities in at least two, and possibly three, of its inspection and code enforcement programs. Further, evidence indicates that the man-years and program costs estimated for the current year are not reliable indications of the expenditures that will actually be made, either in total or for individual programs.

Data from divisional reports indicates that compliance with state regulations in the employee housing and the mobilehome parks programs is substantially below acceptable levels, and the status of compliance in mobilehome manufacturing is not clear. The division's inspection programs appear to be currently understaffed and there is no specific plan for correcting the existing deficiencies. The details of the inspection and enforcement deficiencies in the affected programs are described in later paragraphs.

Staff Below Authorized Level. The effectiveness of the division appears to have been deteriorating steadily since early in 1973. The division was budgeted for 146.5 man-years for 1973-74, including an increase of 15 positions specifically requested and approved for the purpose of bringing inspection coverage in the mobilehome parks program up to statutorily required levels. During the current year the number of authorized man-years was administratively reduced to 138.5. Because of a hiring "freeze" ordered by the deputy director, there were only 119 positions actually filled as of January 1, 1974, leaving 19.5 authorized positions vacant. Failure to fill these positions has left the division with an inadequate number of personnel to meet the direct inspection responsibilities and has weakened the ability of divisional administration to effectively utilize the manpower available. Although a decline in the manufacture of recreational vehicles has occurred in recent months, the total reduction in personnel from the level originally authorized for the current year is substantially greater than would be justified by the reduced workload.

Organizational Problems. During the year problems of organization have also contributed to the current unsatisfactory status of the inspection programs. Early in 1973, both the director and deputy director of the department resigned and left state service. Although both positions were subsequently filled, the new director was appointed Director of the Office of Planning and Research in July 1973, but continued with the Department of Housing and Community Development in the capacity of acting director. This arrangement did not provide adequate management at the de-

COMMUNITY DEVELOPMENT—Continued

partmental level. Early in the 1973-74 fiscal year, the administration proposed legislation to abolish the department, transferring the Research and Assistance Division into the State Office of Planning and Research and the Codes and Standards Division into a new Department of Building and Safety. Many administrative and clerical man-hours were spent writing, amending and promoting this legislation at the expense of ongoing departmental programs. Actions to implement the reorganization were taken prior to the introduction of the enabling legislation. The offices of administrative personnel in the Division of Codes and Standards were moved to the building which houses the State Architect's office, and Research and Assistance Division personnel were moved to the Office of Planning and Research. Apparently because of opposition by the Legislature evidenced at interim hearings, this reorganization proposal has been abandoned.

Reporting System Discontinued. In June of 1973, the division's EDP system for compiling and summarizing daily reports of inspection man-hours by region and program was discontinued. Abandonment of this reporting system left divisional management with no basis for regularly assessing the status of programs or systematically directing the allocation of available manpower to priority areas.

Divisional administrative personnel have advised us that the only criteria used to schedule inspection time is to give first priority to construction activity and second priority to responding to complaints. After these demands are met, inspections are undertaken in other program areas as directed by regional office supervision.

A manually prepared summary of data through October indicates that the proportion of actual man-years being expended by program to date differs significantly from the man-year estimates by program for the current year that appear in the budget. In addition, the number of currently vacant positions indicates that it is highly unlikely that the division will expend the total of 134.5 man-years estimated for this fiscal year.

Need for Plan. We conclude that the division should develop a plan for correcting existing deficiencies and maintaining the required level of inspection and enforcement activities for the budget year. The plan should specify the following for each program:

- (1) Reasonable target levels of compliance in each program, to be achieved by the end of the 1974-75 fiscal year.
- (2) Number of man-years and cost for inspections, reinspection and enforcement activities necessary to bring compliance up to target levels.
- (3) Number of man-years and cost necessary to maintain inspection coverage and compliance enforcement on a continuing basis.
- (4) Expected revenues from fees for 1974-75.
- (5) Number of man-years and cost for providing general assistance (i.e., nonfee generating consulting or advisory activities).

We also conclude that the department should submit recommendations for fee adjustments that would produce sufficient revenue to fund all direct inspection activities.

State Housing Law and Earthquake Protection Law

The objective of this element is to establish, interpret and enforce statewide minimum building, housing and earthquake protection standards. Enforcement responsibilities include issuance of building permits, inspection and fee collection. The Counties of Sierra and Trinity recently assumed enforcement responsibility for this function. Mariposa County is now the only county which has chosen not to assume this inspection responsibility. The department remains the primary inspection authority in this county. It is proposed that the current-year level of 7.2 man-years be reduced to 5.2 in the budget year to reflect the decrease in workload due to Sierra and Trinity Counties assuming their own inspection responsibility. Inspection coverage in this program appears to be satisfactory.

Employee Housing Act

The objective of this element is to protect the health and safety of labor camp residents and other employee housing residents in the state. The department has inspection responsibility for this function unless it is voluntarily assumed by the local jurisdiction. With the addition of Santa Cruz County this year, seven counties have now taken over their own employee housing inspection.

Current law requires annual registration, inspection and any reinspection necessary to assure compliance with provisions of the Employee Housing Act for all active labor camps with five or more occupants. Legislation enacted in 1970 imposed inspection fees based on the number of occupants. These fees were recently raised to their statutory maximum of \$100 per camp.

Table 2 shows the results of the inspection and enforcement activities in this program for the period January 1, 1973, through October 31, 1973, compared to the same 10-month period in 1972.

Table 2
Status of Employee Housing Program

	<u>Jan.-Oct. 1972</u>		<u>Jan.-Oct. 1973</u>	
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Number of labor camps registered.....	1,239	100	1,130	100
Number of camps inspected.....	895	72	603	53
Number of camps in compliance	640	52	219	19

As shown by Table 2, the percentage of camps inspected as of the end of October has dropped to 53 percent of the number registered from the level of 72 percent a year earlier, and the number found to be in compliance with regulations is only 19 percent of the total number registered. Despite this obvious enforcement deficiency, the department proposes to decrease the number of man-years allocated to this program from 9.6 to 8.6.

Mobilehome Parks and Accessory Structures

The department has the responsibility to provide and enforce uniform health and safety regulations for construction and operation of mobilehome parks and accessory structures. These regulations insure statewide standardized construction, utility hookup, and sanitation rules for the

COMMUNITY DEVELOPMENT—Continued

parks and allow manufacturers of accessory structures to receive a single state approval, acceptable to all enforcement agencies. Unless voluntarily assumed by the local jurisdiction, the state has primary inspection responsibility for mobilehome parks.

The department has enforcement responsibility for 1,870 mobilehome parks, comprising 30 percent of the total parks in the state. Statutes currently require that the department inspect each park at least once biennially to assure compliance with provisions of the Mobilehome Parks Act.

As indicated earlier, the department requested and received approval for an additional 15 inspection positions in the 1973-74 Budget to meet the biennial inspection requirements. It now appears that none of the additional positions were filled but that some inspection time is being shifted to this activity from other programs. Table 3 shows the status of inspection and enforcement in this program as of October 1973 compared to the status at the end of 1972.

Table 3
Status of Mobilehome Park Program

	<i>December 1972</i>		<i>October 1973</i>	
	<i>Number of parks registered</i>	<i>Percent of parks registered</i>	<i>Number of parks registered</i>	<i>Percent of parks registered</i>
Mobilehome parks under state jurisdiction ..	1,792	100%	1,870	100%
Mobilehome parks inspected in 24-month period to date.....	1,265	71	2,086	112
Mobilehome parks inspected and <i>approved</i> in 24-month period to date	665	37	692	37

Although the department is now making an adequate number of initial biennial inspections, insufficient reinspection time is being spent to bring the initially inspected parks into compliance with regulations. Only 37 percent of the registered parks are in compliance, and between July 1 and October 31, of this year, 52 parks which became due for biennial inspections had not corrected the violations which had been found in the previous inspection.

Chapter 640, Statutes of 1973, (SB 261) changes mobilehome park inspection procedures to eliminate biennial inspections and require that effective July 1, 1974, an inspection be performed each time a mobilehome is installed in a mobilehome park. This type of inspection will require more inspection time than the existing biennial inspections. An increase of approximately 15 man-years for 1974-75 and 1975-76 was estimated by the department at the time of the original legislative proposal. Although the biennial inspections will no longer be required in 1974-75, the department will still be responsible for general code enforcement within mobilehome parks and should continue to monitor known violations until they are brought up to standard.

The department is proposing a level of 54.5 man-years for 1974-75, an increase of 6 man-years above the number provided as the estimate for the current year. We doubt that this level will be sufficient to enforce the law adequately, given (1) the evidence of present inspection deficiencies, (2)

the requirement for inspection of new installations, and (3) the division's continuing overall enforcement responsibility for mobilehome parks.

Mobilehome Manufacturers

The mobilehome manufacturers element is responsible for enforcing construction and inspection standards prescribed by the Health and Safety Code. All mobilehome^a units used in California must be approved by the department to insure compliance with safety regulations which cover electrical, gas, plumbing and structural standards. Inspections are made in manufacturing plants, dealer lots, and for private individuals upon request. This inspection function is supported on a reimbursement basis by inspection fees.

In July 1972, the department conducted a survey of its mobilehome factories and dealer lot inspection and enforcement activities. This survey indicated that 94 percent of the units inspected were not in compliance with state safety regulations.

On the basis of these survey results, the department revised its inspection procedures and requested additional inspection personnel. Inspection procedures were established so that every mobilehome would be inspected at some stage of its construction process.

The department reports that it has achieved the goal of inspecting every mobilehome unit at least once at some point in its construction. Table 4 shows that although 100 percent inspection has been achieved in some months, the department appears unable to maintain this level consistently.

Table 4
Inspection of Mobilehome Manufacturers
1973-74 Fiscal Year

Month	Number mobilehomes manufactured	Number recreational vehicles manufactured	Total vehicles manufactured	Number vehicles inspected in manufacturing of vehicles plant	Percent inspected
July	2,452	4,471	6,923	6,894	99
August	2,980	4,864	7,844	6,674	85
September	2,601	3,241	5,842	6,326	100
October	2,796	6,279	9,075	4,569	50
November	1,917	4,114	6,031	6,074	100
Totals	12,746	22,969	35,715	30,537	86 (Average)

In our 1973-74 Analysis we recommended that the department conduct a followup survey of mobilehomes on dealer lots to determine the success of the additional inspectors and revised inspection procedures in reducing code violations. The department was to conduct the followup survey in December 1973. Although the department has not as yet conducted a comprehensive survey, we are advised that it intends to do so in January 1974. An interim survey was conducted in February 1973, which indicated that 52 percent of the units inspected were not in compliance with state

^aThe department used the term mobilehome to designate the semipermanent type of mobilehome as well as recreational vehicles used for human habitation (travel trailer and motorhomes) and commercial coaches.

COMMUNITY DEVELOPMENT—Continued

safety regulations, compared to 94 percent in the prior year.

The number of mobilehome complaints received by the department has increased steadily in the last few years. The department states that this increase is due largely to the publicity efforts of consumer protection groups.

Table 5 shows the number of mobilehome complaints received and closed during the first four months of this fiscal year compared to the same period in the previous year.

Table 5
Mobilehome Complaints

<i>Month</i>	<i>1972</i>		<i>1973</i>	
	<i>Number of complaints received</i>	<i>Number of complaints closed</i>	<i>Number of complaints received</i>	<i>Number of complaints closed</i>
July	97	73	164	107
August	105	110	169	154
September	146	87	136	176
October	139	101	169	139
Totals	487	371	638	576

During the current year, the department reduced the number of estimated man-years in this element from 71.4 to 60.5 in anticipation of a drop in recreational vehicle and mobilehome production. The budget proposes to reduce this level further to 58.5 man-years in 1974-75.

Until the mobilehome survey is completed in January, it is difficult to assess the effectiveness of the department's mobilehome inspection program.

It is also difficult to judge the adequacy of the staffing for this program because of the unreliability of the current year's estimates of man-years on the program.

Factory-Built Housing

The objective of this element is to encourage and regulate the manufacture and construction of factory-built housing. In 1969, the Legislature passed the Factory-Built Housing Law which authorized the department to approve plans, make in-plant inspections and issue insignia showing compliance with established regulations. There are currently 39 manufacturers with approved plans who are eligible to produce units under this program. This has decreased from 48 manufacturers at this time last year. Of those with approved plans approximately 15 are now actually producing units.

A decrease in workload has occurred in this inspection element as a result of manufacturers leaving the industry. The man-year level was reduced by two during the current year to reflect this decreased workload. The revised level of 5.8 man-years is proposed to remain unchanged in the budget year.

Special Projects

Activities in this element are generally short-term projects which may include providing technical assistance to local governments, interpretation of housing standards, assistance to local building inspection agencies in times of natural disaster, and legislative liaison work concerning issues which relate to the Division of Codes and Standards. It is proposed the 2.9 man-years for this element remain unchanged for the budget year.

Specific activities in this element include membership in:

1. The Governor's Earthquake Council.
2. The Advisory Group on Post Earthquake Recovery and Redevelopment.
3. The National Conference of States on Building Codes and Standards.
4. The Coordinating Council, consisting of state agencies concerned with building standards relating to all building occupancies.
5. The Governor's Wildlands Fire Task Force.
6. State disaster response planning activities.

RESEARCH AND ASSISTANCE PROGRAM

We recommend approval.

The objective of the Research and Assistance Division is to improve the quality and quantity of housing in California through technical assistance, advice, research and dissemination of information. Information is provided, upon request, to governments, industry and the general public. Legislation requires the division to provide assistance regarding the nature and availability of federal aid for housing and community development programs.

All of the former program elements in the Research and Assistance Division have been consolidated into the two elements of Research and Assistance. Table 6 shows these two elements, and their proposed staff and expenditures. Further discussion of activities in the two program elements appears below.

Table 6
Personnel and Expenditures of the
Research and Assistance Division

Program Elements	Man-years			Expenditures		
	Actual 1972-73	Estimated 1973-74	Proposed 1974-75	Actual 1972-73	Estimated 1973-74	Proposed 1974-75
Research	8.8	9.4	6	169,604	184,324	157,292
Assistance	11.2	10.6	8.7	215,937	407,650	217,464
Totals	20	20	14.7	385,541	591,974	374,756
Reimbursements						
Federal				-75,269	-212,750	-19,000
Other				-36,816	-67,500	-30,000
General Fund cost				273,456	311,724	325,756

Research. This program element includes various statewide housing research activities.

Legislation enacted in 1970 required the department to prepare a statewide housing element which was to contain a statement of basic housing goals, and recommended methods of implementation. The department organized the development of the housing element into a three-phase

COMMUNITY DEVELOPMENT—Continued

work program. Phase 1 was completed in November 1972. Phase 2, which was due June 30, 1973, has still not been published in its final form. Phase 3 is scheduled for completion June 30, 1974. Phase 1 and the preliminary draft of Phase 2 contain voluminous housing statistics derived from the 1970 census. No state housing goals or recommendations are included, however. We are advised that Phase 3 will contain specific housing goals and recommendations in compliance with the stated intent of the legislation to develop a coherent statewide housing policy. This activity has been partially supported by a federal grant from the Department of Housing and Urban Development. One man-year is included in the budget year to update the completed housing element.

Also included in research activities during the current year is a Housing Finance Agency study which was scheduled for completion June 30, 1973. This study has not as yet been published in its final form. No man-years are proposed for this study in the budget year.

Another research activity undertaken by the department during the current year has been the preparation of several short-term studies, such as a feasibility study of tax-increment financing for residential redevelopment. These studies are made available to local government and the general public for their edification. The department reports that man-hours currently spent on the Statewide Housing Element and the Housing Finance Agency study will be allocated to this type of short-term study of housing related topics in the budget year.

A total of six man-years are proposed for the research element in the budget year, down from a level of 9.4 man-years in 1973-74.

Assistance. The department provides technical assistance to local governments, industry and the general public upon request in a wide range of housing related subject areas. In addition, the department engages in specific assistance activities.

A program of low-income home management training established by the Legislature in 1969 as a three-year demonstration project, has enabled eight local sponsor groups to conduct training programs in home management for approximately 1,500 low-income families. Seventy-five percent of the cost of this program has been supplied by a grant from the federal Department of Health, Education and Welfare. This program is ending June 30, 1974, and no new funding has been sought.

The department helps local government or any public entity to provide relocation assistance to families forced to move because of governmental action such as highway construction or urban renewal. The department is currently working with the city of Oakland to provide alternate housing for persons displaced by freeway construction. Housing Relocation Guidelines, which the department prepared for local governments pursuant to Chapter 1370, Statutes of 1972, (AB 1040) will be published in early 1974. The cost of a portion of this relocation assistance is reimbursed by the State Division of Highways.

Assistance is also provided to several Indian Housing Authorities in the state. The department provides technical assistance to establish and operate these authorities as well as to obtain public housing funds.

A total of 8.4 man-years is proposed to provide statewide housing assistance in the budget year. This level was reduced from 10.6 man-years in the current year.

ADMINISTRATION

The administrative staff consists of the director, the deputy director, the chief of administrative services and the accounting officer, supported by clerical help. Policy and operating guidance are provided by the Commission of Housing and Community Development.

Business and Transportation Agency DEPARTMENT OF INSURANCE

Item 200 from the General
Fund

Budget p. 84 Program p. I-519

Requested 1974-75	\$4,435,595
Estimated 1973-74.....	4,318,692
Actual 1972-73	3,119,433
Requested increase \$116,903 (2.7 percent)	
Pending	\$270,978

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Cost Overrun. Recommend Legislature withhold approval of \$270,978 requested to complete implementation of automated license file pending receipt from department of details relating to total system cost. 412
2. Improved Reports. Recommend quarterly EDP progress reports be improved to reflect detailed significant project problems. 413

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business which is wholly regulated by the states rather than by the federal government. As a California industry, its worth is estimated at \$9 billion.

The Department of Insurance is administered by the Commissioner of Insurance, who is appointed by the Governor with consent of the Senate for a term of four years coextensive with the term of the Governor. Headquarters is in San Francisco with branch facilities located in Los Angeles, San Diego and Sacramento. The department has a currently authorized staff of 314.5 positions and, as discussed later in this analysis, is requesting the addition of 12 new positions for a total of 326.5 positions in the budget year.

The department is responsible for regulating the activities of 1,150 insurance and title companies and 125,000 agents and brokers. It collects annually over \$180 million in taxes and over \$5.7 million in fees.

The department administers three programs: (1) regulation of insurance companies, (2) regulation of insurance producers (agents and

DEPARTMENT OF INSURANCE—Continued

brokers), and (3) administration. The costs of administration are prorated to the two operating programs.

REGULATION OF INSURANCE COMPANIES

The objectives of this program are the prevention of losses to policy holders, beneficiaries or the public resulting from the insolvency of insurers and the prevention of unlawful or unfair business practices as defined in the statutes. This program consists of the following three elements:

1. *Company Consumer Services.* This element processes general inquiries and complaints from the public regarding the actions of insurance companies. Most complaints and inquiries concern the handling of claims under policies, and questions about insurance rates.
2. *Tax Collection.* This element collects premium, retaliatory, and surplus line broker taxes from insurance companies.
3. *General Regulation.* This element conducts field examinations of insurers every three years and rating examinations every five years.

Table 1
Regulation of Insurance Companies

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Company consumer services element			
Rating complaints investigated and adjusted	491	500	600
Rating inquiries	5,189	5,500	6,000
General complaints formally investigated and closed	17,061	18,000	18,500
General inquiries.....	65,404	68,674	72,108
Man-years	53.2	53.9	56
Cost.....	\$850,676	\$1,121,954	\$1,181,219
Tax-collection element			
Taxes collected (millions)	\$181.2	\$193.8	\$210
Deficiency assessments	245	270	305
Extensions granted or denied	50	50	55
Refunds	50	50	50
Man-years	9.1	10.5	10.6
Cost.....	\$240,000	\$300,000	\$300,300
General regulation element			
Examinations of domestic insurers	48	66	70
Examinations of foreign insurers	31	45	48
Examinations of surplus line brokers.....	32	62	64
Examinations of underwritten title companies ..	2	2	2
Insurers under special surveillance	192	190	190
Rating examinations	32	55	55
Proxy forms reviewed	15	16	16
Companies being liquidated.....	12	13	13
Companies under conservatorship	5	6	6
Certificates of authority and applications for licenses reviewed.....	42	45	47
Stock permits processed	46	48	50
Mergers, etc.....	29	30	30
Disciplinary actions.....	39	50	50
Policy submissions processed	6,822	6,900	7,000
Man-years	102.5	110.7	114.4
Cost.....	\$2,245,931	\$2,502,823	\$2,560,000

This element also attempts to minimize events or conditions that might lead to insolvency by reviewing proxy statements, other solicitations, and policy forms. Financially distressed companies may be placed under the conservatorship of the commissioner who may attempt to rehabilitate a company or supervise its liquidation.

Selected workload data for the company regulation program are contained in Table 1.

REGULATION OF INSURANCE PRODUCERS

The objective of this program is to protect the public and policyholders from discrimination and unlawful and fraudulent practices through the licensing and regulation of insurance agents and brokers. The program consists of two elements:

1. *Producer Licensing.* This element prepares, schedules, administers, and grades licensee examinations and issues and renews licenses. Life and disability licenses are renewed in odd-numbered years, and fire and casualty licenses are renewed in even-number years.
2. *Producer Compliance.* This element investigates complaints from the general public concerning agents and brokers. An investigation may result in a formal hearing under the Administrative Procedure Act. If the violation of a criminal statute is involved, the case may be referred to the appropriate law enforcement body.

Table 2 contains workload data for the producer regulation program.

Table 2
Regulations of Insurance Producers

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Producer licensing element			
Applicants examined	25,421	28,726	31,599
Licenses issued:			
New	34,805	35,955	35,884
Renewed	71,972	51,326	73,187
Man-years	51.2	55.5	56
Cost	\$681,250	\$1,327,737	\$1,204,662
Producer compliance element			
Investigations	3,708	3,912	4,127
Criminal cases	17	19	20
Licenses revoked	42	45	47
Licenses suspended	23	25	26
Licenses restricted	116	130	125
Miscellaneous disciplinary actions	2	2	2
Man-years	42.4	45.7	50.7
Cost	\$674,386	\$893,201	\$1,088,488

ADMINISTRATION

This program directs, coordinates, and provides common services for the agency's two operating programs. Administrative costs are prorated to the two operating programs. Cost and staffing data is shown in Table 3.

DEPARTMENT OF INSURANCE—Continued

Table 3
Administrative Program

Detail	Actual 1972-73	Estimated 1973-74	Proposed 1974-75
Man-years (undistributed)	33.1	37.2	38.2
Cost (distributed)	(\$651,987)	(\$727,653)	(\$745,493)

ANALYSIS AND RECOMMENDATIONS

The department's budget request of \$4,435,595 is \$116,903 or 2.7 percent above estimated expenditures for the current year. However, the department anticipates budget-year reimbursements of \$1,899,074, primarily representing fees for examining insurance companies, resulting in a total proposed expenditure program of \$6,334,669.

Automation of Licensing Function

We recommend that the fiscal committees withhold approval of the \$270,978 requested to complete implementation of the automated licensee file pending receipt from the Department of Insurance of a revised analysis of funds required, including an explanation of increased costs, and any actions proposed, or taken to minimize the total system cost.

The Governor's Budget provides for a budget year expenditure of \$270,978 for the continued automation of the department's agent, broker, and licensee file. According to the budget, it is estimated that current-year expenditures for this purpose will be \$414,978, an amount which includes an \$82,251 augmentation provided by the Legislature at the department's request. This augmentation for the current year was granted based on a revised estimate of costs made by the department subsequent to the printing of the Governor's Budget.

Previous System Outmoded

As reported in our 1973-74 analysis, the manual license system which is being replaced is an outmoded one which the department had considered improving since 1947. As a direct result of the new system implementation, use of the cumbersome and hazardous "tub files" for retaining department records has been replaced with a microfilm system. The old files are retained only as a temporary backup.

Updating of the department's new file is accomplished by encoding source data for computer processing and then converting this computer-generated output to microfilm. The automated file is maintained in Sacramento at the interim consolidated data center and the microfilm generated as a result of processing at the data center is used in San Francisco in an indexed manual file.

The Department of General Services, which is by interagency agreement performing system design, programming and data entry services, is in the process of completing programming which will enable the Department of Insurance to accomplish via automated processes its biennial fire and casualty license renewals, beginning with an automated issuance of renewal notices in February 1974.

The approved feasibility study upon which the current automation effort is based indicated a requirement in the budget year of \$65,000 to complete and support the automated system. However, the amount which is reflected now in the Governor's Budget provides \$270,978 for system

support. Further, we understand that this amount may itself be insufficient and the department is now in the process of developing a revised estimate.

Although the department indicates that the system will be completed in the 1974-75 fiscal year, because of the uncertainty in the amount of funds required and the significant cost overrun, we believe that the fiscal committees should have all appropriate facts regarding the fiscal aspects of this system. Therefore, we recommend withholding funding approval until these facts are developed and reported at the time of the budget hearings.

Improved Reporting

We recommend that quarterly progress reports of EDP systems development prepared in accordance with Section 4 of the Budget Act reflect, in detail, significant project problems and provide a brief analysis of project financial status.

Quarterly progress reports (required for all EDP projects) provided us by the department have not presented an accurate portrayal of project status, particularly with regard to financial condition. These reports are also provided by law to the Department of Finance electronic data processing control and development unit in order that it may exercise properly its monitoring of statewide electronic data processing.

Because the primary purpose of the quarterly report is to indicate significant developments affecting a project in order that any remedies might be effected in a timely manner, the reports prepared by the department should provide all relevant information, including financial condition, such that there are no subsequent "surprises" relatively late in the process. All future reports in this project should accurately reflect project status.

Increased Workload

We recommend approval of the department's request for 12 additional positions in the budget year.

The department requests the addition of one counsel position, one insurance rate analyst III position, one securities analyst position and one clerk-typist II position in the budget year for general regulation activities. Total cost for the four requested positions is \$54,835. However, \$15,652 will be recovered through examination fees collected from rating organizations which are examined. According to the department, the rate analyst position is needed to examine title insurance companies pursuant to Chapter 1130, Statutes of 1973, and the legal position will be used to absorb an increased workload generated by the issuance of new regulations regarding credit life insurance. The securities analyst and clerk-typist positions are required to analyze and process complex economic reports submitted by insurance companies that are part of conglomerates.

Company Consumer Services

The department requests the addition of two insurance officers (one officer III and one officer IV) to process and investigate complaints from the public regarding the actions of insurance companies. We are informed

DEPARTMENT OF INSURANCE—Continued

that the large volume of complaints received in Los Angeles has forced the existing staff to dispose of numerous complaints informally which should have resulted in formal action by the department.

Producer Compliance

The department requests the addition of one counsel position and four insurance officer positions (two officer II and two officer III) to assist in absorbing an increasing workload. The counsel position is requested to assist in conducting hearings generated by complaints from the public regarding the actions of agents and brokers. Two insurance examiners are needed to conduct producer investigations resulting from expanded departmental regulation of credit life insurers, and two examiners positions are needed to intensify field audits of producer trust accounts.

Administration

The department requests the addition of an accountant I position in order to continue operation of the cost-accounting system which became operative October 1972. We recommended in our 1972-73 Analysis that the Department of General Services assist the Department of Insurance in establishing a cost-accounting system that would adequately identify the costs associated with program elements. Under the new system, the number of program elements has been reduced to better reflect the department's objectives and enable the department to determine accurately and report the personnel time devoted to each program element. However, staffing has not been provided for the new system and the addition of one accountant position will insure continued operation of the improved cost-accounting system.

Effects of Equity Funding Fraud on the Budget

In May 1973, as a result of the disclosures of fraud centering around the Equity Funding Corporation's life insurance activities, the Assembly Committee on Finance and Insurance requested that we review the budget, staffing and selected activities of the Department of Insurance. After two days of hearings during which testimony was provided by the Insurance Commissioner and a report (May 29, 1973) was presented by our office, the department's budget was augmented by \$201,315 in order to provide a sufficient number of examiners and additional electronic data processing training in order to enable detection of the kind of fraud perpetrated by the employees of Equity Funding.

The augmentation was approved by the Legislature as follows: (1) one electronic data processing expert with insurance experience, (2) two actuaries to assist the Rate Regulation Division and the Company Information and Analysis Division in preventing insolvencies by determining proper premium rates and the amount of reserves that should be maintained by insurers, (3) two insurance examiner I positions and an electronic programmable calculator to assist the chief actuary in making more complex and detailed analyses and to conduct special studies of companies applying for admission to engage in the insurance business in California, and (4) \$10,800 for electronic data processing training for the examination

staff.

The department has recently hired an EDP expert with insurance experience. This individual is now working with staff of the State EDP Education Program in the Department of General Services to establish a one-week training course for all examiners which would be specifically tailored to the requirements of sophisticated insurance examinations. All examiners will receive EDP training and periodic refresher courses and certain selected examiners will receive more advanced training in order to assume supervisory roles.

The department has been unable to recruit the two actuaries and two examiners needed to assist the chief actuary. However, the department and the State Personnel Board are continuing efforts to fill these positions. The department is in the process of negotiating a contract to lease rather than purchase an electronic programmable calculator.

Business and Transportation Agency CRIME INSURANCE

Item 201 from the General
Fund

Budget p. 85 Program p. I-525

Requested 1974-75	\$25,000
Estimated 1973-74.....	32,890
Actual 1972-73	8,300
Requested decrease \$7,890 (23.9 percent)	
Total recommended reduction	\$25,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Program Termination. Delete Item 201 in amount of \$25,000. Recommend (contingent upon repeal of Chapter 415, Statutes of 1971) California withdraw from Crime Insurance Pool and participate in federal crime insurance program.* 416

GENERAL PROGRAM STATEMENT

Chapter 415, Statutes of 1971 (operative July 29, 1971), enacted the Crime Insurance Act of 1971, requiring all carriers writing crime insurance (burglary, robbery, theft, etc.) in California to participate in a Crime Insurance Pool which, by sharing profits and losses among all participating companies would make crime insurance available for risks which would not otherwise be insurable at reasonable rates in the regular insurance market because of the high degree of risk involved.

Pursuant to this legislation, a contract was negotiated between the Crime Insurance Pool and the State of California whereby the state agreed to reimburse the Crime Insurance Pool over a three-year period up to \$500,000 should the combined losses and expenses of the pool exceed 105 percent of earned premiums. Should losses exceed this level of state participation, the Crime Insurance Pool would be liable for any remainder.

CRIME INSURANCE—Continued

Federal guidelines established by the Federal Insurance Administration are followed in determining the eligibility of risks and policy rates.

ANALYSIS AND RECOMMENDATIONS

Chapter 415 appropriated \$500,000 from the General Fund to fund the state Crime Insurance Program for three years (through July 1974). The Department of Insurance is requesting \$25,000 in the budget year in order to continue the program by providing General Fund moneys to reimburse the Crime Insurance Pool up to \$25,000 (rather than the funding level specified by Chapter 415) for combined losses and expenses which exceed 105 percent of earned premiums. At the end of a fiscal year, the Crime Insurance Pool calculates its losses and expenses by using formulas which accommodate losses incurred, premiums earned, underwriting expenses, etc. The state's total expenditure for crime insurance in the 1973-74 fiscal year to pay 1972-73 losses and expenses is \$8,300. The state's expenditures in the 1974-75 fiscal year to pay 1973-74 losses and expenses will be \$32,890 according to the pool.

In December 1970, Congress passed Public Law 91-609, which authorized the Secretary of Housing and Urban Development to make available crime insurance at affordable rates where such insurance was not available in the private market. The program was to include burglary, robbery, theft and larceny, but exclude automobile insurance losses from embezzlement.

Currently 12 states (Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Maryland, Ohio, Illinois, Missouri, Kansas, and Tennessee) and the District of Columbia, designated as "initial" crime areas by the Federal Insurance Administration (FIA), participate in federal crime insurance programs. Florida will commence participation in a federal program in February 1974. California was originally designated as a "critical" area by the FIA but ceased to be eligible for a federal program when the state Crime Insurance Pool was established under Chapter 415.

State Should Adopt Federal Program

Contingent upon the repeal of Chapter 415, Statutes of 1971, we recommend that the State of California withdraw from its contract with the Crime Insurance Pool upon expiration of the statutory funding in July 1974 and initiate participation in the federal crime insurance program.

A similar recommendation was made in our Analysis last year and a bill (AB 1825) was introduced for this purpose. AB 1825 was given an interim hearing by the Assembly Committee on Finance and Insurance in November 1973, but no final action was taken at that time.

We are again recommending that California terminate its program on the grounds that the state should participate in the federal crime insurance program and not because of a belief that there is no need for such a program. The critical urban centers need to be guaranteed that crime insurance is available at affordable rates and the federal program provides such a guarantee.

Residential policies written by the federal Crime Insurance Program offer greater coverage (also equal coverage at less cost) to policyholders

than those residential policies written by the state Crime Insurance Program. Further, the federal Crime Insurance Program is comparable to the state program because the federal program has now adopted a state requirement that all commercial property be inspected before a policy is issued.

We have discussed participation with the administrators of the federal Crime Insurance Act and are advised that should the state-subsidized Crime Insurance Pool cease to offer crime insurance according to federally established guidelines, the federal government would be obliged by the terms of the 1970 law to offer such insurance to citizens of California. Such a program could be established within two months' time.

If California terminates its state-subsidized program and desires the federal government to institute a crime insurance program, the Insurance Commissioner is required to notify the Federal Insurance Administration of the need for the federal program based on the nonavailability of crime insurance at affordable rates. The FIA would then request bids for a serving company to operate the program in California. As indicated earlier, approximately two months will be required to implement the program.

Business and Transportation Agency RIOT AND CIVIL DISORDERS INSURANCE

Item 202 from the General

Fund

Budget p. 86 Program p. I-526

Requested 1974-75	\$200,000
Estimated 1973-74	200,000
Actual 1972-73	993,144
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The 1967 riots and civil disturbances in American cities resulted in such abnormally high losses to the insurance industry that reinsurance for companies writing policies on property situated in many inner city areas became impossible or uneconomic to obtain. This lack of a reinsurance facility for insurers resulted in high premium rates and inadequate coverage for many inner city property owners seeking to insure against fire, vandalism and other perils.

Federal Act

In response to this situation, Congress passed the 1968 Urban Property Protection and Reinsurance Act. The act established a program making reinsurance available to companies operating in states where reinsurance has been difficult or impossible to obtain because of potential riot losses, provided that the states agree to share a portion of the losses.

Under this act, insurance companies participating in a state program

RIOT AND CIVIL DISORDERS INSURANCE—Continued

buy reinsurance policies from the federal Secretary of Housing and Urban Development, paying the secretary a premium equivalent to approximately 0.3 (originally 1.25) percent of their earned premiums. As a condition of eligibility for the reinsurance, the companies also agree to establish and maintain membership in a state plan (fashioned along federal guidelines) in order to provide basic property insurance to those who cannot obtain such insurance in the normal market.

Sharing of Losses

Under the reinsurance policies, the companies agree to retain approximately 2.5 percent of earned premiums as their share of a loss. If riot losses occur, the companies involved pay their retained share of the loss, and the federal secretary then pays, out of reinsurance premium payments made by all of the insurers of the state in which the riot occurred, the additional loss, if any.

In the event of a loss which exceeds the insurers' retentions and their accumulated reinsurance premium payments, the state is required by the federal reinsurance act to pay the difference up to a limit of 5 percent of the aggregate earned property insurance premiums paid in the state for the preceding year. (Based on a projected premium base of \$1.08 billion in 1973, the liability of California could reach approximately \$54 million in the budget year.) Because their risk of loss is thus limited, the companies are willing to sell basic property insurance policies at more reasonable rates to owners of high-risk properties.

California's Participation

Chapter 649, Statutes of 1969 (as amended by Chapter 572, Statutes of 1970), established California's program. This legislation (1) created the California Riot and Civil Disorders Association, a self-supporting agency, membership in which is required of all companies writing lines of insurance which are reinsured by the federal program, and (2) required the state to negotiate an insurance contract with the association to insure the state's potential liability under the program. The premium for this insurance protection in the budget year, based on 5 percent of the state's liability limit, is the amount requested in this item.

Table 1 shows earned annual property insurance premiums in California, the state's potential liability for riot losses, and the premium for insurance to cover that liability.

Table 1
Components of State Liability for Riot Losses

<i>Fiscal year</i>	<i>Earned annual property insurance premiums</i>	<i>Maximum state liability for loss (5% of earned premiums)</i>	<i>State premium cost</i>
1969-70.....	\$578,252,000	\$30,000,000	\$1,500,000
1970-71.....	635,000,000	32,000,000	1,600,000
1971-72.....	732,820,000	36,640,000	1,750,000
1972-73.....	840,000,000	42,000,000	1,650,000
1973-74.....	1,000,000,000	50,000,000	200,000
1974-75 (est.)	1,080,000,000	54,000,000	200,000

The premiums for fiscal years 1969-70 and 1970-71 were both paid in 1970. Hence, under the Controller's bookkeeping system, the total of the two premiums (\$3,100,000) is shown as a 1970-71 expenditure in the budget document. For purposes of clarity, we show the premiums as originally appropriated (\$1.5 million in 1969 by Chapter 649, Statutes of 1969, and \$1.6 million by the 1970 Budget Act).

Refund Provisions

Based on riot loss experience, the state's insurance contract with the association provides for annual partial refunds of the premium payments beginning January 1, 1975. The first such refund, assuming no losses, will be 15 percent of the total premium paid during the first five contract years. Upon termination of the program, the association must refund all retained premiums (total premiums minus losses and refunds) in excess of 25 percent of the total premium. Thus, the state may eventually recover 75 percent of its premium costs. The association has had no losses to date.

Program Termination

The federal law requires the Secretary of Housing and Urban Development on April 30, 1978, or as soon thereafter as possible, to submit a plan to Congress for the liquidation and termination of the reinsurance program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation provides authority to spend \$200,000 from the General Fund for the state's insurance premium for fiscal year 1974-75.

Table 2 illustrates how the riot insurance program would operate in the event of losses based on the data shown in Table 1 for fiscal year 1974-75.

Table 2

Illustration of Operation of Riot and Civil Disorders Insurance Program

Assumed net insured loss from a riot	\$90,000,000
Apply participating companies' retention at 2.5 percent of earned premiums (2.5 percent of \$1.08 billion)	27,000,000
Loss balance	63,000,000
Apply reinsurance premium deposits held by HUD at 1.25 percent of earned premiums	13,500,000
Loss balance representing the state's liability which is covered by insurance.....	49,500,000

The state's \$54 million liability unit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of \$5,000,000. Losses exceeding the state's \$54 million liability limit would be covered by loans from the U.S. Treasury to the Secretary of HUD, to be repaid out of future reinsurance premiums received.

Business and Transportation Agency
DEPARTMENT OF REAL ESTATE

Items 203 and 204 from the
 Real Estate Fund and the
 Real Estate Education, Re-
 search and Recovery Fund

Budget p. 87 Program p. I-527

Requested 1974-75	5,759,107
Real Estate Fund	5,051,107
Education, etc., Fund.....	708,000
Estimated 1973-74.....	6,489,769
Real Estate Fund	4,207,776
Education, etc., Fund.....	570,401
Actual 1972-73	4,842,607
Real Estate Fund	3,609,133
Education, etc., Fund.....	1,040,401
Requested decrease	\$730,662 (11.3 per-
	cent)
Total recommended reduction	\$69,816

SUMMARY OF MAJOR ISSUES AND RECOMMENDATION

*Analysis
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1. Examinations. Recommend outside review of depart- 425
ment's license examinations.
2. *Requested Positions. Reduce \$69,816.* Recommend dele- 426
tion of proposed three deputy commissioner II positions,
one staff counsel I position, and two steno II positions.

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for the protection of the public in the sale of subdivided property, real property securities and in real estate transactions handled by agents. The department permits only trained persons to act as agents in real estate transactions and sets minimum standards for offerings of subdivided properties, real estate securities, and real estate syndicate securities.

The department is administered by the Real Estate Commissioner, who is assisted by a currently authorized staff of 261 positions. A proposed budget-year addition of 14 new positions is discussed later in this analysis. Headquartered in Sacramento, the department maintains offices in San Francisco, Fresno, Los Angeles and San Diego.

The department conducts four operating programs: (1) transaction activities, (2) offerings and securities, (3) education and research, and (4) administration. The cost of administration is prorated to the other three programs.

I. TRANSACTION ACTIVITIES PROGRAM

The objective of this program is to protect the public in dealings with real estate brokers or salesmen. The program contains two elements: (1) licensing, and (2) regulatory and recovery.

The licensing element prepares, administers and scores examinations for brokers and salesmen; maintains license records; and responds to inquiries from licensees and the public.

The regulatory and recovery element disciplines licensees and facilitates the recovery of moneys for complainants if an investigation reveals that a violation of real estate law has occurred. Formal action against a licensee may be taken by the department and may result in suspension or revocation of the license or placing restrictions upon it.

If a complainant sustains a financial loss and obtains a fraud judgment against a licensee who is unable to pay the judgment amount, the injured party may then file a claim against the Real Estate Education, Research and Recovery Fund which is administered by the department. The department investigates the claim to determine its eligibility for payment.

A court hearing is held, and if the court orders the claim paid, the license of the broker or salesman is suspended until he repays the claim against the Real Estate Education, Research and Recovery Fund with 4 percent interest. The operation of this fund is more fully explained in a subsequent portion of this analysis.

Table 1 shows workload, cost, and man-years devoted to the licensing element, and Table 2 shows the same information for the regulation and recovery element.

Table 1
Licensing Program

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Total licenses	201,978	221,200	242,200
Original applications	89,310	100,474	111,526
Renewal applications	33,242	37,397	41,511
License service	167,266	188,174	208,873
License record information	85,441	96,121	106,694
Examinations	60,413	67,965	75,441
Man-years	66	69	74
Cost	\$982,975	\$1,206,199	\$1,345,932

Table 2
Regulatory and Recovery Program

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Complaints	6,307	6,660	7,033
Precomplaint correspondence	7,074	7,470	7,888
General inquiries	77,289	81,617	85,667
Investigative audits	470	496	524
Trust account examinations	515	600	650
Revocations	161	170	180
Suspensions	83	88	93
Denials	147	155	164
Recovery claims	59	62	66
Desist and refrain orders	173	183	193
Man-years	73.6	89	90.8
Cost	\$1,835,065	\$2,105,033	\$2,402,645

DEPARTMENT OF REAL ESTATE—Continued

II. OFFERINGS AND SECURITIES PROGRAM

The Offerings and Securities Program provides protection to the public in the sales of in-state subdivided land and sales of real estate securities such as notes, sales contracts, real estate syndicate securities, and sales of out-of-state subdivisions. The program contains three regulatory elements: (1) in-state subdivisions, (2) real property securities and (3) real estate syndicates.

In-state Subdivisions Element

Subdividers of in-state lands must secure a report from the department evaluating the conditions of the proposed subdivision before the land may be offered for sale to the public. These reports, which are obtained after the department has investigated the financial arrangements relating to the proposed subdivision and inspected the property, assure buyers that the offering is not fraudulent.

Real Property Securities Element

Subdivisions located outside of California must meet in-state subdivision requirements and also be judged by the department as being fair, just and equitable. This determination is based on an appraisal of the property which is made before a permit to subdivide and a public report is issued. Notes secured by trust deeds are screened and appraised before they can be sold to the public.

Real Estate Syndicates Element

Real estate syndicates (other than corporations) which are formed for the sole purpose of acquiring interest in real property must apply for a permit to subdivide before securities may be offered or sold to the public. The application, plan of syndication, advertising, terms of property acquisition, and management agreement are evaluated by the department before a permit is issued.

Table 3
Offerings and Securities Program

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Subdivision filings	3,340	3,700	3,950
Standard Reports issued	1,588	1,729	1,840
Common facility subdivision reports	1,186	1,400	1,500
Out-of-state subdivisions filed	49	52	55
Syndicate applications	52	60	60

Table 3 contains selected workload items for the Offerings and Securities Program and Table 4 shows staffing and cost data for the program.

Table 4
Offerings and Securities Program, Staffing and Cost Data

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Subdivisions			
Man-years	43.6	56.5	63.7
Cost.....	\$867,959	\$1,093,355	\$1,265,391
Real Property Securities			
Man-years	4.3	4.3	4.3
Cost.....	\$105,227	\$127,615	\$130,342
Real Estate Syndicates			
Man-years	3.9	3.9	3.9
Cost.....	\$102,988	\$126,621	\$127,917

III. EDUCATION AND RESEARCH PROGRAM

The purpose of the department's education and research program is to improve the level of competence of license applicants and licensees, all of whom are encouraged to take professional real estate courses. The program sponsors research in all phases of real estate activity, including real estate education, marketing, financing, land use, urban problems and other facets of real estate economics. These activities are supported by the Real Estate Education, Research and Recovery Fund, and are conducted by public and private universities and colleges throughout the state as indicated in Table 5.

Table 5
Education and Research Program

<i>Detail—Schools and attendance</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Community Colleges			
Programs	81	82	84
Number of students	81,764	85,000	100,000
University of California Extension			
Programs	7	8	8
Number of students	2,795	2,800	2,850
State Universities			
Programs	13	14	19
Number of students	3,775	4,000	4,200
Research projects	10	10	10
Universities—Public and Private			
Programs	3	3	3
Number of students	365	380	400
Research projects	14	14	14
Program Requirements			
Department man-years	3.3	3.3	3.3
Program costs.....	\$855,486	\$1,748,946	\$485,880

Included in program costs for the budget year is an annual allocation (made pursuant to Section 10451.5 of the Business and Professions Code) to the University of California for real estate education and research amounting to \$172,000 in 1974-75. The \$172,000 is treated by the Budget Bill as an appropriation but is reported in the Governor's Budget only as a change in fund condition. The amount is included in Item 204 of the Budget Bill but is allocated to the University of California by the Depart-

DEPARTMENT OF REAL ESTATE—Continued

ment of Finance rather than being appropriated to the Department of Real Estate.

Chapter 1173, Statutes of 1973, (SB 1158) provided for a special one-time expenditure of \$1,450,000 for real estate educational advancement. The bill established a \$1 million endowment to the state universities, a \$250,000 consumer education program, and a \$200,000 scholarship fund.

IV. ADMINISTRATION PROGRAM

The administration program includes the management and policy formulation activities of the commissioner's office, central services for such functions as personnel and accounting, and the publication of real estate manuals, bulletins and reference books. The program costs, which include departmental overhead expenditures, are distributed to the three operating programs.

Table 6
Administrative Program

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Executive Office and Business Services			
Man-years	27	28.3	28.3
Cost.....	\$518,473	\$584,219	\$596,675
Publications			
Man-years	2.7	2.7	2.7
Cost.....	\$146,957	\$176,413	\$220,198

ANALYSIS AND RECOMMENDATIONS

Requested budget-year departmental expenditures from both funds total \$5,587,107^a, which is \$730,662 or 11.6 percent below estimated expenditures for the current year. However, exceptional appropriations from the surplus in the two real estate funds were made in 1972-73 and 1973-74 to endow real estate education programs primarily at the University of California and the California State University and Colleges. These endowments obscure the real growth of the Department of Real Estate itself. Table 7 shows the actual increase after the special appropriations are subtracted.

^a Excludes \$172,000 from Item 204 of the Budget Bill allocated to University of California.

Table 7
Basic Support Budgets 1972-73 to 1974-75

	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Expenditures from both funds to support the Department of Real Estate	\$4,670,607	\$6,317,769	\$5,587,107
Less Special Appropriations			
Endowment Program for University of California	500,000	—	—
Educational advancement	—	1,450,000	—
Basic support budget	\$4,170,607	\$4,867,769	\$5,587,107

The current-year basic support budget was an increase of 16.7 percent over the 1972-73 budget. The proposed 1974-75 budget requests an in-

crease of 14.7 percent above the basic support budget for the current year. As discussed in the recommendations below, we do not believe that this rate of growth is fully justified by conditions in the real estate market or by the workload the department will likely face in 1974-75.

Not included in the department's proposed program budget (but included in Item 204 of the Budget Bill) is an annual allocation for research which, pursuant to Section 10451.5 of the Business and Professions Code, is transferred by the State Controller to the University of California from the Real Estate Education, Research and Recovery Fund. The amount of the annual allotment is determined by the Real Estate Commissioner, and, depending upon fund condition, it has varied from year to year. The proposed allocation for the budget year is \$172,000. The total expenditure program authorized by the Budget Act is therefore \$5,759,107.

New Positions (Licensing)

We recommend conditional approval.

The department is requesting two stenographic and four clerical positions to offset an estimated workload increase of 11 percent over the current year. The six requested positions would assist in processing license applications and license change requests. However, the department has also stated that license applications are related to the real estate market. If a decline in license applications is noted in the early months of 1974, we believe further review is required for all six positions.

Examination Procedures (Licensing)

We recommend that the department begin an independent periodic review of its salesmen's and brokers' examinations and also solicit examination questions from real estate educators in colleges and universities.

The department expects to give 75,000 examinations for broker and salesman licenses in 1974-75. Based on past experience only a small number of the examinees will formally complain about the quality of the test itself, but we have detected a widespread feeling among examinees that some questions are unclear or misleading. As a result of these criticisms the department loses respect in the eyes of the public whether or not all complaints are justified. Infrequent reviews of some questions from the department "bank" by outside experts have in the past found a number of ambiguous questions. We believe that members of the commissioner's ad hoc Real Estate Research, Education, and Advancement Committee, composed of practicing real estate educators and brokers, could be called upon periodically to review new questions developed by the department's staff as well as the existing supply. We also believe that examination questions should be solicited from college and university real estate educators, who could provide an additional source of examination material. These procedures will not reduce the central role of the department's staff. They are intended to increase the public's confidence in the department's examinations by ensuring that all questions therein have been reviewed for clarity and relevance to real estate practice.

DEPARTMENT OF REAL ESTATE—Continued**New Positions (Regulatory)**

We recommend approval.

The department requests one new deputy for investigation of real estate transactions. The department intends to assign this position to Los Angeles and the workload figures we have seen support this augmentation.

New Positions (Subdivisions)

We recommend deletion of three proposed deputy commissioner II positions, the proposed staff counsel I position, and two proposed stenographer positions for a salary saving of \$69,816.

The department estimates a workload increase in the subdivisions element of 14.3 percent. This is based on a straight-line projection which assumes the rate of growth in California subdivision activity over the past several years will continue undiminished in 1974-75. We do not agree with this estimate. In December 1973, the Department of Finance estimated a 13 percent decline in homebuilding activity (permits granted) for 1974. Some recovery was forecast for 1975 but activity was not expected to reach 1973 levels. This trend is closely linked to new subdivision filings. Negative influences on development include high interest rates, the shortage of loan funds, and the inflation trend associated with facets of the construction industry. Even if conditions improved in late 1974, the lag effect traditionally inherent in construction and land development projects would mean no real improvement before well into 1975.

Most important, the department is already noting a decline in subdivision filings. Beginning in September 1973 subdivision filings failed to increase at the projected rate and actually dropped below 1972 levels. We believe, therefore, that there are more than sufficient indications to suggest that subdivision activity will not increase at the rate projected by the department, if at all. The deletion of the three proposed deputy commissioner positions (\$38,304) is therefore recommended, as well as the legal position (\$17,952) and two stenographic positions (\$13,560) which the deputies would have required, for a total reduction of \$69,816.

We recommend approval of the requested associate appraiser for the subdivisions element. The department states that this position is primarily to appraise conversions of rental property into common-facility units for sale and, based on workload, this requested position is justifiable.

Support Funds

The Department of Real Estate is supported by two funds: the Real Estate Fund, which is composed of license and other fees, and the Real Estate Education, Research and Recovery Fund, which receives as revenue 25 percent of the fee collected for each real estate license issued or renewed. These amounts are paid into the State Treasury for credit to the fund. Eighty percent of the funds in the Real Estate Education, Research and Recovery Fund are designated by law for real estate education and research. The remaining 20 percent is earmarked for claim payments under the recovery program. The Real Estate Commissioner is authorized

by statute to transfer annually from this fund to the Real Estate Fund any amount in excess of \$400,000, excluding the amount allocated for recovery claims. The law further provides that should the balance in the recovery portion of the fund fall below \$200,000, a special fee may be levied upon licensees as their licenses are renewed. Not more than \$20,000 may be paid in total for the recovery claims against any one licensee.

Business and Transportation Agency
DEPARTMENT OF SAVINGS AND LOAN

Item 205 from the Savings and
 Loan Inspection Fund

Budget p. 89 Program p. I-535

Requested 1974-75	\$3,392,637
Estimated 1973-74	3,291,965
Actual 1972-73	2,924,314
Requested increase \$100,672 (3.05 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is administered by the Savings and Loan Commissioner, who is appointed by the Governor. Headquarters is in Los Angeles and a branch office is located in San Francisco. The department is currently authorized 158 positions.

The department is responsible for protecting funds of the investing public by preventing conditions and practices which could jeopardize the safety and solvency of state-regulated savings and loan associations. Associations have the discretion and sometimes choose to be regulated by the federal government because of differences between state and federal requirements relating to such matters as capitalization and stock ownership.

The size of the state-regulated industry is indicated in Table 1, which shows a decline (attributable to mergers) in the number of associations under the department's supervision. Currently, there are approximately 5.5 million savings accounts in 105 state-chartered associations. There has been a 10-percent increase in the number of these holdings over the prior year with amounts in individual accounts averaging about \$4,250.

Table 1
State-Regulated Savings and Loan Industry in California

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Number of associations	116	105	102	100
Assets of associations (billions)	\$26.8	\$31.0	\$32.6	\$35.9
Number of savings accounts (millions)	5.0	5.5	5.7	6.0

The department performs its responsibilities under one operating program entitled "supervision and regulation," which is divided into three

DEPARTMENT OF SAVINGS AND LOAN—Continued

elements: (1) examination, (2) appraisal, and (3) administration. The cost of administration is not prorated to the other program elements.

Examination Element

This element is responsible for compiling and analyzing information to determine whether associations are complying with the laws and regulations which govern their operations and whether their policies and management provide for sound performance. Examination schedules of associations are based on their performance records, in the following manner: "problem" associations (supervisory) are examined every 10 months, "average" associations every 12 months, and "strong" associations every 15 months. Table 2 illustrates the examination element's workload and related cost data.

Table 2
Examination Element Workload and Cost Data

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Associations examined	100	102	107
Below average associations.....	9	10	10
Average associations.....	86	89	95
Strong associations	5	3	2
Holding company examinations	17	13	13
Man-years	73.9	77	69
Cost.....	\$1,413,532	\$1,566,075	\$1,427,733

A review of the workload and cost data for the examination element indicates that the number of associations examined is remaining constant while examination manpower is decreasing. The department states that a decrease of eight examiner positions in this element for the budget year reflects the use of a computer-based program to store financial data. This program has reduced examiner time now spent in gathering routine data from association records and also time required in the preparation of working papers of the data. As discussed later, the eight examiner positions were transferred to the administration element in order to establish a computer information unit to support departmental operations.

Appraisal Element

This program element secures information concerning the nature and current value of real estate loans made by associations and real estate owned by associations. This information is obtained from field appraisals of real property upon which loans have been made and reviews of associations' lending policies and appraisal policies.

The department also includes "security reviews" as an output factor of the appraisal element. Unlike a field appraisal which involves a comprehensive analysis of the value of real property, a security review is a shortened field appraisal used for evaluating "low risk" or "prime" real estate on which loans have been made. If the association's appraisal is found to be reasonable, and the loan is within statutory limits, the appraisal process is considered complete and no further review is made.

The department has developed a computerized multiple regression

analysis program to replace the existing comprehensive review used by department appraisers to determine which loans appear questionable and should be subjected to a test appraisal. When the program becomes fully operational, appraisers will no longer have to compile loan data manually for appraisal purposes. The department views this program as a possible means of absorbing increasing workload. Table 3 summarizes workload and cost data for the appraisal element.

Table 3
Appraisal Element Workload and Cost Data

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Number of appraisal examinations.....	115	108	100
Number of appraisal reports	3,777	4,000	4,000
Number of security reviews.....	713	770	875
Number of lending policy reviews.....	2	2	2
Personnel man-years	31.9	34	34
Cost.....	\$685,751	\$758,908	\$767,124

Administration

The administration element consists of three components: (1) executive management, which provides direction and guidance in policy implementation, (2) facilities licensing, which conducts hearings and renders decisions on application for new associations, branch offices and mergers, and (3) support services, which provides personnel, accounting, clerical, computer information processing, and economic analysis services. This element proposes an increase of one savings and loan economist position and an additional clerical position.

Selected workload and cost data for the administration element (Table 4) reflect the transfer of eight examiner positions from the examination element. The positions were transferred to establish the economic and financial information division (EFID) as a subunit of the support services component. EFID was established to support departmental operations by improving personnel utilization of computer information and economic analyses.

Table 4
Administration Workload, Man-Year and Cost Data

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>
Facilities licensing hearings.....	257	236	236
Facilities decisions	402	400	400
Personnel man-years	43.1	45	55
Cost	\$825,031	\$966,982	\$1,197,780

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department's requested expenditure of \$3,392,637 is \$100,672 or 3.05 percent above estimated expenditures for the current year. This increase consists primarily of (1) \$17,520 for a savings and loan economist position to assist in analyzing applications for new associations and branches (facilities applications have increased 32 percent annually since 1969), (2) \$6,456

DEPARTMENT OF SAVINGS AND LOAN—Continued

for an account clerk to process association assessment payments, collections and internal expenditure reports, and (3) \$78,900 for electronic data-processing services. Expenditures for electronic data-processing services are estimated at \$50,767 in the current year.

The department requested \$35,000 in both the current year and the budget year for consultant services to review and develop recommendations for revision of the law applicable to the state-supervised savings and loan industry. However, the department experienced difficulty in employing a consultant for the study and the funds reverted in 1973-74. The budget request for \$35,000 will be used to retain a consultant to examine the department's computer-based information system operations. The study is intended to determine if the department is receiving optimal benefit from its computer operations.

Departmental Funding

The department is supported from the Savings and Loan Inspection Fund which derives its revenue from an annual assessment on all state-regulated associations. The assessment is proportional to association assets and is set at a level to cover the department's annual operating costs. At the end of the budget year the fund will have an estimated surplus of \$1,178,888.

STATE TRANSPORTATION BOARD

Items 206 and 207 from the Motor Vehicle Account and General Fund

Budget p. 90 Program p. I-539

Requested 1974-75	\$186,164
Estimated 1973-74.....	164,052
Actual 1972-73	—
Requested increase \$22,112 (13.5 percent)	
Total recommended reduction	\$23,562

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Double Funding. Reduce Item 206 by \$16,493 and 207 by \$7,069. Recommend reduction in the amount of \$23,562 to avoid providing funds for position also funded in the budget of Secretary of Business and Transportation.* 431

GENERAL PROGRAM STATEMENT

The State Transportation Board was established pursuant to Chapter 1404, Statutes of 1969. Membership consists of seven members appointed by the Governor. The Members serve staggered four-year terms. One member of the Senate appointed by the Senate Rules Committee and one member of the Assembly appointed by the Speaker serve as ex officio members of the board.

Chapter 1253, Statutes of 1972, removed the board from the Business and Transportation Agency. The Office of Transportation Planning and Research was abolished and a new office designated as the State Transportation Board Office was created. The new office, unlike its predecessor, is responsible solely to the board.

The board, through its staff, has a broad responsibility to advise and assist the Secretary of Business and Transportation and the Legislature in formulating and evaluating state policy and plans for transportation programs within the state. Specific responsibilities of the board include: (1) review and approval of the State Master Plan for Transportation which is to be completed in 1976, (2) resolution of inconsistencies, conflicts or disagreement between regional transportation plans and the state transportation plan, (3) review of the annual budget of the Department of Transportation, and (4) allocation of funds appropriated by the Legislature from the Transportation Planning and Research Account to local planning entities.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of \$186,164 which is \$22,112 or 13.5 percent above the estimated current-year expenditure of \$164,052. The proposed budget provides funding for seven positions which is the same number of positions authorized in the current year. Financial support is derived from two sources, i.e., \$130,315 from the Motor Vehicle Account (Item 206) and \$55,849 from the General Fund (Item 207).

Double Funding for Same Position

We recommend that Items 206 and 207 be reduced in the amounts of \$16,493 and \$7,069 respectively for a total reduction of \$23,562 in order to eliminate double funding of the same position.

Legislative action on the 1973-74 budget resulted in the approval of the policy permitting an agency secretary to borrow positions from constituent departments under the condition that such departments received a reimbursement for the services provided.

However, a discrepancy has developed wherein the proposed 1974-75 budget of the board contains funding in the amount of \$23,562 for the position of special assistant to the State Transportation Board, and Item 28 for support of the Secretary of Business and Transportation also provides funding under "contractual services" for the same position. We therefore recommend that the proposed budget of the board be reduced in the amount of \$23,562 in order to eliminate duplication in funding the same position.

**Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION**

Items 208-222 (excluding 219)
from Various Funds

Budget p. 95 Program p. I-542

Requested 1974-75	\$21,882,300
Estimated 1973-74	15,368,696
Requested increase \$6,513,604 (42.4 percent)	
Total recommended reduction	250,000

Analysis

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. *Savings to General Fund. Reduce General Fund in the amount of \$2,972,100 (Item 216) and increase State Highway Account in the amount of \$2,972,100 (Item 218). Recommend reduction in order to avoid unnecessary General Fund expenditure.* 437
2. *Contractual Services. Reduce Item 209 by \$250,000 (General Fund). Recommend reduction for BART Impact Study.* 438
3. *Evaluation of Mass Transportation. Recommend department clarify budget for Mass Transportation Program to clearly identify state policy, goals and program activities.* 439

GENERAL PROGRAM STATEMENT

Chapter 1253, Statutes of 1972, created an entity designated as the Department of Transportation in the Business and Transportation Agency by transferring the Department of Public Works and the Department of Aeronautics to the newly constituted department. The department is charged with the responsibility of administering the ongoing programs of the Divisions of Highways and the Department of Aeronautics. Chapter 1253 also required the formation of the Division of Mass Transportation and the Division of Transportation Planning. The planning entity is charged with the responsibility of establishing a comprehensive multi-model transportation planning process and the preparation of a subsequent State Transportation Plan by 1976. Regional transportation entities and councils of governments are also required to develop separate regional transportation plans by April 1975. The regional plans will be combined in the State Transportation Plan after adjustments are made by the department to reflect system changes which have a statewide interest.

The Department of Transportation consists of six divisions as follows:

1. Division of Highways
2. Division of Mass Transportation
3. Division of Aeronautics
4. Division of Transportation Planning
5. Division of Administrative Services
6. Legal Division

Although the total proposed budget for the department is approximate-

ly \$874 million, the legislative appropriation for support of the department and subventions to local planning entities is \$21,882,300 of the total amount proposed for the budget year. The proposed appropriation will provide funding for the Division of Mass Transportation, Division of Transportation Planning, Division of Aeronautics, subventions for local transportation planning entities and a portion of the general cost of administration of the department.

Table 1
Department of Transportation Appropriations

<i>Item No.</i>	<i>Description</i>	<i>Amount</i>	<i>Fund</i>
208	Transfer funds to Transportation Planning and Research Account for support of Department of Transportation	\$4,319,200	State Highway
209	Transfer funds to Transportation Planning and Research Account for support of Department of Transportation	1,338,300	General
210	Support of Department of Transportation ..	521,800	General
211	Transfer funds to Transportation Planning and Research Account for support of Department of Transportation	9,800	Aeronautics
212	Support of Department of Transportation ..	360,700	Aeronautics
213	Support of Department of Transportation ..	620,300	Transportation Planning and Research
214 ^a	Appropriates funds for support of the Department of Transportation from the Transportation Planning and Research Account	(5,667,300)	
215	Local Assistance—Department of Transportation	247,800	General
216	Transfer funds to Transportation Planning and Research Account for Local Assistance—Department of Transportation ..	2,972,100	General
217	Local Assistance—Department of Transportation	1,379,700	Transportation Planning and Research
218	Transfer funds to Transportation Planning and Research Account for Local Assistance—Department of Transportation ..	9,716,400	State Highway
219 ^b			
220	Transfer funds to Transportation Planning and Research Account for Local Assistance—Department of Transportation ..	19,700	Aeronautics
221	Local Assistance—Department of Transportation	376,500	Aeronautics
222 ^a	Appropriates funds for Local Assistance—Department of Transportation from the Transportation Planning and Research Account	(12,708,200)	
Total Appropriation		\$21,882,300	
General Fund		(5,080,000)	
State Highway Account		(14,035,600)	
Aeronautics Account		(766,700)	
Transportation Planning and Research Account		(2,000,000)	

^a Summary appropriation items.

^b Appropriates \$1 million for grade separation project.

DEPARTMENT OF TRANSPORTATION—Continued

The proposed appropriation of \$21,882,300 is derived from four sources. Because of (a) provisions in Chapter 1253 which created the Transportation Planning and Research Account and provided for specified transfers to the account from various sources and (b) the administrative practice of separating support funds from local assistance funds, 14 items are required in the Budget Bill, i.e., Items 208-222 (excluding Item 219) to accomplish the transfers, appropriations, and separation of support funds from local assistance funds. Table 1 contains a description of the various fund transfer together with the aggregate sums appropriated from each of the four funding sources.

New Funding Source

Chapter 1253, Statutes of 1972, created the Transportation Planning and Research Account in the State Transportation Fund and provided a mechanism whereby funds from other specified accounts, i.e., General Fund, State Highway Account and the Aeronautics Account could be transferred into the new account. The proposed appropriations contain a new source of funding in the Transportation Planning and Research Account, i.e., state sales tax revenues in the amount of \$2 million. The sales tax funds are derived from a mechanism provided by Chapter 1400, Statutes of 1971, which imposed the state and local 5-percent sales tax on gasoline. Chapter 1400 reduced the state's share of sales tax revenues from 4 percent to 3.75 percent of the 5-percent sales tax. Local governments' share of the sales tax was increased from 1 percent to 1.25 percent of the 5-percent sales tax. The increased quarter percentage share is encumbered for local transportation purposes. Although the state's share of total sales tax revenues was reduced, it was estimated that the percentage loss of the tax would be balanced by an equal amount of new revenues as a result of imposing sales tax on gasoline. The \$2 million in sales tax revenues contained in the Transportation Planning and Research Account will be derived on the basis of language in Chapter 1400 which requires that if, as a result of the imposition of sales tax on gasoline, total state sales tax revenues exceed the amount that would have been derived if the state's share of the total sales tax had remained at 4 percent and sales tax had not been enforced on gasoline, the excess revenues must be transferred to the Transportation Planning and Research Account.

ANALYSIS AND RECOMMENDATIONS

The largest portion of the proposed \$21,882,300 total appropriation would be financed from funds transferred to the Transportation Planning and Research Account. The account would be funded in the amount of \$20,375,500 which consists of \$14,035,600 from the State Highway Account, \$4,310,400 from the General Fund, \$2 million in previously mentioned state sales tax revenues and \$29,500 from the Aeronautics Account. The latter amounts are proposed to finance the Division of Transportation Planning, related systems planning expenditures, and subventions for local planning entities in the total amount of \$20,057,900. The balance of the account, i.e., \$317,600 represents prorated general administrative costs. The proposed budget also contains appropriations from the General

Fund for support of the Division of Mass Transportation and prorated general administrative costs in the amount of \$769,600 and \$737,200 from the Aeronautics Account to support the activities of the Division of Aeronautics plus prorated general administrative costs.

Comparisons of estimated current-year expenditures and budget-year expenditure proposals will be discussed by program.

TRANSPORTATION PLANNING

Prior to the passage of Chapter 1253, transportation planning activities within the department were vested entirely in the Division of Highways. Separate subunits within the division such as urban planning, project studies and program management developed planning policies and guidelines. Highway districts within the division exercised planning responsibilities for the state highway system in their respective geographical areas. Plans were reviewed by the division headquarters personnel and submitted through the State Highway Engineer to the director for approval.

Under the newly constituted department, the transportation planning function includes all modes of transportation and planning is no longer subject to the approval of the State Highway Engineer. Two significant changes have occurred: (1) the transportation planning function is organized as a separate and independent division reporting to the director, and (2) transportation district offices report through a deputy director for operations who is responsible to the director. It should be noted that project planning, as opposed to systems planning, will still remain the responsibility of the Division of Highways. Project planning funds are not contained in the proposed appropriation.

The transportation planning program is accomplished through the following program elements: need studies, plan development, transportation research, local assistance, and program administration. Financial support for the transportation planning program is derived from the Transportation Planning and Research Account, which consists of four funding sources as previously mentioned.

Transportation Planning Program Appropriation

The proposed expenditure for the budget year is \$20,057,900 which is \$6,033,700 or 43 percent above the estimated current-year expenditure of \$14,024,200. The budget contains funding for 529.9 positions, an increase of 43.8 positions over the 486.1 positions authorized in the current year.

The increase in proposed expenditures is primarily due to (1) increases in multimodal planning activities which are required to obtain an adequate data base properly reflects state and regional transportation systems requirements to provide an optimum level of transportation services, and (2) increases in the local assistance portion of the planning program which includes subvention to local planning entities to defray a portion of the cost of preparing regional transportation plans.

DEPARTMENT OF TRANSPORTATION—Continued**Emphasis on State Plan**

During the budget year the major emphasis of the department's transportation planning program will be the development of the State Transportation Plan. Although the state plan will not be completed until January 1976, the 41 local transportation planning entities are required to submit individual regional plans by April 1975. The department will perform the actual planning for approximately 20 of the 41 local entities.

While the overall transportation planning program totals \$20,579,900, the local assistance program element is \$14,087,900 of the total amount proposed during the budget year. Financial support is derived from the Transportation Planning and Research Account which consist of the following fund sources:

<i>Source</i>	<i>Amount</i>
State Highway Account	\$9,716,400
General Fund	2,972,100
Aeronautics Account	19,700
Sales Tax Revenues (Chapter 1400, Statutes of 1971)	1,379,700
Proposed program funding	<u>\$14,087,900</u>

The proposed expenditure for the local assistance program is \$4,196,800 or 42.4 percent above the estimated current year expenditure of \$9,891,100. The local assistance program consists of work efforts by the department and local transportation planning entities either in support of or actual preparation of the regional transportation plans.

In the 1973-74 Analysis of the Budget Bill we maintained that the department's proposed subvention to local planning agencies was insufficient to support the activities necessary to develop regional plans pursuant to Chapter 1253, Statutes of 1972. The Legislature subsequently transferred \$700,000 from other portions of the department's planning program in order to provide a total subvention to local planning entities of \$2,028,000. The 1974-75 proposed subvention to local entities equals \$5,650,000.

New Fund Sources Available for Public Transit Planning

Historically, the General Fund has been a required financial resource in transportation planning because of the implied restrictions of Article XXVI of the State Constitution which relates to the expenditure of state highway user taxes. Therefore, funds have been appropriated in the past from the State Highway Account to fund activities related to highways and general funds have been appropriated to fund public-transportation-related activities. A relatively minor amount of funds has been appropriated from the Aeronautics Account for planning in the field of aeronautics.

The availability of federal highway funds for transportation planning has also historically been restricted to highway related expenditures. However, the Federal Aid Highway Act of 1973 eliminated the provision that a specified percentage of federal highway funds apportioned to each state (1½ percent of each state's apportionment) must be used only for highway planning. Thus, during the current year approximately \$6 million in federal highway funds could be used for all modes of transportation

irrespective of governmental jurisdiction.

In addition the 1973 federal act contained a new provision that an additional $\frac{1}{2}$ percent of the total construction fund apportionment may be apportioned to the states to be made available to local regional transportation planning entities for multimodal transportation planning. The new source of State Highway Account funds which is earmarked for local transportation planning expenditures is approximately \$3 million per year.

A new source of state generated revenues is also available to the department for the first time in the budget year, i.e., \$2 million in state sales tax revenues under provisions of Chapter 1400, Statutes of 1971. These funds are earmarked for transportation planning without restrictions to mode of transportation.

Recommended Savings in General Fund Revenues

We recommend that the proposed General Fund appropriation of \$2,972,100 (Item 216) be eliminated and that Item 218 from the State Highway Account be increased by \$2,972,100 in order to fully utilize available funds in the State Highway Account.

The need for continuing General Fund revenues (\$5,080,000 in the budget year) is diminished because new funding sources are available to the department without restriction relative to transportation use.

The proposed increase in the department's budget for fiscal year 1974-75 has been proportional to the increase in the availability of new funds. Although the program increases would appear to be artificial, i.e., a function of the availability of new funds, the importance of the budget-year expenditures related to the preparation of transportation plans justifies the increased expenditure.

Although the department's budget does contemplate the use of approximately \$3 million in the budget year as a result of the new federal source of funding for local entities, the federal apportionment for the current year is still available in the State Highway Fund for transportation planning expenditures. The Budget Bill (Items 213 and 217) includes language that would artificially increase the expenditure of transportation planning funds in the budget year above the level appropriated by the Legislature without the approval of the Legislature. While the Legislature is being asked to appropriate a specified amount of funds in these items, the items also contain language that additional funds can be expended in "any amounts received from federal grants or other sources." Thus, the department could increase its budget without legislative authority by at least the amount of approximately \$3 million, which is still available from previous federal apportionments. The latter action would increase total expenditures in the budget year to a level for which financial need has not been demonstrated.

The proposed budget of the department, including the subventions proposed to local planning entities, will provide an adequate level of financial support necessary to defray the proposed activities. All available federal funds should be included in the amount which is proposed to be appropriated from the State Highway Account. If all such funds are included, a savings in general funds of \$2,972,100 (Item 216) could be realized

DEPARTMENT OF TRANSPORTATION—Continued

and the total requirements of the program would still be completely funded. As long as new funding sources are available which can defray the cost of public transportation planning, the necessity to continue to use General Fund moneys is not required. Therefore, we believe the proposed General Fund appropriation of \$2,972,100 (Item 216) should be eliminated and that Item 218 from the State Highway Account should be increased by \$2,972,100 in order to fully utilize available funds in the State Highway Account, thereby eliminating unjustified increases in the department's budget.

Consultant Services

We recommend a reduction in operating expenses proposed to defray the cost of a BART impact study for a General Fund savings of \$250,000 (Item 209).

The proposed expenditure for the Division of Transportation Planning contains \$1,104,760 identified as "consulting and professional services." Included in the latter figure is \$250,000 for the costs related to the development of a "BART impact study." According to the department, the study will provide data detailing BART's impact on peak-hour traffic, bus and automobile travel, shopping patterns, etc. While a study of this type may be useful in the future, the expenditure of \$250,000 during the 1974-75 fiscal year would not accomplish the stated objectives of the study. The BART system continues to be hampered by a number of technical problems which have delayed the commencement of transbay service. Transbay service is not projected to begin prior to September 1974 at the earliest. Thus, a study at this time to determine the impact of BART would be undertaken without the benefit of the operation of the most important part of the BART system. We therefore recommend that the \$250,000 in proposed funding for the BART impact study be eliminated until such time as the system is (1) fully operational, and (2) providing normal public transportation services.

MASS TRANSPORTATION

The Mass Transportation Program is the functional responsibility of the Division of Mass Transportation. According to the material presented in the Governor's Budget, the Mass Transportation Program "is designed to identify the public needs for urban transit to encourage mass transportation development; and to assure necessary coordination between systems and areas."

The proposed budget of the Division of Mass Transportation reflects an expenditure in the budget year of \$872,400 which is \$361,900 or 70.9 percent above the estimated current-year expenditure of \$510,500. Financial support is derived from two sources, i.e., \$749,600 from the General Fund and a reimbursement from local sales tax revenues of \$122,800 for administration of Chapter 1400, Statutes of 1971, which provides funds for local transportation purposes.

The division is currently authorized 22 positions and the proposed budget is seeking the addition of 9.4 new positions for a total of 31.4 positions.

Evaluation of the Mass Transportation Budget

We recommend that the Legislature instruct the Department of Transportation to revise its budget for the Mass Transportation Program in order to provide clear program objectives and goals together with a definitive statement of policy relative to the state's role in mass transportation.

The passage of Chapter 1253, Statutes of 1972, provided a mechanism wherein state transportation problems could be approached from a multi-model standpoint, rather than from the state's historic role of attempting to solve transportation problems with a highways only solution.

The language of the enabling legislation provided broad direction for the state to achieve a position of being able to deal with transportation problems using a multimodel approach. The legislation also provided a great deal of flexibility to the department relative to determining specific functions which would result in a balanced transportation system that would best serve public needs.

Public transportation at the state level has been provided an advocacy role through the creation of the Division of Mass Transportation. The need for a state role in public transportation is not only logical but also required in view of the many social and environmental problems created by either (a) the lack of adequate transportation facilities in the state, or (b) historical restraints which have imposed limitations on how transportation problems are solved, particularly in urban areas.

While the vast majority of resources within the department are currently oriented toward the highway program, recent changes in federal policy have shown a clear trend toward (1) reducing federal highway outlays, (2) increasing funds for public transportation, and (3) emphasizing more local control of transportation investment decisions. At the state level the highway program has undergone many setbacks due to growing public rejection, especially in urban areas, to many new freeway projects, and mobility requirements of urban areas which can no longer be solved through a highway solution. In addition, while many questions are still unresolved relative to the energy crisis, it is clear that the limited domestic capability of this country in terms of petroleum resources and the uncertain relations with foreign petroleum suppliers must bring about a reexamination of alternatives for providing transportation service in the future.

The budget of the Division of Mass Transportation contains a narrative description of three program elements, i.e., standards and operations studies, local assistance, and program administration. Each of the three program elements proposes budgetary increases of 163.4 percent, 102.6 percent, and 29.5 percent respectively. However, except for the function of administering the rules and regulations relative to local transportation grants pursuant to Chapter 1400, Statutes of 1971, which is reimbursed from local sales tax revenues and became a responsibility of the division through administrative decisions as opposed to a legislative requirement, the budget request lacks any semblance of a definitive statement of state public transportation policy. While the program elements are described, the proposed activities are (1) vague, (2) in some instances superficial, and (3) duplicated in more than one program to justify each program. The

DEPARTMENT OF TRANSPORTATION—Continued

program narrative as presented, rather than fixing responsibility and describing how the activities of a program element provide a public value, is analogous to a "shopping list" describing various functions by using generalized terms such as cooperating, participating, interchanging information, etc.

In other words, while we are sympathetic to the needs of public transportation, the proposed budget containing the "mass transportation program" is completely void of a meaningful program statement which justifies the expenditure of \$749,600 in General Fund revenues. Therefore, we conclude that the Legislature should direct the department to submit a revised program which clearly indicates the state's role in public transportation and relates program activities in a manner that describes how proposed activities meet stated objectives.

AERONAUTICS

The Division of Aeronautics has functional responsibility for activities related to the Aeronautics Program. The activities of the division include: encouraging the development of private flying and general use of air transportation, fostering air safety, assisting in the development of a statewide system of airports through financial aid, and providing for cooperative efforts with federal authorities in the development of a national system of civil aviation.

The program's administered by the division to accomplish its stated purposes include: safety and operation services, local assistance, and administration.

Support of the division is derived from the Aeronautics Account, which receives revenues generated from a 2-cents-per-gallon jet aircraft fuel tax, net revenues of 2-cents-per-gallon attributable to aviation gasoline and unrefunded aviation gasoline excise tax revenues. Any revenue in the account in excess of the amount required for support of the division is allocated to eligible airports for capital improvement projects. After a mandatory allocation of \$5,000 per eligible airport, the remaining balance is allocated at the discretion of the Aeronautics Board on a project by project basis for airport development. During the budget year the Aeronautics Board will allocate approximately \$2.2 million from the Aeronautics Account to assist local airport entities in developing and improving local airport facilities.

Proposed Appropriation for Support of the Division*We recommend approval.*

The proposed appropriation for support of the Division of Aeronautics is \$717,800 from the Aeronautics Account. The proposed appropriation is \$77,804 or 12.2 percent above the estimated current year expenditure of \$639,996. The proposed budget contains funding for 32.2 positions, which represents a proposed increase of 7.3 positions over the current-year authorization of 24.9 positions. The 7.3 additional positions proposed in the budget consists of 6 professional and 1.3 clerical positions.

The requested increase is primarily a result of changes in workload necessitated by the passage of Chapter 1309, Statutes of 1972. Prior to the

passage of Chapter 1309, the division was required to issue site approval permits for the construction of new airports. However, an airport could subsequently expand an airport facility without obtaining a new permit. Chapter 1309 will require a permit from the division for expansion of existing airports which will result in a significant increase in workload.

Public Utilities Commission GRADE CROSSING PROTECTION WORK

Item 219 from the State Highway Account, State Transportation Fund

Budget p. 95 Program p. I-559

Requested 1974-75	\$1,000,000
Estimated 1973-74	1,200,000
Actual 1972-73	1,000,000
Requested decrease \$200,000 (16.7 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Public Utilities Commission administers three interrelated railroad crossing safety programs. Financial support for the programs is derived from the State Highway Account in the State Transportation Fund.

Chapter 1302, Statutes of 1961, requires the commission to allocate to cities and counties, such money as may be appropriated by the Legislature to assist local jurisdictions in financing the installation of grade-crossing protection devices. The Budget Bill has been used subsequently as the appropriation mechanism for the first railroad crossing safety program, which is the purpose of this item. The state contributes 25 percent of the cost of installing each crossing device, local government matches the 25 percent and the railroad pays the balance.

Secondly, Chapter 1644, Statutes of 1965, provides support for the maintenance of grade crossing protection devices using the same cost-sharing formula. Chapter 1644 provides for a continuing appropriation of the funds required up to a maximum of \$1 million per year for maintenance purposes from the State Highway Account.

The third railroad crossing safety program is for the support of grade separation construction which physically separates a rail facility from a roadway. Chapter 1153, Statutes of 1973, increases from \$10 million to \$15 million the amount to be set aside annually by the California Highway Commission for grade separation projects. Currently, the entire \$10 million is derived from state revenue sources in the State Highway Account. However, although the entire \$15 million will still be appropriated from the State Highway Account, cities and counties will contribute approximately \$2.5 million of the \$5 million increase. The latter will occur because, unlike the present funding mechanism, the additional \$5 million is transferred to the State Highway Account from the Motor Vehicle Fuel

GRADE CROSSING PROTECTION WORK—Continued

Account prior to being divided on approximately an equal basis between state and local government in the Highway Users' Tax Account.

Based on projected demand for state matching funds for the 1973-74 fiscal year, the commission estimates a need of \$1 million for grade-crossing protection devices and we are in agreement.

**Business and Transportation Agency
CALIFORNIA HIGHWAY PATROL**

Item 223 from the Motor Vehicle Account in the State Transportation Fund

Budget p. 106 Program p. I-632

Requested 1974-75	\$154,272,963
Estimated 1973-74.....	151,346,733
Actual 1972-73	138,699,717
Requested increase \$2,926,230 (1.9 percent)	
Total recommended reduction	\$282,949

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
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| 1. Assignment of Patrolmen. Recommend department maintain adequate data on assignment of traffic officers as between highways and county roads. | 445 |
| 2. New Zone VII. Recommend special review of department's creation of this zone (central coast area). | 446 |
| 3. <i>New Zone VIII. Reduce \$80,348.</i> Recommend this zone (San Bernardino area) not be created; consequent deletion of 6 positions. | 446 |
| 4. Program III—Vehicle Ownership Security. Recommend special review of this program due to loss of \$443,969 in federal reimbursements. | 449 |
| 5. <i>Positions for Stores and Equipment. Reduce \$16,853.</i> Recommend deletion of two nonuniformed positions and feasibility study of combining department's stores with General Services central stores. | 450 |
| 6. <i>New Inspector for Zone VIII. Reduce \$31,471.</i> Recommend deletion of position; creation of zone not recommended. | 450 |
| 7. Motorcycle Use. Recommend department study its motorcycle use and consider reducing where possible because of higher costs and rate of accidents. | 450 |
| 8. <i>Maintenance Staff for New Academy. Reduce \$10,177.</i> Positions not needed in budget year. | 451 |
| 9. <i>New Motor Transport Shop. Reduce \$63,500.</i> Moving shop from old site is unnecessary. | 451 |
| 10. Meadowview Road Facility in Sacramento. Recommend | 451 |

department investigate selling entire facility after academy is moved.

11. *Proposed Carpenter Shop. Reduce \$60,600.* No long-term need for this facility. 451
12. *Proposed Hookup to Sacramento Water System. Reduce \$5,000.* Proposal not needed in 1974-75 fiscal year. 451
13. *Miscellaneous Alteration funds. Reduce \$15,000.* Other emergency funds available for this purpose. 452

GENERAL PROGRAM STATEMENT

The California Highway Patrol in the Business and Transportation Agency has primary responsibility for the safe and expeditious movement of people and goods on the California roadways. Highway Patrol traffic officers patrol the entire state freeway system and roads in unincorporated areas, and have the authority to act on streets in incorporated areas when the occasion requires. To help assure the safety of motor vehicles, both uniformed and nonuniformed members of the department inspect various classes of vehicles and equipment.

Program Organization

To carry out its mission, the Highway Patrol is organized to implement two broad programs.

The first is the control of vehicles occupying legal roadways in order to expedite the safe movement of people and goods. This is accomplished through continuous patrol of the highways by patrolmen in cars and on motorcycles who enforce the Vehicle Code. Patrolmen also aid distressed motorists, expedite the clearance of damaged vehicles and debris, investigate accidents and render first aid. In addition, patrolmen assist law enforcement and other agencies in both routine and special circumstances. The patrol operates through zone and area offices which are linked by a sophisticated radio network system permitting constant communication between department vehicles, vehicles to zone and area offices and ultimately to headquarters with access to information stored in central data banks.

The second broad program is the enforcement of regulations dealing with the physical characteristics of vehicles and their equipment including inspection of various types of vehicles, equipment, and specified places of business which sell certain replacement or additive parts and equipment. In contrast with the first broad program, the inspection and regulation activities are carried out by a mix of officers and nonuniformed civilian specialists. The regulation activities include the testing and approval of devices to be sold in retail stores for installation on vehicles already in use or devices and systems to be included in new vehicles offered for sale.

Administrative support for the field operations is provided by both uniformed and nonuniformed personnel at field offices, zone offices, and the department headquarters in Sacramento. A request to expand the command structure from six to eight zones is considered later in this analysis. The headquarters staff provides planning and analysis of system-wide operations. New traffic officer recruits receive training at the High-

CALIFORNIA HIGHWAY PATROL—Continued

way Patrol Academy in Sacramento, where refresher courses for veteran patrolmen are given. There are also special courses for peace officers from other agencies when time and facilities permit.

The headquarters operation also oversees the central records system which contains information concerning accidents, personnel activity on the highways and elsewhere and general data to assist in maximizing the effectiveness of department personnel. The data are also used in providing management information for significant management decisions.

ANALYSIS AND RECOMMENDATIONS

The budget proposal is a 1.9 percent increase (\$2,926,230) over the estimated expenditures for the current fiscal year. A total of 62.3 new uniformed and nonuniformed positions are requested. Nearly all of these positions are requested for subsidiary operations such as administration, training, and maintenance; there will be no net increase in traffic officers on road patrol. Certain other requested positions would result in direct services to the public, such as four proposed traffic officer positions to investigate commercial vehicle thefts.

Additional radio dispatchers, building and vehicle maintenance personnel, and motorcycle training positions are also requested. A number of other positions are requested in programs for which the Highway Patrol is fully reimbursed either by the federal government or by other funding sources. The Highway Patrol's largest single request this year is for 24 positions to increase the number of command zones from six to eight.

The reduction of the California speed limit from 65 m.p.h. to 55 m.p.h. on January 1, 1974, affected the department's operations for the first few weeks. However, the change was well publicized and the patrol observed general compliance with the new limit. On January 6 the nation went on daylight saving time with the result that morning commuters traveled in darkness. No increase in accidents was noted. Although these changes have had considerable effect on California motorists, neither of them is expected to result in an increased 1974-75 workload for the Highway Patrol.

For the 1974-75 fiscal year, the department has introduced a new program budget format consolidating the six former programs into four: Traffic Management, Regulation and Inspection, Vehicle Ownership Security, and Administration. Each program is divided into at least two elements. Our analysis follows this revised budget format. The department's own day-to-day operational structure is divided more simply into three divisions: Field Operations, Administrative Services, and Training. Most of the department's uniformed and nonuniformed personnel operate from approximately 100 area offices and inspection facilities.

I. TRAFFIC MANAGEMENT

This is the largest Highway Patrol program, requiring a requested \$135,819,978^a from the State Transportation Fund, or 88 percent of the net proposed 1974-75 budget. Nearly 85 percent of the uniformed personnel (proposed 4,860.4 positions) and 38 percent of the nonuniformed personnel (proposed 874.5 positions) are deployed in this program. Most of the

^a Note: In the Governor's Program Budget Supplement this figure was erroneously calculated at \$134,818,231 because a reimbursement to Program II of \$1,001,147 was incorrectly applied to this program.

uniformed personnel are the traffic officers on beats and their supervisors (sergeants, lieutenants, captains). The nonuniformed personnel include radio dispatchers, maintenance staff, and other classifications.

Adequate Assignment Data

We recommend that the department maintain adequate data on the assignment of highway patrolmen as between the state highway system and the county road system for its own operational planning use and the Legislature's information.

The Traffic Management program designation incorporates two former programs, "Traffic Supervision and Services on the State Highway System" and "Selective Deployment on the County Road System." Although these program designations were abandoned only last year, the department informs us it is no longer able to readily supply a breakdown of uniformed officers' assignments distinguishing between state highways and county roads. In the past our analysis has pointed out that the accident rate on county roads is double that of state highways and the department has responded by increasing its assignment of traffic officers to county roads. Because of this situation, we recommend that the department continue to maintain adequate data on the assignment of highway patrolmen as between the state highway system and the county road system to facilitate its own operational planning and for the Legislature's information.

It should be pointed out that patrolmen functioning on the county highway system operate out of the same field offices as those operating on the state highway system and do not represent a separate group but merely an optional deployment of the manpower available to each field office.

Program Elements

The patrol divides this program into three elements: (1) traffic collision prevention, (2) optimizing safe traffic flow, and (3) protection and assistance to highway users. These classifications are useful but it should be remembered that one traffic officer on the beat can accomplish all three of these elements almost simultaneously. The traffic collision prevention element covers the officer's time while on patrol and the time spent taking enforcement actions (warning, citation, arrest). The control of drinking drivers comes under this category, and the patrol is making a major effort in this area at the direction of the Highway Patrol Commissioner. Over 120,000 drunk driving arrests were made in 1973, a 26-percent increase from the previous year.

This effort is partially responsible for a decline in injuries and deaths on roads patrolled by the department. Deaths declined over 4 percent to 3,026 and injuries declined over 5 percent to 83,615.

The element entitled "optimizing safe traffic flow" includes directing traffic at accident scenes, removing hazardous objects from the roadways, and similar activities. "Protection and assistance to highway users" includes such actions as providing information, helping disabled vehicles, and rendering first aid.

CALIFORNIA HIGHWAY PATROL—Continued

Previously, we mentioned that the uniformed manpower for the current fiscal year is estimated at 4,860.4. Of these, about 90 percent are used in active "on-sight" patrol. In turn it is estimated almost 88 percent of patrol time is on an "on-sight" basis with the balance consumed in report writing, court appearances, etc. This appears to be a relatively high "on-sight" ratio. It is the department's intent that no concealment be practiced but that the patrol cars and motorcycles be as visible and obvious as possible.

Proposed New Zones

We recommend special review of the Highway Patrol's creation of Zone VII (central coast area).

The Highway Patrol intends to expand its statewide command structure from six zones to eight. Zone VII includes the central coast area with headquarters in San Luis Obispo, while Zone VIII will cover mountain and desert areas around San Bernardino. Fifteen positions are requested to implement Zone VII, but this request is misleading because the Highway Patrol has already administratively created the Zone VII organization in the current year by having vacant positions reclassified at higher levels by the Department of Finance. For example, a vacant traffic officer position with a \$12,000 salary was reclassified to a supervising inspector position at a \$24,000 salary for deployment in the new Zone VII. Instead of radio dispatcher and traffic officer positions being filled as they fell vacant, the department has chosen to reclassify those positions to build a Zone VII supervisory staff. The positions now requested for Zone VII command will actually be used in other areas to replace "borrowed" and reclassified positions. The department's budget does not reflect this. The seven positions requested for Zone VIII would apparently be used in Zone VIII.

The department's administrative creation of Zone VII will obligate the state to substantial salary and other costs in coming years. We believe the Legislature should have the opportunity to consider this major expansion of the department's command structure as a part of the regular budgetary process. The Highway Patrol should justify implementing the zone in the middle of a budget year, as well as the cost-effectiveness of a larger and more fragmented zone structure. Of the 23 total positions required in Zone VII (obtained through reclassification and reassignment) none will result in increased road patrol. It should be pointed out that as the department creates more and more supervisory and administrative positions, the percentage of personnel directly involved in road patrol will decline. We believe that the methodology used by the department to establish Zone VII during the current year should receive special review by the fiscal committees during budget hearings.

Zone VIII Not Recommended

We recommend that Zone VIII (San Bernardino area) not be established and that 6 proposed positions be deleted from the budget for a savings of \$80,348 in salaries plus associated costs.

There is a potential for slowdown in the growth rate of California motor-ing. Contributing factors include the reduction of the speed limit and the

high cost, scarcity, and possible rationing of motor vehicle fuel. The California freeway system is no longer growing at a rapid rate and neither is the number of traffic officers in the California Highway Patrol. Injuries and deaths on CHP-patrolled roadways declined last year. We therefore conclude that the department's creation of Zone VIII, headquartered in San Bernardino, is not appropriate at this time. The zone is proposed to cover desert and mountain terrain noted for recreation, where disincentives to driving are now particularly strong. We believe the existing zone structure is sufficient in this area. We do not believe that benefits realized from the creation of Zone VIII will offset the additional (salary, equipment, and building lease) expenses required. Positions recommended for deletion include one lieutenant, one sergeant, and four nonuniformed personnel.

The department is also requesting for the Traffic Management Program nine radio dispatcher positions, 5.3 janitor positions, two automobile mechanics and one motorcycle mechanic. On the basis of workload increases, we believe that these requests are justified.

II. REGULATION AND INSPECTION

The regulation and inspection program includes 10 different elements with a net total cost in 1974-75 of \$17,018,078, or 11 percent of the department's proposed budget. In 1974-75 this program will require 1,263.1 man-years, a very slight reduction from the current 1,265.2. Some 771.6 nonuniformed positions will be used with 491.5 uniformed personnel.

Passenger vehicle inspection is the largest element in the Regulation and Inspection Program. Beginning July 1, 1974, the Air Resources Board (ARB) will reimburse the Highway Patrol for the exhaust emissions test. The 1974-75 reimbursement will be \$1,001,747. (This figure was incorrectly omitted from the Program II reimbursements in the Governor's Program Budget Supplement and included in Program I.)

Passenger Vehicle Inspection

Passenger vehicle inspection was initiated by the Highway Patrol in 1966 on a random basis as a less costly alternative to the periodic mandatory inspection advocated by the federal government. Vehicles are stopped at the roadside by teams of uniformed and nonuniformed personnel who inspect for faulty brakes, steering, suspension, lights, pollution devices, the exhaust systems, exhaust emissions, horn, glass, mirrors, and wipers. Each driver's license, registration, and license plates are also checked. In the budget year, 419 man-years will be used in this element including 232.2 uniformed and 186.8 nonuniformed man-years. The cost of the element after ARB reimbursement will be \$7,307,231.

Deficiencies exist in any random roadside inspection program. In the 1974-75 fiscal year the department expects to inspect about 1.3 million vehicles at a cost of \$5.50 each. Each automobile is inspected for about five minutes. Within this time period and at temporary roadside stations, many serious faults in brakes and steering cannot be detected and many other areas of potential hazard (identified by the department in its 1970 study of mechanical failure accidents) go completely uninspected. Furthermore, in a pilot program operating in several counties the department has

CALIFORNIA HIGHWAY PATROL—Continued

narrowed the inspection scope. In these counties elemental safety features including lights, horn, and turn signals are not inspected.

Particular attention has been paid to the introduction of exhaust emissions tests. By the beginning of the 1974-75 fiscal year nearly all Highway Patrol inspection teams will be equipped with exhaust analyzer devices. Our on-site interviews have determined that these devices are difficult to calibrate, break down frequently and take weeks or months to repair. They do not measure all pollutants emitted and are only used while the engine is idling. As a result, inspection personnel have little confidence in the emission data and are reluctant to write citations.

These drawbacks cannot be overcome so long as inspection is limited to brief periods at the roadside. The Legislature has taken an initial step toward fixed facility inspection stations by enacting Chapter 1159, Statutes of 1973, (SB 479) which establishes a pilot program for checking exhaust emissions in the south coast air basin. While we recommend no change in the department's inspection procedures for 1974-75, we believe further study of periodic fixed facility inspection is essential. This topic is discussed further in our analysis of the Department of Motor Vehicles, Item 225.

Abandoned Vehicle Abatement

Abandoned vehicle abatement is an element new to this program. Responsibility for abatement of abandoned vehicles was transferred to the Highway Patrol by Chapter 49, Statutes of 1973, which provided that abatement activities would be supported by the Abandoned Vehicle Trust Fund. In the budget year \$1,228,209 will be transferred from the fund although this amount is not included in the net program cost figure cited in the Governor's Budget. Wherever possible the Highway Patrol was directed to contract with local jurisdictions rather than undertaking the abatement itself. Over 175 contracts have been negotiated with over 100 still pending. Approximately 90,000 abatements will be made in the 1973-74 fiscal year. The only request for additional personnel in the Regulation and Inspection program is for one accounting and two clerical positions for management of the abatement contracts. All three positions are reimbursable from the Abandoned Vehicle Abatement Fund.

Other Elements

Commercial vehicle inspection will require 308.9 man-years in 1974-75, 195.6 uniformed and 113.3 nonuniformed. Personnel are deployed at the commercial vehicle inspection facilities along major state highways, at platform scales, and with portable trailer-carried scales. Additional elements in this program include vehicle noise-reduction teams, motor carrier safety operations, the regulation of special purpose vehicles, and other special inspection activities.

The activity in this program which uses the most manpower is "school pupil safety," where the manpower has been fairly constant at about 435 man-years. Over 90 percent of these positions are nonuniformed and represent the fully reimbursed pedestrian crossing guard program which the California Highway Patrol carries on for counties under contract.

III. VEHICLE OWNERSHIP SECURITY

This is a reorganized Highway Patrol program which includes the vehicle theft and vehicle identification number elements. In the budget year, an increase of seven positions is proposed for a total of 93.8 man-years. The net cost to the State Transportation Fund will be \$1,850,551. This is a 38 percent increase over the current year, which apparently reflects the expected loss in the 1974-75 fiscal year of nearly \$444,000 in federal reimbursements. The vehicle theft element includes the assignment of personnel to investigate vehicle thefts and the provision of assistance to many local police agencies. The vehicle identification number element provides personnel to identify and renumber vehicles whose identification numbers have been removed. The seven proposed positions include four commercial vehicle theft investigators, two vehicle theft positions for the proposed Zone VII, and one clerical position for vehicle identification number element.

Loss of Federal Aid

We recommend special review of the budget for this program because of the apparent loss of \$443,969 in federal reimbursements.

Federal reimbursements have always been a major source of funding for this program. For the current year, the Legislature approved 35 additional positions with the stipulation that the entire cost for them would be reimbursed by the federal government. Reimbursements for the 1973-74 fiscal year will be \$626,375. For budget year the department proposes an additional seven positions, although reimbursements will fall to \$182,406. If the Vehicle Ownership Program is approved as budgeted, the state will have assumed the cost of over 20 additional positions and not just the seven proposed in the Governor's Budget.

In our judgment, there is a strong possibility that the Vehicle Theft element within the department will begin to duplicate the work of local police agencies. In the past our analysis has pointed out that the department has not indicated ways in which the benefits from this program can be either demonstrated or quantified. We have recommended against permanently adding personnel to this program unless beneficial results are demonstrated and the Legislature is clearly advised of the total number of positions to be supported by state funds. The department expects that some further federal reimbursements for the 1974-75 fiscal year may be forthcoming. If these funds do not materialize, we believe reductions will have to be made in this program and we will be prepared to make such a recommendation to the fiscal committees at the time of the budget hearings.

IV. ADMINISTRATION

The department proposes an administration budget of \$19,105,987, a 2.5 percent increase over the current year. Administration costs are distributed to the department's three other programs on a pro rata basis. There are 923.3 positions in the proposed budget, an increase of 13.

CALIFORNIA HIGHWAY PATROL—Continued**Administrative Services**

We recommend that the department cooperate with the Department of General Services in determining the feasibility of joining the General Services central stores operation. We recommend also the deletion of two nonuniformed positions requested for the CHP stores and equipment activity, for a savings of \$16,853.

Administrative Services is the largest of six elements in this program, requiring 398.4 man-years in the 1974-75 fiscal year. It consists of all the basic housekeeping activities including central files, automotive management, supplies and electronic communications. In this element a communications coordinator and two mechanics have been added. The department also proposes the addition of a warehouseman and a clerk. However, we are informed that the Department of General Services has expressed an interest in adding most of the California Highway Patrol stores and equipment to its central stores operation. We believe no positions should be added to this section until the department has determined that it is not feasible to transfer most of its stores and equipment operation to General Services. We recommend, therefore, that the department cooperate with General Services in studying the feasibility of joining the central stores operation. We also recommend the deletion of the warehouseman and clerk positions for a savings of \$16,853.

Management and Command

We recommend deletion of the supervising inspector for the proposed Zone VIII for a savings of \$31,471.

Management and Command, the second largest element in this program, provides top-level supervision including the commissioner and his staff and the senior field commanders and their offices. One new position is proposed, the supervising inspector for Zone VIII, at a salary including benefits of \$31,471. We have recommended the deletion of this zone earlier in the analysis.

Training

We recommend that the department study its use of motorcycles on patrol, specifically define those traffic situations where such use is imperative, and consider eliminating motorcycle patrol from other areas. The results of the study should be reported to the Legislature by November 1, 1974.

The training function has been moved from Management and Command and created as a separate element. Three motorcycle training officers and one motorcycle mechanic are proposed. The positions would be fully reimbursed by the training fees from allied agencies. An increase in manpower will also make motorcycle refresher courses available to reduce the Highway Patrol motorcycle accident rate. The accident rate for motorcycles is twice that for patrol vehicles and the rate of motorcycle injuries is 10 times greater. In addition, motorcycles are less reliable and more costly to maintain than patrol cars. We recommend that the department study its use of motorcycles on patrol, specifically define those traffic

situations where such use is imperative, and consider eliminating motor-cycle patrol from other areas. The results of this study should be reported to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1974.

New Academy Staff

We recommend deletion of the proposed stationary engineer II, plumber I, stock clerk, and electrician I for a salary savings of \$10,177.

An engineer, plumber, stock clerk and electrician are proposed for assignment at the new Highway Patrol Academy which is scheduled to open on July 1, 1975. For familiarization purposes the personnel would be added during the last quarter of 1974-75. Allowing for normal construction delays we believe the new academy will not open before September 1975, and that the request for maintenance and upkeep staff is premature and need not be considered until the 1975-76 budget is prepared.

The administration program now contains the Statewide Integrated Traffic Records System (SWITRS). "Records" was a separate program before the reorganization of the department's program budget format and included "management information", which no longer appears as a separate program element.

MINOR CAPITAL OUTLAY

Four items are proposed in the department's minor capital outlay program totaling \$144,000:

Relocate Los Angeles motor transport shop	\$63,500
Construct carpenter and paint shop—Sacramento	60,600
Connect shops and stores to Sacramento water system.....	5,000
Miscellaneous funds—unforeseen alterations	15,000
	<hr/>
	\$144,100

Los Angeles Motor Transport

We recommend deletion of the new Los Angeles motor transport shop for a savings of \$63,500.

The department proposed to expand its communications center at Zone V headquarters into a building presently occupied by the motor transport shop. This would require erecting a new building elsewhere for the shop at a cost of \$63,500. However, a \$2.5 million request in the major capital outlay section of the budget would upgrade the communications facility without utilizing the motor transport shop. This is inconsistent with the present proposal and the department has been indecisive in choosing a course of action. It now appears the communications center will not be expanded into the present motor transport facility so that a new building for the motor transport shop is unnecessary.

Meadowview Road Facility

We recommend the department investigate selling the entire Meadowview Road facility and moving the remaining shops and motor transport operations to the new academy site. A report to the Joint Legislative Budget Committee should be made by November 1, 1974.

We recommend also that the proposed carpenter shop (\$60,600) and the

CALIFORNIA HIGHWAY PATROL—Continued

Sacramento water system hookup (\$5,000) be deleted for a savings of \$65,600.

Presently the department intends to keep the shops, stores, and motor transport part of the Meadowview Road facility in Sacramento after the Highway Patrol Academy moves to new quarters in 1975. In doing so the department will lose the 24-hour security it has enjoyed while the academy shared the site, and will require other security measures at some cost. Furthermore, the department says it will be necessary to connect the retained area to the Sacramento water system because the academy wells are on the part of the property to be sold. A new carpenter shop is requested also.

We recommend the department investigate selling the entire Meadowview Road facility and moving the remaining shops and motor transport operations to the new academy site. A report to the Legislative Budget Committee should be made by November 1, 1974. The department should keep in mind also that the Department of General Services has expressed interest in taking over most of the Highway Patrol's stores operation which if implemented would substantially reduce the facilities to be moved.

The department maintains that a new carpenter shop is needed due to shortage of space. Even if the department study indicates a need to retain facilities at Meadowview Road there is little evidence to suggest that a shortage of space will exist. When the academy moves in 1975, some buildings the department intends to retain will become empty and could be used for storage space. Further, if General Services takes over a portion of the department's stores operation, additional space will be freed. Therefore, we do not believe a new carpenter shop is justified. The request for a hookup to the Sacramento water system is premature because the academy wells will remain in operation throughout 1974-75 fiscal year and for some time beyond.

Miscellaneous Fund

We recommend deletion of the miscellaneous funds for unforeseen alterations for a savings of \$15,000.

The department has a deficiency authorization in Item 224 of the Budget Bill. This authorization has been doubled for 1974-75 to \$1,000,000. We believe this amount is fully adequate for any unforeseen requirements such as building alterations and therefore recommend deletion of the \$15,000 budgeted for this purpose.

VEHICLE EQUIPMENT SAFETY COMMISSION

The Vehicle Equipment Safety Commission is an interstate agency composed of one representative from each state. An appropriation of \$6,000 is made annually for the state's share of the commission's expenses. In prior years the appropriation has been made as a separate item in the Budget Bill. This year it is included in the budget of the Highway Patrol.

**Department of the California Highway Patrol
DEFICIENCY PAYMENT**

Item 224 from the Motor Vehicle Account in the State Transportation Fund

Budget p. 106 Program p. I-632

Requested 1974-75	\$1,000,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Department of the California Highway Patrol receives its support from the Motor Vehicle Account in the State Transportation Fund. Section 42272 of the Vehicle Code prohibits the creation of deficiency payments in support of this department and it cannot obtain aid from the Emergency Fund. The Legislature, recognizing that emergencies could occur in a department of this size, provided, beginning with the Budget Act of 1957, an annual amount to fund unanticipated contingencies involving purchase and operation of patrol vehicles.

This authorization has never been used. However, the increasing cost of automobiles, coupled with the sharply declining resale value of used patrol cars, has resulted in the department's requesting the authorization be doubled from the previous \$500,000 to \$1 million. In the Budget Act of 1972, the language restricting the authorization to vehicles only was removed. The appropriation could now be used for any approved deficiency.

**Transportation Agency
DEPARTMENT OF MOTOR VEHICLES**

Items 225-228 from Various Funds.

Budget p. 110 Program p. I-667

Requested 1974-75	\$93,055,194
Estimated 1973-74 ^a	86,907,501
Actual 1972-73 ^b	78,421,197
Requested increase \$6,147,693 (7.1 percent)	
Increase to improve level of service \$687,846	
Total recommended reduction for 1973-74 (augmentation request)	224,471
Total recommended reduction for 1974-75 (budget request)	1,172,591

^a Revised 1973-74 budget includes a request for augmentation of \$2,217,100 to cover expenditures which were unforeseen when the budget was prepared.

^b Revised 1972-73 actual expenditures include extraordinary authorization of \$4,038,000 to provide for repair of fire-damaged headquarters building.

DEPARTMENT OF MOTOR VEHICLES—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. <i>Request for Augmentation of 1973-74 Budget. Reduce proposed augmentation to Item 187 (Budget Act of 1973) by \$224,471. Recommend reduction in the budget request for postal rate increase (\$182,334) and implementation of revised weight fees (\$42,137).</i>	456
2. <i>Certification of Smog Devices. Reduce Item 225 by \$571,138. Requirement for installation of smog devices (NO_x) on 1966-1970 automobiles delayed until 1976 registration year.</i>	460
3. <i>On-line Issuance. Increase Item 225 by \$50,850. Recommend that the department submit a study and plan for implementation of on-line issuance of vehicle registration and driver licenses to the Joint Legislative Budget Committee by December 15, 1974.</i>	460
4. <i>Vehicle Registration/Inspection Program. Increase Item 225 by \$50,850. Recommend that the department submit a study and plan for implementation of an integrated vehicle registration/inspection program to the Joint Legislative Budget Committee by December 15, 1974.</i>	462
5. <i>Off-Highway Vehicle Program. Reduce Item 225 by \$50,000. Recommend reduction in requested staff increase because of uncertainty in future workload.</i>	465
6. <i>Bicycle Registration Program. Recommend special review and enactment of new legislation, if necessary, to permit implementation of an effective bicycle registration program.</i>	466
7. <i>Front License Plate. Recommend special review of the department's plan to issue only one license plate per vehicle.</i>	467
8. <i>Driver Licensing Workload Leveling Program. Reduce Item 225 by \$197,375. Recommend reduction in requested staff increase for selective-testing portion of the program.</i>	468
9. <i>Postlicensing Control Program. Recommend special review to assure that essential federal or state funding is provided for continued implementation of the Postlicensing Control Reporting and Evaluation System.</i>	469
10. <i>Occupational Licensing and Regulation Program. Increase Item 225 by \$67,405. Recommend increase to the department's staff of field investigators and procurement of additional state cars.</i>	471
11. <i>Security Following Accident Laws. Recommend special review of accumulating backlog of unprocessed requests</i>	472

for hearings and enactment of new legislation if necessary.

12. *Division of EDP Services. Reduce Item 225 by \$428,183.* 474
Recommend reduction in requested increase for conversion to an advanced key entry, data input system.
13. *Minor Capital Improvements. Reduce Item 225 by \$95,000.* 476
Recommend deletion of two field office improvement projects.

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles working in coordination with the Department of Transportation and the Department of California Highway Patrol is dedicated to the development, operation, and control of a safe and effective road and highway transportation system in California. The principal objectives of the department are to: (a) identify ownership of vehicles through registration, assure compliance of certain vehicles with statutory requirements for control of exhaust emissions, and collect registration fees and in-lieu taxes, (b) promote highway safety through testing, licensing and postlicensing control of drivers, (c) protect the public's interest by licensing and regulating occupations related to the manufacture, distribution, transporting, sale, and disposal of vehicles; and operation of commercial driving schools, (d) determine that each driver held responsible for certain accidents demonstrate that he has the ability to satisfy any reasonable judgement for damages arising from the accident, (e) provide other services as required by statutes such as collection of use tax, registration of undocumented vessels (boats), issuance of California identification cards, and sale of environmental protection license plates.

Program and support activities designed to achieve these objectives are: (1) vehicles licensing and titling, (2) driver licensing and control, (3) occupational licensing and regulation, (4) security following accident laws, (5) associated services, and (6) departmental administration (including EDP).

In order to implement the above programs and support activities the department proposes the operation of 147 field offices in 14 districts and the central headquarters in Sacramento with 7,294 staff members during the budget year.

It is estimated that the department will register and collect fees on approximately 16,988,000 vehicles and maintain records on 13,484,000 outstanding driver's licenses including the processing of 780,000 original licenses and 3,122,000 renewal licenses during the budget year. These major workload indicators reflect an estimated 6.55 percent increase in registered vehicles and an estimated 3.15 percent increase in driver's licenses outstanding in the budget year over the current year. The total undocumented vessel registration is estimated to be 458,000 in the budget year, an increase over the current year of 2.92 percent.

Recovery From Headquarters Fire

As reported in our Analysis of the Budget Bill for 1973-74, the department's headquarters building in Sacramento was severely damaged by fire on December 25, 1972. To provide for repairs of the building, emergency

DEPARTMENT OF MOTOR VEHICLES—Continued

procurement, and extraordinary operational expenditures, Chapter 53, Statutes of 1973 was enacted augmenting the 1972-73 fiscal year budget by \$4,038,000 on an emergency basis. This budget augmentation provided for carryover needs resulting from the fire into the 1973-74 and 1974-75 fiscal years. An additional budget augmentation of \$440,135 to cover extraordinary costs not previously foreseen is being requested for the 1973-74 fiscal year. Additionally, \$93,500 is being requested in the budget year to cover final relocation costs. Authorization of these additional requests brings total expenditures to \$4,571,635 by the department. Completion of all repair work and return of displaced organizational units to the headquarters building is expected by September 1974.

Need for Special Recognition. Special recognition should be given by the Legislature to the director and department personnel for their highly effective efforts in quickly relocating operating units to alternative locations after the fire, and maintaining vehicle registration operations without interruption during the 1973 annual registration renewal period.

ANALYSIS AND RECOMMENDATIONS**1973-74 Budget Augmentation Request**

We recommend a reduction of \$224,471 in the department's requested augmentation of Item 187 (Budget Act of 1973).

The department is requesting an augmentation appropriation of \$2,217,000 to its 1973-74 budget (see Table 1) through the introduction of emergency legislation which we are informed is in the process of being drafted. We are analyzing this proposed augmentation because the department has included these funds in its estimated expenditures for the current year and has also used the proposed augmented 1973-74 budget as a basis for projecting budget year expenditures.

Table 1
Explanation of 1973-74 Budget Augmentation Request

<i>Explanation of Differences:</i>	<i>Man-years</i>	<i>Amount</i>	<i>Percent</i>
1. Workload adjustment.....	149.3	\$818,405	0.63
2. Net rate increase of staff benefits for authorized positions	—	251,935	0.28
3. Revised estimated salaries and wages of authorized positions	—	-805,994	-0.89
4. Pro rata general administrative charges.....	—	467,792	0.51
5. Postage rate increase	—	547,000	0.60
6. Price increase.....	—	487,561	0.54
7. Bicycle registration—Section 10.8, Budget Act of 1973	1.7	(27,072)	—
8. Cost related to DMV fire of Dec. 25, '72	29	440,135	0.48
9. Reimbursed programs:			
a. Research on highway safety	11.4	176,000	0.19
b. Federal grants	12.6	490,796	0.54
10. New programs or changes to programs:			
a. Additional in-house shipping (pony runs)	0.8	18,126	0.02
b. Increased level of prorated registrations....	8.5	66,437	0.07
11. 1973 Statutes:			
a. Chapter 463/73 (SB 1080)—Minors'			

photos on driver's licenses	-1.2	-10,019	-0.01
b. Chapter 891/73 (SB 1301)			
1. Selective testing	4.7	156,491	0.17
2. Out-of-state drive test	-15.7	-156,510	-0.17
3. Workload leveling.....	-62.5	-603,298	-0.66
c. Chapter 965/73 (AB 516)—Identification cards, lower minimum age	-1.7	-12,163	-0.01
d. Chapter 996/73 (AB 225)—New motor vehicle board.....	0.8	6,514	0.01
e. Chapter 1010/73 (AB 505)—Registration and weight fees	57.2	630,137	0.70
f. Chapter 1162/73 (SB 620)—Negligent operator count change	5.7	65,599	0.07
Subtotal	216.6	\$3,034,944	3.34
Reimbursements:			
a. Research on highway safety	—	-176,000	—
b. Federal grants	—	-490,796	—
c. Workload adjustments	—	-151,048	—
Total reimbursements.....	—	\$-817,844	—
Totals	216.6	\$2,217,100	2.62

Need for Reduced Augmentation. Within the requested augmentation, \$547,000 is proposed to cover a postage rate increase on January 1, 1974. The effective date of a rate increase has been delayed until March

Table 2
Summary of Program Expenditures

	<i>Actual 1972-73</i>	<i>Estimated 1973-74</i>	<i>Proposed 1974-75</i>	<i>Increase over 1973-74</i>	<i>Percent increase</i>
I. Vehicle licensing and titling	\$38,581,397	\$44,523,362	\$47,313,055	\$2,789,693	6.3
II. Driver licensing and control	33,371,558	39,239,226	41,980,650	2,741,424	7.0
III. Occupational licensing and regulation	3,384,102	4,385,427	4,355,518	-29,909	-0.7
IV. Security following accident law	2,078,625	2,219,912	2,280,918	61,006	2.7
V. Department of Motor Vehicles associated services	2,779,599	3,317,808	3,520,014	202,206	6.1
VI. Administration—undistributed.	263,504	313,131	291,512	-21,619	6.9
Administration—distributed to programs	(4,872,659)	(5,966,273)	(6,094,645)	(128,372)	2.1
Chapter 53/73, fire damage—distributed.....	4,038,000	—	—	—	—
Totals, Programs	\$84,496,785	\$93,998,866	\$99,741,667	\$5,742,801	6.1
Reimbursements:					
Federal	-37,918	-541,551	-205,611	—	—
Other.....	-6,037,670	-6,549,814	-6,480,862	—	—
Net Totals, Programs	\$78,421,197	\$86,907,501	\$93,055,194	\$6,147,693	7.1

DEPARTMENT OF MOTOR VEHICLES—Continued

1, 1974, allowing a reduction of \$182,334 from the estimated expenditure. The requested amount of \$630,137 for implementation of the revised weight fee requirements under Chapter 1010, Statutes of 1973, (AB 505) is \$42,137 higher than the department's previous estimate of \$588,000 which was made prior to enactment of this measure. Because the department's previous estimate appeared to be the result of careful analysis, we recommend that the augmentation for this item be held to this level. Our total recommended reduction to the augmentation request is \$224,471.

Proposed Expenditures for the 1974-75 Budget Year

The total proposed departmental expenditure (excluding reimbursements) for the 1974-75 budget year is \$99,741,667. This represents an increase of \$5,742,801 or 6.1 percent over the amount estimated for the current fiscal year. The foregoing amounts differ from the Budget Bill request for appropriations because the department is reimbursed for some of its services.

For purposes of our Analysis, total proposed expenditures will be considered and Table 2 summarizes these annual expenditures by program for a three-year period. Table 3 shows the proposed funding sources for the budget year.

Table 4 gives an explanation of the differences between the budget for the budget year and the proposed revised budget for the current year.

Table 3
Funding Sources

Item

225	<i>State Transportation Fund, Motor Vehicle Account</i>	<i>\$79,968,585</i>
226	<i>Transportation Tax Fund, Motor Vehicle License Fee Account</i>	<i>11,460,074</i>
227	<i>Harbors and Watercraft Revolving Fund</i>	<i>906,494</i>
228	<i>California Environmental Protection Program Fund</i>	<i>720,041</i>

Table 4
Explanation of Difference From Current-Year Program

	<i>Man-years</i>	<i>Amount</i>	<i>Percent</i>
1. Workload adjustment	81	\$600,899	0.64
2. Merit salary adjustment	—	941,167	1.00
3. Increase staff benefits cost of authorized positions	—	318,422	0.34
4. Estimated salary savings changes to personnel turnover	—	-38,000	-0.04
5. Equipment cost not related to proposed new positions	—	205,558	0.22
6. Postage rate increase	—	566,800	0.60
7. Price increase	—	872,460	0.93
8. Reimbursed Programs:			
a. Research on highway safety	-11.4	-176,000	-0.19
b. Federal grants	-4.1	-335,940	-0.36
9. New programs or changes to programs:			
a. Additional in-house shipping (pony runs)	3.6	59,344	0.06
b. Licensing of vehicle leasing firms	4	59,694	0.06
c. EDP video replacement	62	859,931	0.92
d. Issuance of one license plate	—	-400,000	-0.43

e. Increased level of prorate registrations	12	108,877	0.12
10. 1971 Statutes:			
a. Emission control devices	72.4	571,138	0.61
11. 1973 Statutes:			
a. Chapter 463/73 (SB 1080)—minors' photos on driver's licenses	-1.3	-10,923	-0.01
b. Chapter 889/73 (SB 1356)—year-round registration	81.7	1,927,038	2.05
c. Chapter 891/73 (SB 1301)			
1. Selective testing	80.5	404,305	0.43
2. Out-of-state drive test	-15.6	-164,168	-0.17
3. Workload leveling	21	186,171	0.20
d. Chapter 965/73 (AB 516)—identification cards, lower minimum age	-2	-16,115	-0.02
e. Chapter 974/73 (AB 1421)—off-highway vehicles	6.1	50,000	0.05
f. Chapter 996/73 (AB 225)—new motor vehicle board	3.7	87,689	0.09
g. Chapter 1010/73 (AB 505)—registration and weight fees	-57.9	-636,631	-0.68
h. Chapter 1128/73 (SB 1268)—penalties for driving under the influence of alcohol or drugs	1.3	10,621	0.01
i. Chapter 1162/73 (SB 620)—negligent operator count change	7.3	70,774	0.08
12. Cost related to DMV fire of Dec. 25, '72	-29	-349,635	-0.37
13. Bicycle registration—Section 10.8, Budget Act of 1973	-1.7	-27,072	-0.03
14. Minor capital outlay	—	119,900	0.13
15. Consolidated data center	—	-123,503	-0.13
Subtotal (gross expenditures)	313.6	\$5,742,801	6.11
Reimbursements:			
a. Research on highway safety	—	176,000	—
b. Federal grants	—	335,940	—
c. Workload adjustments	—	-107,048	—
Total reimbursements	—	\$404,892	—
Totals (net expenditures)	313.6	\$6,147,693	7.07

I. VEHICLE LICENSING AND TITLING

The purpose of this program is to register vehicles and establish ownership; collect registration fees, weight fees, and in-lieu taxes; record vehicle registration transactions, and provide vehicle registration information. Program elements are: (1) vehicle licensing, (2) vehicle fee collection, (3) vehicle record maintenance, (4) vehicle information, (5) off-highway vehicle registration.

Table 5
Vehicle Licensing, Program Element Inputs

Program elements	Man-years		Program costs	
	1973-74	1974-75	1973-74	1974-75
Vehicle licensing	1,780.6	1,839.7	\$24,651,601	\$26,138,001
Vehicle fee collections	874.7	820.1	13,242,457	13,534,053
Vehicle record maintenance	305.4	334.5	3,693,597	4,228,969
Vehicle information	158.2	171.3	2,044,398	2,317,286
Off-highway vehicle registration	70.6	86.8	891,309	1,094,746

DEPARTMENT OF MOTOR VEHICLES—Continued

This program is expected to register 16,988,000 vehicles and produce revenues of approximately \$600 million during the budget year. The department's request for this program for the budget year totals \$47,313,055, an increase of \$2,789,693 (6.3 percent) over the current year.

Table 5 presents vehicles licensing, program element inputs. Table 6 presents vehicle licensing and volume of activity.

Table 6
Vehicle Licensing, Volume of Activity

	1973-74	1974-75
Vehicle registrations	15,944,000	16,988,000
Records processed	40,477,000	42,100,000
Information requests	10,627,000	10,962,000
Off-highway vehicles registered	120,000	143,250
Off-highway vehicles renewals	24,000	109,000

Certification of Smog Devices on 1966-70 Vehicles

We recommend a reduction of \$571,138 in Item 225 for certification of smog (NO_x) device installation on 1966-1970 vehicles.

Program Delay. In an effort to reduce annual automotive gasoline consumption by approximately 100 million gallons, the Air Resources Board in December 1973 deferred the requirement for installation of NO_x emission control devices on 1966-70 vehicles (Chapter 1507, Statutes of 1971) until the 1976 registration year. This permits deletion of the \$571,138 requested by the department during the budget year for processing of compliance certificates.

Year-Round Registration

Chapter 889, Statutes of 1973, (SB 1356) requires conversion of the existing annual vehicle registration system to a "year-round" system of registration commencing with the 1975 renewal period for renewal registration, and December 1, 1974, for original registration.

Conversion to a system of year-round registration has been recommended by our office for many years. Under the existing system all vehicle registrations expired on the 31st day of December of each calendar year. Under the year-round system 132 expiration dates will be established throughout the year in order to level departmental workload, provide increased internal efficiencies and economies, and provide for greatly improved services to the public.

To implement the year-round registration system the department is requesting 81.7 additional man-years representing an estimated expenditure of \$1,927,038 during the 1974-75 fiscal year.

On-line Issuance of Vehicle Registration and Driver's Licenses

We recommend an increase of \$50,850 to Item 225 to permit the department to submit a study and plan for implementation of on-line issuance of vehicle registrations and driver's licenses to the Joint Legislative Budget Committee by December 15, 1974.

Long Term Goal of the Legislature. Conversion of the vehicle registration program to a year-round system of registration and activation of

advanced computers with increased capacities in the Teale Consolidated Data Center during 1974-75 will permit a major overhaul and streamlining of the vehicle registration program and the driver's license program through the implementation of on-line issuance. Use of computer terminals in the department's 147 field offices to provide immediate issuance to the public of vehicle registration, ownership certificates, and driver's licenses has been a long-term goal of the legislature since authorizing the development of the original Automated Management Information System (AMIS) within the department in 1965.

Department Studies Recommended Delay. Several studies of on-line issuance systems have been performed by the department and reported to the Legislature. The most recent study was in response to a recommendation of the Legislative Analyst which was adopted in the Supplementary Report to the Committee on Conference (Budget Act of 1970—Item 23). In this study which was forwarded to the Legislature on February 24, 1972, the director summarized that: "Because of various projects currently underway which will enhance the present system and because of the interrelationship between on-line issuance of both driver's licenses and vehicle registration, it would be impossible to implement an on-line system until at least 1975. At that time, many of the problems may have been resolved and the equipment capabilities enhanced as to make the concept of on-line issuance for driver licenses practical. A new study would then be necessary to make this determination."

Problems Resolved. The department's decision to defer implementation of on-line issuance was accepted as being prudent by the Legislature because of the problems and limitations which existed at that time. However, many of these problems will be resolved with the implementation of the year-round registration system and with the switchover to advanced computers in the Teale center. Workload leveling under year-round registration would be greatly assisted by on-line issuance. In addition, more effective use of the powerful computers which are ideally suited for on-line processing would also result.

Advantages of On-Line Issuance. On-line issuance would offer the public the advantage of being able to go to a field office, apply for vehicle registration or a driver's license and receive the finished product at the same time. Should there be conditions which would preclude such issuance, the applicant would be made immediately aware of this situation and told of possible actions which are necessary to clear up any problems. Additionally, the computerized files in the Sacramento headquarters would be immediately updated with current information for all requestors instead of days or weeks later as experienced with the existing batch-oriented system. A substantial reduction in paperwork flow within the department should also result from such a system.

Recommended Action. Because on-line issuance is working satisfactorily in other states, notably New York, and reportedly providing increased efficiencies, services and economies, we recommend the Legislature require the department to study and plan for on-line issuance of vehicle registration and driver's licenses and submit a status report by December

DEPARTMENT OF MOTOR VEHICLES—Continued

15, 1974. This report should include a conceptual system design, organizational plan, implementation schedules and cost/benefit factors. Additionally, a design review should be made of existing and planned field office facilities to provide for the future use of on-line computer terminal units. To perform this study, increased budget authorization for three man-years of effort should be approved for a total amount of \$50,850.

Vehicle Registration/Inspection Program

We recommend an increase of \$50,850 to Item 225 to permit the Department of Motor Vehicles to submit a study and plan for implementation of an integrated vehicle registration and periodic vehicle inspection program to the Joint Legislative Budget Committee by December 15, 1974.

Fragmented Jurisdiction. With the enactment of Chapter 1159 Statutes of 1973, (SB 479) California has taken a significant step away from random inspection of vehicles and towards mandatory periodic inspection. Four state organizations are now involved in vehicle inspection and registration: the Department of Motor Vehicles, the Department of the California Highway Patrol, the Air Resources Board, and the Department of Consumer Affairs. The consequences of fragmented assignment of jurisdictional responsibilities will most certainly result in duplicate statewide organizations, uncoordinated efforts, communication problems, unnecessary costs, and increased delays and reduced services for the public at a time when pressures are building for improved control over exhaust emissions, fuel consumption, and vehicle safety hazards.

There appears to be little disagreement that mandatory exhaust emission inspection and improved safety inspection of motor vehicles is needed. The Environmental Protection Agency has imposed stringent air quality standards upon the state which require effective control over exhaust emissions and the National Highway Transportation Safety Administration has notified California that its present random vehicle inspection program does not meet federal standards which are required if the state is to continue to qualify in the future for its full allotment of federal highway funds.

Demonstration Program May Go Statewide. Chapter 1159, Statutes of 1973, (SB 479) establishes a "demonstration program" in the Counties of Los Angeles, Orange, Riverside, San Bernardino, Santa Barbara, and Ventura for the exhaust emission inspection of the 5.6 million vehicles registered in these counties.

This demonstration program which is to be conducted by the Department of Consumer Affairs is to be designed by December 31, 1974, and fully implemented by December 31, 1976. Initially, preliminary testing will be done during 1974 with six inspection lanes in Riverside County. These preliminary tests of approximately 100,000 vehicles will be funded by \$500,000 from the Motor Vehicle Account in the State Transportation Fund and an expected \$1.3 million from federal funds. By the end of 1975 it is expected that 200 inspection lanes will be in operation in the six counties costing about \$10 million in capital outlay and requiring \$10-\$15 million in annual operating expenditures.

If this program is expanded statewide, a total of 300 inspection lanes may be needed with capital outlay costs of \$30-\$35 million and annual operating costs approaching \$25 million. On a statewide basis, the Department of Consumer Affairs may need 130 to 150 permanent inspection facilities and employ upwards to 1,500 inspection and administration personnel. Further discussion of this inspection program is presented on pages 501-502 of this analysis under the Air Resources Board.

Shortcomings of Random Inspection Program. Under existing authorizations the random inspection program which was established under the jurisdiction of the California Highway Patrol in 1966 will continue in parallel operation to the demonstration program. This program provides for roadside inspection of approximately 1.3 million of the 13 million vehicles which are subject to inspection in the state. In performing simplified safety and exhaust emission vehicle inspections, the California Highway Patrol employs 419 personnel assigned to 71 inspection teams and expends approximately \$8.3 million in operating and equipment costs.

According to the Highway Patrol the random inspection program by means of roadside inspections which the motorists must be prepared for at all times has been successful in encouraging individual responsibility for continuance vehicle maintenance. However, despite the best efforts of the California Highway Patrol this assumption is not supported by the results of the program. The rejection rate of approximately 65 percent of the inspected vehicles for mechanical discrepancies does not indicate that random inspection has an appreciable psychological influence on motorists to keep their vehicles in good condition.

Inspections at the roadside are limited to checks of lights, tires, horn, windshield wipers, and other items which are easy to check. More important checks of critical equipment such as brakes, suspension, and exhaust systems are only superficial because of a lack of adequate equipment. Checking of exhaust emissions which will be limited to less than 3 percent of the state's automobiles during 1973-74 is inadequate because the portable emission analyzers test for only two components, hydrocarbon (HC) and carbon monoxide (CO) but not oxides of nitrogen (NO_x). Additionally the inspection teams have little confidence in the portable emissions analyzers because of erratic readings and difficulties in maintaining the analyzers in operating condition. As an added concern, inspection of only 10 percent of the state's automobiles is at best only a token effort which can not be considered cost effective at the current unit cost of approximately \$5.50 per vehicle inspected.

Other states such as New Jersey have demonstrated that periodic inspection of vehicles can be accomplished on a production line basis in specially equipped facilities which provide for comprehensive inspection of suspension systems, and brakes, and accurate tests of exhaust emissions (HC, CO, and NO_x) at a unit cost of less than \$3 per vehicle.

One Organization can Perform Registration/Inspection Functions. If it is the intent and purpose of the Legislature to establish a program of mandatory, periodic inspection of vehicles in the South Coast Air Basin and ultimately throughout the state, a legislative review of jurisdictional responsibilities and organizational interrelationships should be made in

DEPARTMENT OF MOTOR VEHICLES—Continued

order that the inspection program be performed in the most effective manner and at the lowest possible cost while affording maximum convenience and service to the public.

Logically the operational responsibility for implementing and conducting a periodic vehicle inspection program should be assigned to the department which has the closest functional relationship, an established statewide organization and network of field offices, advanced computer capability, and ability to offer one-stop vehicle "registration/inspection" service to the public.

Of the four departments now involved in vehicle registration and inspection, the Department of Motor Vehicles appears to us to be the best qualified to assume statewide operational responsibility in the most effective manner and at the lowest cost. This department, which presently provides the vehicle inspection enforcement function through controlling registration, possesses the following resources:

1. Statewide organization and headquarters staff specializing in the area of motor vehicles.
2. 147 field offices throughout the state which can be expanded to include vehicle inspection facilities.
3. Advanced computer capability which can be expanded to provide "on-line" terminals in each field office for entry and output of vehicle registration and inspection transactions.
4. Potential for integrating the vehicle registration and inspection functions into a quick one-stop service for the public.

Conceptually the vehicle inspection facilities could be constructed on property adjacent to existing Department of Motor Vehicles field offices or included as an integral part of new facilities. In urban areas, new integrated facilities could be constructed under elevated freeways to provide ease of access and reduce the need for acquisition of privately owned land.

New vehicles, change of ownership vehicles, and a computer-selected sample of renewal registration vehicles could be processed through the inspection lanes concurrently with on-line issuance of registration and ownership certificates. Those vehicle owners meeting all requirements would receive one-stop service. Those who do not meet all requirements would be immediately notified of needed corrective action and scheduled for a recheck. Such a concept is being developed by New York where on-line issuance has been operational for sometime, and conversion to state operated vehicle inspection is in the planning stages.

Recommended Study. In view of the strong qualifications of the Department of Motor Vehicles to effectively conduct the vehicle "registration/inspection" program in California, we recommend that the Legislature require the Department of Motor Vehicles, in coordination with the California Highway Patrol, Air Resources Board, and Department of Consumer Affairs, to study and plan for integration of the vehicle inspection and registration functions in the South Coast Air Basin first, and on a statewide basis, second. This study should start by July 1, 1974, and a preliminary report should be submitted to the Legislature by December

15, 1974, which includes a conceptual system plan (to include an EDP systems plan), organizational plan, implementation schedule and estimated operational costs. As an added requirement, a survey should be made of all field office facilities in order to determine the extent of modifications to existing facilities, alternative designs for new field offices, and estimates of capital outlay costs. The department should also survey vehicle inspection programs and facilities in certain other states to include the federal inspection demonstration facility in Washington, D.C. Additionally, the preliminary report should present a coordinated plan for the setting and control of exhaust emission standards and inspection procedures by the Air Resources Board; and safety standards and inspection procedures by the California Highway Patrol. To perform this study we recommend also an increased budget authorization for three man-years of effort for a total amount of \$50,850.

Off-Highway Vehicle Program

We recommend a reduction of \$50,000 (6 man-years) in Item 225 for registration of off-highway vehicles because of uncertainty in future workload.

Division 16.5 of the Vehicle Code requires that minibikes, trailbikes, dunebuggies and snowmobiles used exclusively off the highway be registered as off-highway vehicles (OHV's). Registration and control of OHV's has been considered essential by conservationists, OHV organizations and other special interest groups using public lands. In addition, the collection of OHV registration fees was recognized as a source of funds to build special OHV parks on a statewide basis to reduce the damage being done to public lands by over a million of these vehicles.

Disappointing Results. In last year's Analysis we reported that the first year (1972-73) of program operation had produced disappointing results because only 100,000 OHV's, of an estimated population of approximately 1.2 million vehicles, had been registered, producing revenue of only \$1.6 million rather than the \$21.5 million which was expected. We attributed the poor program performance to a lack of centralized coordination at the state and local levels, and inadequate management experience within the Department of Parks and Recreation for direction of a vehicle registration and enforcement program.

In order to provide centralized coordination of enforcement and effective management of those programs, we recommended that the primary responsibility for leadership of the program be assigned to the Department of Motor Vehicles which is most experienced in vehicle registration and enforcement coordination. This recommendation was not adopted by the Legislature despite its concern over the lack of program success.

Again in 1973-74, program performance has been very disappointing with an expected registration of only 120,000 OHV's and renewal registration of 24,000 producing revenues of approximately \$2.2 million. This will result in a total transfer of only \$1.4 million to the Department of Parks and Recreation and local entities for reimbursement of administrative costs and the establishment of special OHV parks.

With the enactment of Chapter 974, Statutes of 1973, (AB 1421) a posi-

DEPARTMENT OF MOTOR VEHICLES—Continued

tive step has been taken to strengthen enforcement of the program. This measure deletes the previous exemption for all OHV's operated on private property and in competitive racing events from registration and fees. Additionally, this measure permits the California Highway Patrol and local enforcement agencies to cite owners of unregistered OHV's which are being transported on the highways.

Uncertain Workload. Despite the enactment of Chapter 974, a low rate of OHV registrations is probable for 1974-75 because of the possible shortage of fuel for OHV's and continuing lack of centralized coordination of enforcement.

For these reasons we recommend that the Department of Motor Vehicles budget request for an increase of 24 man-years above current staffing be reduced by 6 man-years for an authorized level of effort of 81 man-years.

Bicycle Registration Program

We recommend special review of the mandated bicycle registration program be made by the Legislature and that new legislation be enacted, if necessary to permit implementation of an effective program.

Chapter 1153, Statutes of 1972, (AB 2213) mandates that a statewide bicycle registration system be established and administered by the Department of Motor Vehicles commencing on July 1, 1975. Registration and issuance of licenses is to be done by bicycle dealers and local law enforcement agencies. A license fee of \$3 is specified, \$0.50 of which is to be retained by the issuing agency and the remainder to be remitted to the department. This legislation was the result of a growing epidemic of bicycle thefts, the need to identify bicycles to discourage theft, and to assist recovery of those bicycles which are stolen.

No Implementation Plan. Because of the recent downturn in bicycle thefts, high estimates of program startup and annual support costs, mixed support and opposition from the cities and counties, and uncertainties associated with enforcement of the program, the department has not made a commitment to implement this mandated program in 1974-75 and has not requested authorization for startup expenditures.

Estimate of Program Costs. To implement the bicycle registration program and maintain its operation the department has provided the estimate of fiscal impact as shown in Table 7.

Table 7
Bicycle Registration Program

	1974-75 FY	1975-76 FY	1976-77 FY
Revenue.....	—	\$30,000,000	\$3,000,000
Funds retained by dealer	—	(5,000,000)	(500,000)
Funds transmitted to Department of Motor Vehicles	—	(25,000,000)	(2,500,000)
Expenditures.....	\$1,390,100	8,509,100	5,090,600
Workload Items:			
Original registrations	—	10,000,000	1,000,000
Change of address.....	—	500,000	500,000
Transfers	—	—	2,500,000

We share with the department its concerns associated with startup, operation, and enforcement of the program. However, we do not consider the department's estimate of fiscal impact to be valid because it projects a registration of 10 million bicycles in the first year of program operation. This estimate of registration volume is in conflict with previous estimates that only 6-7 million bicycles exist in the state. Additionally, experience with the Off-Highway Vehicle Program has shown that initial registration volumes can be much lower than expected unless enforcement is effectively coordinated on a statewide basis. For these reasons it is our opinion that only 1-3 million bicycles would be registered in the first year rather than 10 million which the department uses as a basis for its estimate of program costs.

Reflectorized License Plates

The issuance of reflectorized license plates by the department, "as soon as practicable," was required by Chapter 953, Statutes of 1972 (SB 263). Because no bids were received by the department from the suppliers of reflectorized materials, the department has canceled its plans to issue reflectorized license plates in the 1975 registration year. This decision resulted in the reduction of \$5.5 million from the department's 1974-75 fiscal year budget. The reason for no response to the department's request for bids is attributed to inability of the suppliers to meet the required 10-year guarantee for the reflectorized materials. Such a guarantee is considered essential by the department.

Discontinuance of Front License Plate

We recommend special review of the Department of Motor Vehicles' plan to eliminate the front license plate on all vehicles.

In order to effect a cost savings of approximately \$400,000 annually starting with the 1974-75 fiscal year, the department is planning to issue only one license plate per vehicle, rather than two, and will request authorizing legislation this session.

Opposition to Plan. In issuing one license plate, the department intends to direct the owner to install this plate on the rear of his vehicle. The California Highway Patrol has disagreed with such a plan in the past because its dependence upon license plates on the front and rear of vehicles for quick identification on the highways. In opposing the discontinuance of the front license plate, the patrol has stated that identification of approaching vehicles, vehicles pulling trailers where the rear license is hidden from view, and vehicles involved in hit-and-run incidents is more difficult or impossible under certain conditions.

For these reasons we recommend special review of the department's planned elimination of the front license plate and its proposed reduction of \$400,000 from the 1974-75 budget request.

II. DRIVER LICENSING AND CONTROL

The primary objectives of this program are to license drivers, promote safe driving practices, and exercise control over those drivers who have mental or physical impairments, or have been judged to be unsafe. Pro-

DEPARTMENT OF MOTOR VEHICLES—Continued

gram elements include: (1) driver's license issuance, (2) postlicensing control, and (3) certificate issuance for information services.

During the budget year 1974-75 this program is expected to maintain the records on 13,484,000 outstanding driver's licenses including the processing of 780,000 original licenses and 3,122,000 renewal licenses. The department's request for this program for fiscal year 1974-75 totals \$41,980,650, an increase of \$2,741,424 (7.0 percent) over the current year. This allows for a net increase of 222.2 man-years.

Table 8 presents driver licensing, program element inputs.

Table 9 presents driver licensing, volume of activity.

Table 8
Driver Licensing, Program Element Inputs

	<u>Man-years</u>		<u>Program costs</u>	
Program elements:				
Drivers license issuance	1,540.3	1,683.6	\$22,997,280	\$24,675,278
Post licensing control.....	973.4	1,056.4	14,135,499	15,016,238
Certificate issuance.....	7.8	8.3	95,254	104,146
Information services.....	141.9	146.7	2,011,193	2,184,988

Table 9
Driver Licensing, Volume of Activity

	<u>1973-74</u>	<u>1974-75</u>
Driver's licenses issued	4,462,000	4,709,000
Postlicensing control		
Warning letters mailed	190,000	175,000
Persons called to group meetings.....	42,300	49,500
Hearings and reexaminations.....	87,500	96,100
Licenses suspended or revoked.....	157,510	176,070
Licenses reinstated.....	106,000	117,000
Special certificates issued	15,195	15,750
Information requests	12,277,000	12,664,000

Driver Licensing Workload Leveling Program

We recommend a reduction of \$197,375 in Item 225 for the selective testing portion of the driver licensing workload leveling program.

Chapter 891, Statutes of 1973, (SB 1301) authorizes the Department of Motor Vehicles to make major modifications to the driver's licensing program by employing testing procedures appropriate to the licensee's record of convictions and accidents or ability to safely operate a motor vehicle, rather than requiring the same test for all drivers. Additionally, the department is permitted to waive some tests for purposes for evaluating selective testing procedures and would also be permitted to waive the driving test for an experienced driver who is licensed in another state. Original and renewal licenses would be issued for a period of four years and the department at its discretion will be permitted to extend the terms of a specified percentage of licenses in order to avoid unmanageable volumes of license renewal in any given year.

Needed Cost Reduction in the Area of Selective Testing. Prior to enactment of this department sponsored legislation, the department es-

timated that there would be a cost savings in 1974-75 of \$427,800 to partially offset a projected revenue loss of \$601,250 from reduced driver's license fees. On a basis of this financial analysis which indicated a net expenditure increase of \$173,450, the measure was enacted by the Legislature. A subsequent analysis revealed an additional unexpected savings of \$156,510 from the reduction of driving tests for out-of-state drivers, giving a more favorable net expenditure increase of \$16,940. However, in its budget request for 1974-75 the department shows a cost savings of only \$230,325 during 1974-75 for a net expenditure increase of \$370,825 rather than \$16,940.

The department attributes the increase net expenditures to previously unforeseen development costs in the area of selective testing. In our opinion, the department has an obligation to hold to its original estimate which was the result of careful analysis. The selective testing components should be phased in on a less aggressive schedule if necessary to hold costs down. Therefore, we recommend that a reduction of \$197,375 be made to the department's request for this program change. This recommended reduction makes allowance for the offsetting of increased costs of selective testing with the expected savings of \$156,510 from waiving of driving tests for out-of-state drivers.

Postlicensing Control

We recommend a special review of the department's plan for implementing the Postlicensing Control Reporting and Evaluation System to assure that essential federal or state funding is provided for continued implementation of this system.

This program element provides for postlicensing control over drivers who: (1) have been convicted of serious offenses, (2) have had more than one accident or several moving traffic violations, and (3) have physical or mental disorders of a nature which could impair their driving ability.

The postlicensing control element is divided into two parts. The first part covers those "mandatory actions" against the driving privilege which are required by statutes. The second covers "discretionary actions" against the driving privilege which are permitted by statutes.

The mandatory actions includes the suspension or revocation of such offenses as drunk driving, felonies with a motor vehicle, reckless driving, driving under the influence of narcotics, and violation of the implied consent law.

The discretionary actions pertain to correcting the driver's adverse characteristics, limiting the driving privilege, or suspending or revoking the driver's license for condition such as mental or physical disabilities, negligent operation, traffic violations, and adverse accident records.

Through the postlicensing control program an effort is made to assist the driver who has a poor driving record in retaining his driving privilege by motivating him to accept his responsibility as a driver and changing his adverse driving habits. This involves sequential activities beginning with the issuance of a warning letter and, if necessary, progressing along to group educational meetings or individual interviews with driver improvement analysts.

DEPARTMENT OF MOTOR VEHICLES—Continued

Program Reporting and Evaluation System Needed. In view of the significant personnel effort and program expenditures committed by the department to this program (1,056 man-hours and \$15,016,238 in 1974-75), the Legislative Analyst and the Department of Motor Vehicles have agreed that the development of a system for reporting and evaluating the effectiveness of the postlicensing control program is essential in order to establish cost/benefit factors.

To this end, the department has conducted a series of studies and has been engaged in the design of the reporting system during 1973-74 using federal funds obtained under provisions of the National Highway Safety Act of 1966. Additionally, the department in response to a recommendation in our 1972-73 Analysis has recently submitted two reports entitled: *A Progress Report to the Legislature, Postlicensing Control Reporting and Evaluation System, November 1, 1973*; and *Modifying Negligent Driving Behavior, Evaluation of Selected Driver Improvement Techniques, A Second Year Followup, November 1973*.

In the first report the department presents a comprehensive discussion of the need for a program reporting and evaluation system, the objectives of the system, and a preliminary design for development of the initial subsystem to report the effectiveness of the negligent operator element. The latter is an important discretionary action area of the program and measures of performance are greatly needed.

In the second report, the department presents positive evidence that the "group educational meetings" (GEMs), conducted within the postlicensing control program, are successful in reducing accidents over the short term for those negligent drivers who have participated in such meetings. This report which is based upon a statistical analysis of accumulated data indicates that the group educational meetings produce indirect savings of \$3.5-\$7.5 million annually in reduced accidents and injuries.

Appraisal of both reports has confirmed the need for implementing the reporting and evaluation system, starting with the negligent operator element in 1974-75. Additional federal funding is expected for the completion of the design and implementation of the negligent operator subsystem. However, if receipt of these funds is delayed or is not appropriated in 1974-75, an expenditure authorization up to \$60,000 may be required from the Motor Vehicle Account in the State Transportation Fund in order to assure uninterrupted implementation of this essential reporting system.

III. OCCUPATIONAL LICENSING AND REGULATION

The purpose of this program is to protect the public in its dealings with persons in firms engaged in the business of manufacturing, selling, transporting, distributing, buying, or dismantling vehicles. The department's efforts include maximum enforcement, education, and preventive measures as well as providing methods of remedial or recovery action for victims of financial loss. In addition, the department initiates appropriate action against persons engaged in fraudulent, deceptive or otherwise un-

lawful practices.

This program is divided into two elements, licensing and regulation. Included in the latter element is the new Motor Vehicle Board which performs the functions previously performed by the New Car Dealers Policy and Appeals Board. The major duties of this board, which was created by enactment of Chapter 996, Statutes of 1973, involve regulation and licensing of new car dealers, manufacturers, distributors, and representatives; and the hearing and consideration of franchisee protests in accordance with specified provisions of the Vehicle Code.

The cost of the total program for the budget year is estimated at \$4,355,518, a decrease of \$29,909 (minus 0.7 percent) over the current year. The estimated staffing for the 1974-75 budget year is 263.8 man-years. Workload statistics for this program are shown in Table 10.

Table 10
Workload, Occupational Licensing and Regulation

	1973-74	1974-75
Licenses processed and issued	92,405	101,400
Complaints against licensees	8,040	9,720
Dealer and dismantler reviews	1,300	1,350
Administrative actions	1,300	1,350
Driving school reviews	900	1,000

Jurisdiction Over Dealer Warranties

In our Analysis of the 1973-74 Budget Bill we recommended that legislation be introduced which would extend the jurisdiction of the Department of Consumer Affairs over the performance of all vehicle dealer warrantied repairs and services to all such vehicles including mobile-homes. Such surveillance is currently provided to a limited extent by the Department of Motor Vehicles.

Consumer Protection Function. This recommendation was not adopted by the Legislature in 1973. However, the need for such legislative action still exists because the Department of Motor Vehicles is continuing to make a determined effort to followup on warranty complaints which are related to consumer protection functions which have been assigned to the Department of Consumer Affairs. In establishing the Bureau of Automotive Repairs within the Department of Consumer Affairs (Chapter 1578, Statutes of 1971), 10 inspector positions were deleted from the Department of Motor Vehicles budget and the department's surveillance over vehicle repairs and warranty matters was terminated. However, no similar warranty surveillance function was established within the Department of Consumer Affairs. This oversight should be rectified by the Legislature as soon as possible. A more detailed discussion of this matter and a recommended course of action is presented on page 284 of this analysis under our discussion of the Department of Consumer Affairs.

Force of Field Investigators

We recommend an increase of \$67,405 to Item 225 to provide additional field investigator positions and state cars for the department's occupational licensing and regulation program.

DEPARTMENT OF MOTOR VEHICLES—Continued

In order to reduce an accumulating backlog of work in the area of occupational regulation, the department projected a need for 24 additional field inspectors in 1974-75. In the interest of reducing expenditures against the Motor Vehicle Account, the agency recommended that only an additional increase of six field inspectors be authorized.

Our review of this reported backlog indicates a 10 percent growth in occupational licenses and a 22 percent growth in consumer complaints requiring investigation during the budget year which would justify an increase in the number of investigators above the level recommended in the Governor's Budget. To further compound the department's problem in this area, the department has lost the services of four experienced investigators who have been assigned for an indefinite period to the stolen vehicle program being conducted by the California Highway Patrol. To handle increased workload the department has reportedly filled these vacant positions and may be forced to reduce its staff of investigators to provide open positions when the investigators return to the department from the CHP program.

Additional Field Investigators Needed. In order to assist the department in reducing its backlog and provide positions for the return of the experienced investigators which are on loan to the CHP, we recommend that the department's budget request for the occupational licensing and regulation program be increased by \$67,405 to provide four additional field investigators and four state cars.

IV. SECURITY FOLLOWING ACCIDENT LAWS

The objective of this program is to determine that each driver and/or owner of a motor vehicle involved in a reported accident demonstrate that he was not at fault, or has the ability to satisfy any reasonable judgment for damages against him that may arise from the accident, and to withdraw driving and/or registration privileges if the driver fails to comply.

The budget request for this program is \$2,280,918, representing an increase of \$6,106 (2.7 percent) over the current year. This reflects a request for an additional allocation of 4.2 man-years to the current year level of 172.9 man-years.

Backlog of Stayed Suspensions

We recommend special review of the accumulating backlog of unprocessed requests for hearings under the Security Following Accident Laws.

As a result of the ruling by the California Supreme Court in 1972 (*Rios v. Cousins*, 103 Cal. Rptr. 299, 1972), that drivers subject to license revocation or suspension under the Security Following Accident Laws, must be afforded an opportunity for a hearing and the enactment of Chapter 1179, Statutes of 1972, which permitted the Department of Motor Vehicles to stay license suspension of any person requesting a hearing, a backlog of 20,000 unprocessed requests for hearings has accumulated.

This accumulating backlog is growing at an increasing rate (1,000 per month) and the department is making no attempt to process the backlog or new requests for hearings because of a reported lack of personnel trained in tort law. Such specialization is considered necessary by the

department to determine culpability in the course of conducting a hearing. As an added concern the department reports that accident reports indicate that there has been a steady increase from 1966 through 1973 in the percentage (9 percent to 18 percent) of uninsured drivers involved in accidents.

Solution Needed. Alternative legislative solutions to this serious problem have been considered to include a compulsory automobile insurance program and an unsatisfied judgment fund, but no legislation has been enacted. The need for prompt and effective action by the Legislature appears to be overdue to provide just compensation to innocent victims of automobile accidents in California which are the responsibility of a growing number of uninsured drivers. Either the department must be required to process the backlog of stayed hearings and be provided necessary funding, or new legislation must be enacted to resolve the problem on a long-term basis.

V. DEPARTMENT OF MOTOR VEHICLES ASSOCIATED SERVICES

Through its headquarters operation and network of 147 field offices the Department of Motor Vehicles provides the following associated services:

1. California identification card issuance,
2. Undocumented vessel registration and fee collection,
3. Environmental license plate, registration and fee collection, and
4. Use tax computation and collection.

For the budget year the associated services program is estimated to cost \$3,520,014. This reflects an increase of \$202,206 (6.1 percent) over the current year. An increase of 14.2 man-years is proposed over the current authorized level of 292.3 man-years. Workload data for the associated services program are shown in Table 11.

Table 11
Workload-Associated Services

	<i>Estimated 1973-74</i>	<i>Estimated 1974-75</i>
Identification cards issued	101,000	111,000
Undocumented vessel registration transactions	592,700	611,000
Environmental license plate transactions	186,000	235,400
Use taxes collected	\$48,571,000	\$49,868,000

In the budget year it is estimated that the department will deposit \$1,626,000 in the Harbors and Watercraft Revolving Fund from fees collected in the registration of undocumented vessels, and \$3,311,300 in the Environmental Protection Fund from the sale and issuance of personalized license plates. The department will be reimbursed from both funds for its incurred costs. The estimated amount of use taxes expected to be collected in 1974-75 fiscal year will be reduced by an amount equivalent to the department's incurred costs prior to being deposited in the General Fund.

DEPARTMENT OF MOTOR VEHICLES—Continued**VI. DEPARTMENTAL ADMINISTRATION**

The purpose and objectives of the departmental administration program are to provide executive direction in administering and enforcing provisions of the Vehicle Code, formulate departmental policy, and provide management support services to all department programs. The elements of this program are:

1. Executive management
2. Program administration
3. Legal
4. Fiscal and business management
5. Personnel and training
6. Operations and management analysis
7. Research and statistics
8. Public information
9. EDP services

The costs of departmental administration for the budget year are estimated to be \$6,386,157. This is an increase of \$106,753 (1.7 percent) over the current year. Of the total expenditures estimated in 1974-75, it is expected that \$6,094,645 will be distributed to other department programs and \$291,512 will remain undistributed.

Stephen P. Teale Consolidated Data Center

The Department of Motor Vehicles, which is the largest customer of the Stephen P. Teale Consolidated Data Center, proposes to reimburse the center \$4,500,965 for electronic data processing services during the budget year. Because the center will convert to advanced computers during the budget year, and service costs are unknown at this time, the estimated reimbursement is based upon the amount the department would have budgeted had it been doing its own data processing in 1974-75. Such a procedure is not conducive to tight controls over budgeting and reimbursement of received services. However, it appears that there are no other alternatives at this time.

In order to derive fully supported budget estimates for the 1975-76 fiscal year and establish essential controls over reimbursements to the center for received services, the department should take necessary steps to assure that a budgeting and cost control reporting system is established between the department and the center.

Division of EDP Services

We recommend a reduction of \$428,183 in Item 225 for the department's planned conversion to an advanced key entry, data input system.

The department maintains a division of EDP services to provide a data input and output service, and EDP systems planning and programming services to the various departmental programs and divisions. This division also performs a liaison and control function between the department and the Teale Consolidated Data Center.

Conversion to Key-Entry System. Starting in June 1974 the division proposes to convert from its existing on-line data input system using video

terminals to a more advanced on-line key-entry data input system which is compatible with the advanced computers to be installed in the Teale Consolidated Data Center.

Installation of the more advanced key-entry system will permit the department to replace its existing manual procedure for verifying input data with an automated procedure using the key-entry verification features of the proposed system.

We endorse the department's planned conversion to the advanced key-entry system starting in June 1974 because greatly increased efficiencies and economies can be expected in addition to achieving equipment compatibility. However, we do not concur with the department's proposed plan to convert to a procedure of key-entry verification during the period from October 1974 to March 1975. In this five-month period, the department reaches its peak workload with the issuance of approximately 17,000,000 registration potentials and the processing of the annual renewal registrations. A major conversion at that time could result in severe interruptions in the processing of vital input data. In addition, we consider that the department's planned increase from 254 key-entry operators and supervisors to the level of 435 operators and supervisors during the budget year will result in unjustified overstaffing.

Needed Delay and Reduction in Staff. To avoid possible disruption of the vital data entry function during the department's peak workload season from October 1974 to March 1975, we recommend that the department continue to verify input data manually until March 1, 1975, delaying its conversion to the key-entry verification procedure until that time. This delay will also permit an orderly transition of temporary key-entry operators to the staff of permanent operators during a period of reduced workload. Additionally, we recommend that the department plan to provide a ratio of one key-verifier-operator to every two key-entry operators rather than its planned ratio of 7 to 10. The 2-to-1 ratio is employed successfully by other state organizations which have already converted to key-entry systems and the key-entry verification procedure.

Implementation of the above recommended changes will permit reduction of the department's request of \$859,931 for conversion to the key-entry system in 1974-75 to \$431,748, for a savings of \$428,183. This savings would result from an elimination of 47 new positions for key-verifier operators and 3 supervisors, and 23 key-entry terminals out of an original planned procurement of 215 units.

Standby Gasoline Rationing

On December 27, 1973, the chief of the recently organized Federal Energy Office announced that a standby system for gasoline rationing is to be set up which if implemented in California would require the services of the Department of Motor Vehicles to issue authorization cards to each licensed driver in the state.

According to the Department of Motor Vehicles, the conceptional plan would require each licensed driver to present his authorization card and his driver's license at a coupon distribution point such as a bank or a post office to receive his monthly allotment of ration coupons. The fee for the

DEPARTMENT OF MOTOR VEHICLES—Continued

driver's monthly allotment of coupons would be \$1.

Possible Need for State Funding. It is intended that the program will be self-supporting with collected fees fully offsetting the incurred costs of administering the program. However, there is a possibility that an expenditure authorization from the Motor Vehicle Account in the State Transportation Fund may be required to cover system planning and startup expenses until reimbursed from collected fees. If the program is implemented and initial funding from the Motor Vehicle Account is requested, it is recommended that the department and the Legislature take necessary steps to assure that all expenditures are fully reported and reimbursed from program revenues.

Minor Capital Improvements

We recommend a reduction of \$95,000 in Item 225 for field office, minor capital improvement projects.

The Department of Motor Vehicles is requesting \$129,700 in the budget year for three minor capital improvement projects. One project costing \$34,700 is for the installation of additional communication lines and terminals in the Sacramento headquarters building. We recommend approval of this project.

The other two projects are for improvements to the Whittier and Montebello field offices. The Whittier field office request, costing \$30,100, is for additional parking space for 43 automobiles. This is a relatively new field office which was built and occupied in August 1972. The original design provided reserve capacity for future growth to include reserve parking lot capacity until the year 2000. Therefore, we recommend deletion of this project from the department's request.

The Montebello field office request, costing \$64,900, is for replacement of several roof-mounted air conditioning units with new units and modifications of the air distribution system. This request for minor capital improvement is just \$100 less than the \$65,000 limit for such projects. In consideration of the obvious attempt by the department to avoid classification of this project as a major capital outlay project and the advisability of replacing the old air conditioners with a single unit which would be more effective and economical in electrical energy consumption we recommend the deletion of this project from the department's request for minor capital improvements and reinstatement in the department's request for major capital improvements which is subject to review by the Public Works Board.

Department of Motor Vehicles
FOR PAYMENT OF DEFICIENCIES IN APPROPRIATIONS

Item 229 from the Motor Vehicle Account, State Transportation Fund

Budget p. 000 Program p. 000

Requested 1974-75	\$500,000
Estimated 1973-74.....	500,000
Actual 1972-73	500,000
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Existing statutes forbid the creation of a deficiency in appropriations from the Motor Vehicle Account, State Transportation Fund. This means that the Department of Motor Vehicles cannot borrow from the regular Emergency Fund to meet unforeseen and unanticipated financial needs. In recognition of this the Legislature for many years has provided a special contingency authorization to protect the Department of Motor Vehicles. In 1965 and 1966, the amount was \$350,000 in each year. In 1967 and 1968, it was \$500,000 in each year and in 1969 and 1970, it was \$250,000.

In recognition of rising costs of services and supplies and the still unresolved problems with electronic data processing, this contingency was increased to \$500,000 in 1971-72 and has remained at that level since that time.

Business and Transportation
STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Items 230, 321 and 232 transfers from other items, reimbursements from various funds, and augmentations from the General and State Transportation Funds

Budget p. 114 Program p. I-692

Requested 1974-75	\$23,562,489
Estimated 1973-74.....	11,587,904
Actual 1972-73	3,503,681
Total recommended reduction	Pending

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis
page*

- | | |
|---|-----|
| 1. Project Reappraisal. Recommend fiscal committees with-
hold funding pending a revised financial analysis of the con-
solidation plan and assessment of actual progress. | 482 |
| 2. Program Conversion. Recommend administration take
immediate action to suspend certain computer program
conversions pending reevaluation of the feasibility of con-
verting specified departments. Recommend commensurate
possible scaling down of equipment. | 483 |

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four consolidated data centers authorized by the 1972 Legislature. This center, which is a part of the Business and Transportation Agency, is scheduled to provide electronic data processing (EDP) services to 34 units of state government including the Departments of Public Works, Motor Vehicles, Water Resources, General Services, Education, and Finance. Also served will be the State Controller, State Treasurer, Secretary of State, and the Legislature.

This center will be the largest and most complex of the proposed data centers because of the number and size of the departments scheduled to receive EDP services. The center is intended to reduce the net cost of state data processing by eliminating excess EDP equipment, reducing personnel required for operating computers, and providing for the optimum utilization of the installed equipment (by operating on a three-shift and seven-day-a-week schedule).

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes an expenditure program for this consolidated data center totaling \$23,562,489 in the budget year as compared with estimated expenditures of \$11,587,904 in the current year. The increase in expenditures reflects the continuing development of this center. Expenditures proposed for the budget year include \$12,043,673 in Item 230 which reflects the total amount of EDP computer operation funds budgeted by each of the departments designated to receive services from the data center. Because this amount represents transfers and reimbursements, the appropriation is zero. These funds will be transferred gradually to the data center on authority of the Director of Finance as actual consolidation of those departments not yet converted to the center takes place. Remaining funds totaling \$11,518,816 are provided by the General Fund (Item 231—\$9,557,354), and the Motor Vehicle Account, State Transportation Fund (Item 232—\$1,961,462), and will be expended for the conversion of departmental computer programs for processing by the center's new equipment.

PROCUREMENT OF EQUIPMENT

On December 3, 1973, the administration announced the selection of the IBM Corporation as the prime contractor to provide computer equipment and services for the Teale Consolidated Data Center. This selection resulted in a \$20,824,590 contract with IBM which was signed on December 7. Contracts were signed also with two other firms for training (\$237,000) and remote terminals (\$1,160,000).

These awards were the culmination of an equipment procurement process which was unsuccessful in three previous attempts and ended finally amid a strong expression of legislative concern about procedures followed and allegations by some vendors that there had been bias on the part of the administration to the advantage of IBM. Our office and the Auditor General expressed related concerns.

The first attempt to acquire equipment for the Teale Data Center occurred in the spring of 1972 when the Department of Finance selected the IBM Corporation as the sole contractor to provide a dual computer system. The sole source equipment acquisition was considered by the administration to be an "in-line" equipment upgrade of existing IBM equipment within the Department of Public Works, an upgrade determined at that time to offer maximum benefits to the state.

The Department of Finance plan as developed by the State Data Processing Officer and the director's staff was to (1) provide the Department of Motor Vehicles with expanded capability, and (2) at the same time consolidate the EDP resources of several departments in order to begin implementation of legislative EDP policy as expressed in Government Code Sections 11700 and 11701. Motor Vehicles required a dual system in order to back up the department's real-time system used for law enforcement purposes, and the plans called for processing most of the work of the other departments on the second computer used to back up the primary system.

The planning which led to the IBM selection evolved at a time when the Department of Motor Vehicles and several other departments were using RCA computing equipment and were facing an apparent dilemma caused by RCA's sudden announcement in late 1971 that it was terminating its computer business. Although the UNIVAC Corporation subsequently acquired RCA's computer market base, several months elapsed before the acquisition actually occurred.

In the case of the Department of Motor Vehicles, the situation was aggravated by the fact that the department required expanded computing equipment capability in order to meet effectively its current and anticipated program objectives.

The Legislature in considering funding for this acquisition rejected the sole-source approach to solving the problem and required instead that EDP equipment be obtained through competitive bidding (Section 4, Budget Act of 1972).

Accordingly, the administration, under the leadership of the State Data Processing Officer and EDP Control and Development Unit within the Department of Finance, developed an implementation plan based on this new requirement and a request for proposal (RFP) was issued in Novem-

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ber 1972 (RFP 72-01). Two vendors (IBM, UNIVAC) responded with bids. UNIVAC was disqualified in early 1972 on the grounds that it had failed to meet certain mandatory requirements, and IBM was disqualified soon thereafter. This second effort was characterized by allegations from a number of vendors that the RFP and the bid evaluation and selection process favored IBM.

Third Attempt

On April 4, 1973, the administration initiated a third attempt to secure equipment with the release of Invitation For Bid (IFB) 73-03. Four vendors (UNIVAC, IBM, Honeywell, Control Data) responded with an intent to bid. On May 21, UNIVAC dropped out, indicating that it would protest formally (which it did but the State Data Processing Officer in a hearing decided against the protest). Control Data withdrew its intent to bid on June 21.

With the enactment of the Budget Act of 1973, revised control language was placed in Section 4 of the act which states in part that no expenditure for the acquisition of EDP equipment could be made "... unless two bidders bidding on mainframes manufactured by different companies have been determined to be qualified for contract award in accordance with this section." Therefore, when on July 17, 1973, the Honeywell Corporation announced that it was withdrawing from competition, the third procurement cycle was effectively ended because only one bidder (IBM) remained.

Relief Provided

When it became apparent that the third procurement attempt would have to be terminated, a bill on the subject, SB 804, was amended to authorize the administration to award a contract without regard to competitive bidding. This move was prompted by the recognition that further delay in implementing the Teale Data Center would have a significant adverse effect on the ability of the Department of Motor Vehicles to implement new programs mandated by the Legislature.

The Legislature accepted the administration's stated need for relief, but in doing so stipulated that the Business and Transportation Agency "... may obtain from one or more sources such equipment, services and supplies by negotiation with vendors seeking consideration and award the contract pursuant to such negotiation if such award is determined to be in the best interests of the state." This was the language contained in SB 804 when it passed the Legislature and became Chapter 1167, Statutes of 1973.

December 1973 Selection Contested

As we monitored this final equipment selection process, it became increasingly apparent that the administration had (1) failed to negotiate with all vendors who had sought consideration, (2) based its selection of IBM on an evaluation and selection report which did not support that selection in the context of Chapter 1167, and (3) taken certain actions which we construed as evidence of bias. We wrote the Secretary of the

Business and Transportation Agency (December 4, 1973) detailing these concerns and urging that he take steps to complete the selection process in accordance with Chapter 1167 by negotiating with the other vendors. In our judgment, the potential for reducing the total cost to the state as a result of active negotiation with all vendors mandated such negotiation.

Instead, the contracts were signed and the matter became the subject of a special hearing conducted by the Assembly Committee on Ways and Means on December 17. At that hearing, the objectivity of the administration, and particularly that of the Department of Finance, was questioned. The primary actions taken by the committee at that time, however, were to request (1) from the administration, an accounting of its selection of IBM to provide magnetic tape Selectric typewriter (MTST) processing (the conversion of data contained on tapes produced by typewriters), and (2) from our office, a determination of the appropriate time to replace peripheral EDP equipment in the Teale Data Center.

In this regard, we note that a letter from the Department of Finance to the Director of the Teale Data Center (December 7, 1973) directs the center to submit within 90 days firm plans for the appropriate replacement of, at the expiration of the current contract or sooner, all disk and tape drives, video terminals, printers and other peripheral unit record equipment.

Vendor Inconsistencies

Throughout the repeated attempts to complete the procurement of equipment for the Teale Data Center, it became apparent that certain of the vendors competing in this procurement were inconsistent in their testimony before the legislative committees.

Because each of these vendors maintains a large staff of computer-oriented experts, it is obvious that they would be in a position to determine whether or not a bid request from the state precluded their company from competing.

Although certain vendors did testify that the bid and/or selection process was biased, we note that on other occasions these same vendors gave assurance before committees of the Legislature that, if given time and an opportunity to submit a bid, they would do so.

Further, although certain vendors complained to the Legislature of their displeasure with the procurement, these same vendors added to the confusion by writing letters to the administration indicating in essence that they found no bias in the procurement process.

In our opinion, the best interests of the state would have been served if all vendors had expressed clearly their problems and maintained consistent positions throughout this process.

DATA CENTER IMPLEMENTATION

Chapter 1237, Statutes of 1971, established a joint legislative-executive committee to formulate recommendations regarding appropriate legislative and executive actions required for implementing the state's EDP policies as set forth in the Government Code. On May 17, 1972, the committee (known as the California Information Systems Implementation Committee) released to the Governor and the Legislature its report in

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which it (1) noted its approval (and also that of the Governor and the Cabinet) of the long-range master plan for EDP developed by the State Data Processing Officer in the Department of Finance, and (2) identified costs and savings associated with the implementation of the Business and Services Data Center (now the Teale Data Center) as estimated by the administration (Department of Finance).

Financial Plan Obsolete

The administration master plan as reflected in the information system committee's report stated that \$4.7 million would be required to implement both the Teale Data Center and the Revenue Data Center. These funds were to provide for (1) conversion of existing programs to computers installed at each new center, (2) site preparation at each new center, and (3) all other one-time expenses related to startup operations. Additionally, the report states that "The Department of Finance estimates that the funds required for this conversion will be recovered from savings within two years and returned to the General Fund."

Funds appropriated to date by the Legislature for implementation of the Teale Data Center total \$5,675,000. These funds have enabled staffing, establishment of an interim center at the Department of Transportation, site preparation for the new center, and will provide support in the current year for continued implementation of the Teale Data Center and conversion of computer programs to the new IBM equipment through June 30, 1974. In addition, the Governor's Budget proposes an expenditure in the 1974-75 fiscal year of \$11,518,816 for conversion of departmental computer programs to the center's new equipment.

It is apparent therefore that the estimated cost to implement the Teale Data Center has quadrupled in less than two years, from less than \$4 million to in excess of \$17 million.

Need for New Cost Data

We recommend that the fiscal committees withhold approval of the funds requested pending a revised financial analysis of the Teale Data Center consolidation plan and an assessment of actual progress, both of which will enable a more precise definition of an appropriate level of funding.

Although there are numerous factors which may have contributed to an increase in cost, we believe that this very substantial increase demands that new cost and benefits information be developed for presentation to the Legislature. With regard to benefits, we understand that the Department of Finance now estimates increased "hard dollar" savings accruing from operation of the Teale Data Center of \$23 million over a five-year period.

Clearly, the financial data provided by the Department of Finance in 1972 which supported the feasibility of the current implementation effort is significantly outdated and in need of revision. In our opinion, the Legislature should be provided with a new financial plan and an assessment of that plan in order to determine an appropriate level of funding for the Teale Data Center.

We believe also that a measurement of actual progress between now and the time this budget is heard will assist in this determination. In this regard, we note that the interim center is scheduled to be phased out May 1 at which time operation on the new equipment will take place. The other key date is July 1, 1974, at which time the Department of Motor Vehicles conversion is to be completed. Therefore, we recommend that approval of funds be withheld pending a revised financial analysis and an assessment of actual progress toward meeting those key dates.

In order to provide this analysis, we further recommend that the Department of Finance, the Business and Transportation Agency, and the Teale Data Center complete their joint report and present it to the Joint Legislative Budget Committee and the fiscal committees not later than April 15, 1974. In turn, our office will be prepared to present to the fiscal committees by May 3, 1974, an analysis of project finances and progress, with specific funding and policy recommendations as appropriate.

Reevaluate Conversion Effort

We recommend that, with the exception of the Department of Motor Vehicles and those departments now receiving service from the interim center, the administration take immediate steps to suspend the conversion of programs for all remaining departments scheduled to receive services from the Teale Data Center. We recommend further that the administration take similar action to scale down the configuration of EDP equipment necessary to support those departments in question.

A major cost element in bringing the Teale Center into operation which is in addition to new computer equipment is converting the computer programs now run on individual departmental computers, some of which are not compatible with the center's new IBM computers.

In reviewing these costs as contained in the Governor's Budget and in the IBM contract, we find that there is a significant difference between original estimates regarding costs and savings associated with the conversion of certain departments to the Teale Center and current estimates as reflected in the Governor's Budget. Because a reevaluation of costs and benefits may suggest a modified consolidation approach, we recommend a suspension of conversion efforts pending such a reevaluation.

As one example, we cite the proposed conversion of the Department of Water Resources. The contract signed between the state and the IBM Corporation includes \$2,320,000 to convert computer programs now processed on the Department of Water Resources computer. We understand that Water Resources has estimated its cost to assist in this conversion (for which it will receive reimbursement from the Teale Data Center) at \$1,023,000. Because Water Resources owns most of its computer equipment and is supporting existing computer applications with that equipment, we believe the Legislature should know the benefits to be obtained from expending \$3,343,000 to put those applications on new equipment at the Teale Data Center.

Another example is the proposed conversion of State Controller computer programs at a contract cost of \$1,865,000. In this instance, because

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the Controller's office is participating in the development of a new Personnel Information Management System (discussed in our analysis of Item 51) which will affect its existing automated state payroll process, that office is also reconsidering the validity of the current conversion plan.

We believe also that other departments whose programs should be reevaluated to determine the feasibility of conversion include the Public Employees' Retirement System, General Services (Office of State Printing), State Teachers' Retirement System, and Veterans Affairs.

A deferment in conversion of departmental programs to run on the Teale Center will obviate the need for a certain amount of new computing equipment installed at the data center. Because the center's equipment configuration is comprised of modular components, we urge also that the administration plan to scale down appropriately equipment acquired in support of the Teale Data Center if the benefits to be gained from conversion do not at this time outweigh the costs.

We do not suggest that the Department of Motor Vehicles conversion be suspended because that department is in serious need of the expanded capability the new center will provide. Further, the interim center at the Department of Transportation should be phased out because it is currently an IBM 370/165 installation and the Teale Data Center is installing two IBM 370/165's. Therefore, programs at the interim center are compatible already with the new equipment.

Interim Center

Until May 1, when cutover to the new system should take place, several departments will continue to receive services from this center. These include Transportation, Education, the Secretary of State and the California Highway Patrol. Services provided by this center are used also by various offices in the Legislature, primarily through the use of DS/2 (a data retrieval and manipulation program).

Conversion of the above departments to the interim center has resulted in the release of one IBM 360/65 (Public Works), one IBM 360/50 (General Services), and two IBM 360/30's (Secretary of State, Highway Patrol). The Teale Data Center estimates current savings from these consolidations at \$35,000 per month for equipment rental and 20 fewer support personnel.

Personnel Savings

The Department of Finance has anticipated major reductions in personnel associated with computer operations as a result of implementation of the Teale Data Center. These anticipated savings have been used to support to a large degree the feasibility of the consolidation plan. We understand that this reduction in personnel will take place in the budget year as existing computer installations are phased out.

However, departmental budgets for the 1974-75 fiscal year do not reflect this reduction. We would therefore expect to see substantial reductions reflected in the 1975-76 budget. In the meantime, the Department of Finance continues to maintain a selective hiring freeze on EDP positions and apparently intends to take further steps to control the number

of permanent EDP positions filled by departments in the Teale Data Center grouping.

Project Management

The Director of the Teale Data Center has been appointed project administrator and as such has overall project authority. According to organization charts provided to us by the center, the director will be aided in his role as project administrator by four primary assistants who will in turn direct or coordinate the efforts of (1) seven managers of specific project components, (2) the training coordinator, and (3) the contract administrator. The primary contractor (IBM) will be responsible for managing IBM's effort only.

The scope and cost of the Teale Data Center implementation effort and the inherent problems associated typically with EDP efforts demand competent and comprehensive management of the project. We believe that the state has the necessary personnel resources to provide such management and that the approach now being taken by the Teale Data Center in this regard should assure an appropriate management process.

Resources Agency

TAHOE REGIONAL PLANNING COMPACT

Item 233 from the General

Fund

Budget p. 117 Program p. I-699

Requested 1974-75	\$50,000
Estimated 1973-74.....	100,000
Actual 1972-73	50,000
Requested decrease \$50,000 (50 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Tahoe Regional Planning Compact was established by Chapter 1589, Statutes of 1967. The purpose of the compact was to coordinate and enforce planning between California and the State of Nevada to preserve and enhance the environment of the Lake Tahoe Basin. The compact was adopted by California, Nevada and the federal Congress.

This item appropriates \$50,000 from the General Fund for the Tahoe Regional Planning Agency as a contribution from the State of California to its support in fiscal year 1974-75. The agency is adopting land use, subdivision, and grading and shoreline ordinances for the Tahoe Regional Plan.

This item as proposed would result in a reduction in the agency's budget. In the current year, the agency received \$100,000 from the State of California. However in 1974-75 the compact agency will receive only \$50,000 while the California Tahoe Regional Planning Agency will receive \$50,000 through Item 234. Therefore, the total state contribution to the