

tee on the Budget adopted language recommending implementation of the annual system. In our February 1975, report to the Legislature on compliance of state agencies with legislative requests, we noted that the department had this recommendation under study. Subsequently, the department's new director instructed the staff to develop a plan for converting to the annual cycle early in 1976. In examining alternatives for this purpose, the department concluded that savings from an annual billing would be substantially less than \$100,000 annually (in the range of \$20,000 to \$25,000) and that the conversion would result in a loss of flexibility in making billing changes, some of which could be very important. The department also estimated EDP costs for the conversion at \$70,000. Some of the assumptions used by the department in this report were addressed in a Department of Finance management audit of the department dated August 1975. This report concluded that an annual billing system would produce net annual savings of \$99,900 and recommended its adoption.

The Department of Veterans Affairs is presently reviewing its cost estimate to reflect the impact of the recent 30 percent increase in postage rates and is also investigating the billing experience of private lending institutions, some of which we are advised have reported dissatisfaction with an annual billing system. We therefore withhold recommendation on this issue pending completion of the department's report, which will be available for legislative review during the budget hearings.

Business and Transportation Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 185 from the General Fund

Budget p. 380

Requested 1976-77	\$187,241
Estimated 1975-76.....	181,198
Actual 1974-75	142,676
Requested increase \$6,043 (3.3 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. 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.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal, which, upon petition, reviews board decisions. During 1974-75, 114 appeals were filed and 107 decisions issued. The appeals board reversed 17 departmental decisions. As of June 30, 1975, it has processed 4,321 cases since its creation in 1954.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes a budget-year expenditure of \$187,241, which is \$6,043 or 3.3 percent above the current-year estimate. This increase consists of \$1,863 for merit salary increases and \$4,180 for higher operating costs.

As mentioned in the analysis of the Department of Alcoholic Beverage Control (Items 279-280), 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

Item 186 from the State Banking Fund

Budget p. 381

Requested 1976-77	\$3,461,622
Estimated 1975-76.....	2,991,302
Actual 1974-75	2,499,120
Requested increase \$470,320 (15.7 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Research and Information Services. Withhold recommendation of \$64,508* for one market analyst position, one associate economist position and consultant services pending review of additional data prior to budget hearings. 293
2. Departmental Regulations. Recommend department explain to the fiscal committees why the second installment of regulations has not been issued as requested by the 1974-75 Supplementary Report. 295

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. Not all banks in California are regulated by this department because some choose to operate under federal authority.

The department is administered by the Superintendent of Banks, who

is appointed by the Governor. Pursuant to law, the superintendent 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.

Department headquarters is located in San Francisco and branch offices are in Los Angeles, San Diego and Sacramento. Current authorized staff is 126 positions.

The department is supported by the State Banking Fund, which receives assessments on banks and trust companies, license and application fees and service charges.

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of \$3,461,622 which is an increase of \$470,320 or 15.7 percent above estimated current year expenditures. The department anticipates that budget year reimbursements of \$78,325, primarily fees for (1) examining trust companies, (2) conducting special examinations of banks and (3) administering the local agency security program, will produce a total expenditure program of \$3,539,947.

Table 1 shows man-years and costs devoted to the department's six programs and supporting elements.

New Positions (Continuing Supervision of Existing Banks Element)

The department requests the addition of 16 bank examiner positions (eight examiner II, five examiner III, three examiner IV) and two clerk-typist II to absorb an increasing examination workload. In the budget year, the department is estimating a 6.5 percent increase in the number of banks (three national banks are converting to state banks) and branches and a 10.9 percent increase in bank holdings. The current year is the first year since 1969 that the department has met its statutory obligation of examining each state-chartered bank at least once every year. The proposed examiner positions will enable the department to continue this examination schedule during the budget year. Several of the higher level positions will also be utilized to perform special examinations of "problem banks." The number of such banks will increase from 16 in the current year to 24 in the budget year. The department currently devotes three examiners entirely to the examination and monitoring of problem banks.

New Position (Legal and Legislative Services Element)

The department requests the continuation of one legal counsel position established administratively during the current year. The position is needed to process branch applications and assist in the regulation of problem banks.

New Positions (Research and Information Services Element)

We withhold recommendation of \$64,508 for one market analyst position, one associate economist position and consultant services pending review of additional data prior to legislative budget hearings.

The department is requesting one market analyst position and one economist position in the budget year to initiate a market analysis function

Table 1
Cost and Staffing Data for Departmental Programs

Program	Element	Actual 1974-75		Estimated 1975-76		Proposed 1976-77	
		Man-years	Cost	Man-years	Cost	Man-years	Cost
1. Licensing and supervision of banks and trust companies	Investigation of applications for new facilities	5.8	\$125,149	4.9	\$99,522	4.4	\$92,234
	Continuing supervision of existing banks	95.1	2,210,053	108.9	2,715,678	121	3,168,950
	Continuing supervision of existing trust companies	7.6	167,694	7.7	184,827	8.2	201,763
2. Regulation of transmitters of money abroad		1.5	27,900	1.5	29,500	1.5	29,500
3. Certification of securities		0.3	3,500	0.3	3,750	0.3	3,750
4. Administration of local agency security		0.9	18,801	0.9	19,750	0.9	20,500
5. Supervision of California business and industrial development corporations		—	—	0.3	10,500	0.7	23,250
6. Departmental administration (prorated to other departmental programs)	Executive and administrative services	(7)	(180,287)	(7)	(293,152)	(7)	(344,956)
	Legal and legislative services	(6.5)	(141,648)	(9)	(223,279)	(9.5)	(240,220)
	Information services	(4)	(89,957)	(4)	(97,696)	(6)	(176,210)
		111.2	\$2,553,097	124.5	\$3,063,527	137	\$3,539,947
Reimbursements			<u>-53,977</u>		<u>-72,225</u>		<u>-78,325</u>
Net Total Programs			\$2,499,120		\$2,991,302		\$3,461,622

for evaluating charter and branch applications. However, the department's Investigation of Applications for New Facilities element currently utilizes the services of the department's banking economist to evaluate charter and branch applications. Applicants requesting the establishment of a new bank or branch are required to submit an independently prepared market survey of the area where the institution would be established. The banking economist assists the element in evaluating charter and branch applications based partially on the need for a banking institution in a specific market area.

The department also requests \$20,000 for consultant services to study lending practices, public service aspects of banking and processing unclaimed property. Information provided by the department to date has not been specific enough to enable us to review the objectives and methodology of the proposed studies.

Departmental Regulations

We recommend that the department explain to the fiscal committees why the second installment of regulations has not been issued as requested by the 1974-75 Supplementary Report of the Committee on Conference.

The Supplementary Report of the Committee on Conference (Budget Bill of 1974) recommended that the department's rulings be reviewed and incorporated into regulations. Such regulations were to define authorized banking functions and be promulgated by November 1, 1974.

The first installment of regulations was filed with the Secretary of State on November 19, 1974, and became effective on January 1, 1975. These regulations affect banking terms, procedures for filing documents with the superintendent, application procedures for organizing new banks and trust companies, hearings by the superintendent, reserve requirements and procedures and policies regarding foreign banks. The department advised the Legislature during 1975-76 budget hearings that beginning February 1975, from 6 to 10 additional installments would be produced in order to complete its regulations.

The Legislature approved the addition of one counsel position and one legal secretary position during the 1975-76 budget hearings to enable the department to produce these regulations. An additional counsel position was added administratively during the 1975-76 fiscal year. However, no additional installments have been issued by the department. In view of the need for comprehensive departmental regulations, we believe that the department should explain this situation to the fiscal committees at the time the budget is heard.

**Business and Transportation Agency
CALIFORNIA JOB CREATION PROGRAM**

Item 187 from the General
Fund

Budget p. 386

Requested 1976-77	\$779,023
Estimated 1975-76.....	722,603
Actual 1974-75	2,183,649
Requested increase \$56,420 (7.8 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Reorganization Plan. Defer recommendation pending submission of proposed reorganization plan to fiscal committees hearing the item. 296

GENERAL PROGRAM STATEMENT

The California Job Creation Program (Cal Job) was established to promote employment by assisting small businesses in disadvantaged areas. Through regional job development corporations comprised of financial institutions, the program currently uses state funds to guarantee loans to small businesses which would otherwise not qualify for financial assistance. In addition, the Small Business Assistance program element engages contractors who provide consulting services to small businesses at a minimal charge. The Office of Minority Business Enterprise (OMBE) provides assistance to minority businesses in obtaining procurement contracts and other services as part of the Cal Job program. Effective October 1, 1975, this federally-funded office was transferred to the Department of General Services.

Initially established in 1968, the Cal Job loan program and small business assistance programs were combined by Chapter 1211, Statutes of 1973. The resulting program, called Cal Job, was transferred from the Employment Development Department to the Business and Transportation Agency in 1974. The program is directed by the California Job Creation Program Board, composed of 19 members representing state government, financial institutions, business, labor, the regional job corporations, persons in disadvantaged areas, and the Legislature. It is anticipated that the program will be transferred to the Department of General Services during the second half of the current fiscal year, in accordance with a November 26, 1975, memorandum of understanding between the Department of General Services and the Business and Transportation Agency.

ANALYSIS AND RECOMMENDATIONS

We defer recommendation pending submission of the program's formal reorganization plan to the fiscal committees hearing this item, to review the effect of consolidation on program requirements.

The budget reflects a major transition in the activities of the Cal Job

program. No new funds will be transferred to the State Loan Guarantee Fund for the purpose of making long-term loans to small businesses through the regional corporations. Instead, unexpended balances remaining at the end of the current fiscal year will be applied to funding a job development program which is designed to allow greater flexibility in small business financing.

The Small Business Assistance program's activities will be limited to continuation of current contractual services, and coordination between the financing and management assistance elements of the program will be emphasized. It is expected that OMBE will participate in several assistance projects, although this office is not currently included in the Cal Job program.

A formal plan of reorganization is expected to be submitted by the Governor in the second half of the current fiscal year. It is anticipated that the Cal Job program will then be transferred to a new Division of Minority Business Assistance within the Department of General Services. The plan may have a major effect on the activities of the program and upon staffing and funding requirements. We therefore defer recommendation on the program's reorganization, including analysis of the effect of consolidation on program requirements, until the plan is submitted to the fiscal committees which will hear this item.

The budget proposes a General Fund appropriation of \$779,023, which is 7.8 percent above the current year authorization. Included in the appropriation is \$279,023 available for the development of business expansion centers. The remaining \$500,000 is budgeted for staff and operating expenses. Of this amount, \$200,000 is allocated for contractual expenses for compiling a minority business directory as part of the Small Business Assistance Program. Savings estimated to be \$2,193,965 at the end of the current fiscal year will be applied to the job development program pursuant to Chapter 1211, Statutes of 1973, which permits expenditures without regard to fiscal year.

Table 1 shows staffing and cost data by program element. It illustrates that the current year program expenditures decreased by 67.2 percent from 1974-75 expenditure levels. However, the 1976-77 budget reflects expenditures that are 299 percent above estimated expenditure levels for the current year. The large increase in budget year expenditures is due to the application of unallocated program savings estimated for the current year to the job development program, as discussed above.

A. CAL JOB LOAN PROGRAM

Currently, the regional job creation corporations in San Francisco, Los Angeles, and San Diego guarantee loans made by participating financial institutions to qualifying small businesses. General Fund appropriations to the Cal Job program are transferred to the State Loan Guarantee Fund, from which they may be transferred to the regional corporations' guarantee funds without regard to fiscal year.

Table 2 summarizes information on firms which have received loan guarantees from the regional corporations.

Table 1
Positions and Budget Authorizations
1974-75 through 1976-77

	<i>Man-years</i>			<i>Actual</i>	<i>Estimated</i>	<i>Estimated</i>
	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>	<i>Expenditures</i> <i>1974-75</i>	<i>Expenditures</i> <i>1975-76</i>	<i>Expenditures</i> <i>1976-77</i>
Cal Job						
Staff and operations.....	9	9	9	\$750,710	\$745,103	\$500,000
Loan guarantee funds.....				1,520,000	—	—
Special expenses						
Business expansion centers.....				—	—	279,023
Job development program.....				—	—	2,193,965
Office of Minority Business Enterprise (OMBE).....	6	1	—	87,061	22,500	—
Less federal reimbursement.....				(87,061)	(22,500)	—
Net program expenditures.....				\$2,270,710	\$745,103	\$2,972,988

Table 3 displays dollar values of the loans guaranteed and those which have defaulted.

Table 2
Number of Firms Assisted and in Default

	1972	1973	1974	1975
Firms assisted.....	8	13	16	9
Total firms (accumulative from 1969).....	95	108	124	133
Firms in default.....	12	13	12	7
Total firms in default (accumulative from 1969).....	23	36	48	55
Accumulative rate of default.....	24.2%	33.3%	38.7%	41.4%

Table 3
Guaranteed Loans and Loan Losses

	1972	1973	1974	1975
Loans by year.....	\$717,890	\$225,548	\$275,217	\$291,703
Loans accumulative.....	3,799,588	4,025,136	4,300,353	4,592,056
Losses by year.....	264,328	566,446	485,062	180,280
Losses accumulative.....	519,093	1,085,539	1,570,601	1,750,881
Accumulative loss rate.....	13.7%	27.0%	36.5%	38.1%

Continued Rise in Default Rates

In our 1975-76 Analysis, we recommended that the Cal Job program staff attempt to reduce the loan default rate and report its progress to the Joint Legislative Budget Committee by December 1, 1975. The staff analysis, included in the recently issued 1974 Cal Job annual report, states that the major factor associated with an individual firm's default is lack of, or at best, poor management. The Cal Job program board therefore provided firms in the San Francisco area with management and technical assistance through outside contracts. By visiting these firms, program staff also attempted to determine whether such assistance was necessary for other firms receiving state guaranteed loans.

Despite the efforts of program staff, the default rate among firms receiving state guaranteed loans continues to rise as illustrated in Table 2. The default rate for 1975 was 78 percent or slightly above the 1974 level of 75 percent. Consequently, the accumulative default rate rose to 42 percent of firms assisted since 1969. As noted previously, no new funds will be transferred to the State Loan Guarantee Fund in the proposed budget and programs allowing greater flexibility in small business financing are anticipated. However, it is essential that efforts be maintained to control the default rate among firms that have received state guaranteed loans, as well as those firms receiving assistance in the future.

Introduction of Minority Enterprise Small Business Investment Companies (MESBIC)

According to program staff, one of the principal problems inherent in the Cal Job loan program is inflexibility in financing. The present program structure is limited to long-term debt financing carrying bank interest rates of between 10 percent and 12 percent. High interest rates and constraints on financing methods contribute to the fact that loan defaults have reached a 38 percent rate, as illustrated in Table 3.

CALIFORNIA JOB CREATION PROGRAM—Continued

Alternatively, the program board is proposing to use unallocated funds remaining at the end of the 1975-76 year for financing Minority Enterprise Small Business Investment Companies (MESBIC). These federally licensed companies are capable of making both long-term loans and equity investments in minority-owned businesses. The apparent advantages of MESBIC are (1) the ability to provide a financing mix, (2) direct involvement of federal funds, allowing a 3 to 1 leverage ratio on state funds and carrying effective interest rates of 2 percent to 3 percent, and (3) the requirement of federal auditing and control, which permits extensive state participation without staffing increases.

Historically, the MESBIC program has not been as successful as anticipated when the program was conceived in 1969. Since the program's inception, approximately \$80,684,000 has been made available throughout the country for minority business investment, consisting of private capital (\$38,481,000) and federal Small Business Assistance funds (\$42,203,000). Total MESBIC financings of minority businesses since 1969 have been approximately \$34,100,000, or 42 percent of the available funds. The low funding rate indicates that the potential number of minority businesses funded has not yet been attained.

The budget proposes that \$2,193,965, or approximately 74 percent of program expenditures, will be allocated to state participation in the MESBIC project through a job development program. To meet the Cal Job program objective of promoting employment in disadvantaged areas, program staff must insure that (1) criteria for MESBIC financing are developed to obtain maximum allocation of available state and federal funds, and (2) management and technical assistance continues as an integral part of state involvement in MESBIC.

B. SMALL BUSINESS ASSISTANCE PROGRAM

The Small Business Assistance program element presently provides low cost consulting services to small businesses. The Cal Job board contracts with consulting agencies around the state which provide small businesses with loan packaging assistance and general consulting services.

The budget does not propose any funding for small business assistance contracts because of similar efforts by the federal OMBE program. However, the program will continue to encourage procurement from minority and small businesses by state and federal agencies and by private enterprises. In addition, the program expects to include two major projects in its activities. First, compilation of a directory of minority and disadvantaged businesses will require an expenditure of \$200,000. Second, a pilot program is proposed that will attempt to reduce the obstacles facing small businesses in daily encounters with governmental agencies. This program, which will be conducted as an experiment in Los Angeles and San Francisco, is estimated to require an allocation of \$279,023.

**Business and Transportation Agency
DEPARTMENT OF CORPORATIONS**

Item 188 from the General
Fund

Budget p. 388

Requested 1976-77	\$5,680,258
Estimated 1975-76.....	5,195,997
Actual 1974-75	4,375,248
Requested increase \$484,261 (9.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, the fraudulent sale of securities and franchises, and improper business practices by certain entities which lend or hold money in a fiduciary capacity. The department carries out this mission through three programs: (1) investment, (2) lender-fiduciary and (3) health care service plans. The cost of the department's administrative program is prorated to these three programs.

Under the Investment Program the department approves securities and franchises offered for sale and conducts investigations to enforce the various laws administered by the department. The Lender-Fiduciary Program carries out the licensing of securities agents (salesmen and solicitors) and the licensing and examining of broker-dealers and lender-fiduciary institutions regulated by the department. The Health Care Service Plans Program is responsible for regulating health care service plans under the Knox-Keene Health Care Service Act of 1975.

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 301. Cost and staffing data for the department's programs and supporting elements are depicted in Table 1.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department's request of \$5,680,258 is \$484,261 or 9.3 percent above estimated expenditures for the current year. The department anticipates that budget year reimbursements of \$2,446,938, primarily fees for examining the financial records of licensees, will produce a total expenditure program of \$8,127,196. The requested budget year augmentation of \$484,261 is primarily for (1) two investigator positions, two examiner positions and two staff counsel positions to assist in absorbing workload in the Regulation and Enforcement Element generated by increased investigations and prosecutions of violations of the Corporate Securities Law and (2) 48 additional positions (6 medical, 13 clerical, 3 counsel, 7 investigator,

TABLE 1
Cost and Staffing Data for Departmental Programs

Program	Element	Actual 1974-75		Est. 1975-76		Proposed 1976-77	
		Man-years	Cost	Man-years	Cost	Man-years	Cost
Investment	Qualifications	104.0	\$1,931,406	105.0	\$2,291,763	108.0	\$2,371,946
	Franchises	4.9	113,760	4.9	114,048	4.9	116,390
	Regulation and enforcement	55.7	1,257,236	62.5	1,357,267	66.5	1,502,876
	Commodities	11.1	269,643	8.5	274,824	8.5	282,948
Lender-Fiduciary	Check Sellers and Cashers Law	0.8	20,276	1.0	25,988	1.0	26,756
	Credit Union Law	44.1	843,639	45.4	927,775	45.4	955,200
	Escrow Law	18.5	392,604	19.7	455,696	19.7	468,871
	Industrial Loan Law	18.3	423,274	19.5	449,199	19.5	462,181
	Personal Property Brokers Law and California Small Loan Law	24.0	537,443	25.1	578,884	25.1	595,997
	Retirement Systems Disclosure Law	1.6	30,150	0.5	12,485	0.5	13,445
	Trading Stamp Law	0.3	8,262	0.3	9,095	0.3	9,365
Health Care Service Plans	Licensing	—	—	2.0	50,000	10.2	226,266
	Financial Examinations	—	—	4.6	50,000	23.6	395,916
	Medical Survey	—	—	2.0	50,000	5.6	459,466
	Enforcement	—	—	2.0	50,000	11.2	239,573
Departmental Administration (costs pro-rated to other programs)	General office	(5)	(100,285)	(4)	(110,313)	(4)	(126,863)
	Accounting and personnel office	(10)	(161,977)	(10)	(178,176)	(10)	(204,902)
Total Programs		283.3	\$5,827,693	303.0	\$6,697,024	350.0	\$8,127,196
Reimbursements			-1,452,445		-5,195,997		-2,446,938
Net Total Programs			\$4,375,248		\$5,195,997		\$5,680,258

1 statistical, 18 examiner) to implement Chapter 941, Statutes of 1975. Chapter 941 transferred the regulation of health care service plans from the Attorney General to the Department of Corporations and provided for the licensure of health care service plans and solicitors by the department after July 1, 1976. The department is now in the process of preparing and adopting rules and regulations to implement the licensing provisions of that act.

Before issuing a license to a health care service plan, the department must determine financial stability by investigating the applicant's background, experience, proposed method of operation and required financial statements. Chapter 941 requires the department to conduct on-site medical surveys of the health delivery system of each plan and investigate complaints from the public regarding the actions of plans. The commissioner is given the power to suspend or revoke a license or assess civil penalties when it is established that a plan has violated the law.

**Business and Transportation Agency
DEPARTMENT OF CORPORATIONS**

Item 189 from the General
Fund

Budget p. 388

Requested 1976-77	\$11,300
Estimated 1975-76.....	None
Requested increase \$11,300	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 941, Statutes of 1975, requires health care service plans and solicitors to be licensed by the Department of Corporations. Plans must maintain an agreement with a subsequent provider to continue health services if the plan ceases to transact business. Additionally, each plan is required to establish a system approved by the department which will enable enrollees to submit grievances to the plan.

Currently, the County of Contra Costa operates a health care service plan for its Medi-Cal recipients.

This item appropriates \$11,300 from the General Fund to the County of Contra Costa to reimburse it pursuant to Section 2231 of the Revenue and Taxation Code for costs associated with satisfying the provisions of Chapter 941.

Business and Transportation Agency
DEPARTMENT OF HOUSING AND COMMUNITY
DEVELOPMENT

Item 190 from the General

Fund

Budget p. 395

Requested 1976-77	\$4,445,745
Estimated 1975-76.....	3,797,525
Actual 1974-75	2,369,997
Requested increase \$648,220 (17.1 percent)	
Total recommended reduction	40,596

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Inspection Program Fees. Recommend the department be given the power to set fees for all inspection programs. 308
2. Employee Housing. Withhold recommendation on the proposed increase in the Employee Housing Act enforcement program pending further information from the department. 309
3. Economic Development Staffing. Recommend the three requested permanent position be made "limited term" positions. 310
4. Economic Development Loan and Grants. Recommend loans constitute at least 50 percent of the total dollar amount of Economic Development loans and grants. 310
5. Community Affairs. Recommend the Division of Community Affairs submit a report to the Joint Legislative Budget Committee by October 1, 1976, detailing accomplishments under each program element. 311
6. Research and Policy. Recommend the Division of Research and Policy Development submit a report to the Joint Legislative Budget Committee by December 1, 1976, listing its specific accomplishments and future projects. 312
7. *Staff Services Analyst. Reduce \$13,596.* Recommend deletion of one staff services analyst for administration. 312
8. Abolish Commission. Recommend legislation be enacted that would (1) abolish the Commission on Housing and Community Development and (2) vest in the director the former powers of the commission. 313
9. *Special Assistant to the Commission. Reduce \$27,000.* Recommend the (exempt) position of "special assistant to the commission" be deleted. 313
10. Salary Classifications. Recommend the department initiate a request for a cost group classification study of the community development representatives. 314

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development has the following responsibilities:

1. Protection of the public from inadequate construction or manufacture of buildings, particularly residential structures, and from unsafe or unsanitary living conditions through the development of building and housing standards.
2. Promotion of the development of decent housing and livable communities through technical assistance to local governments and housing developers.
3. Research into and definition of problems and formulation of appropriate policies through a program of research and policy development.

Table 1 depicts the department's programs and costs.

Table 1
Summary of Housing and Community Development Programs

	<i>Man-years</i>			<i>Expenditures</i>		
	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>
	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>
Codes and Standards Program	147.9	174.5	180.0	\$3,166,928	\$3,806,469	\$4,115,214
Research and Assistance Program.....	16.1	—	—	456,152	—	—
Community Affairs Program....	—	26.2	32.0	—	1,121,448	1,495,995
Research and Policy Development Program.....	—	22.8	23.3	—	569,159	616,169
Administration—distributed	(10)	(15.3)	(19.3)	(207,394)	(333,832)	(400,264)
Totals, Program.....	164	223.5	235.3	\$3,623,080	\$5,497,076	\$6,227,378

ANALYSIS AND RECOMMENDATIONS

The Department of Housing and Community Development is currently undergoing a transformation as it adjusts to recent legislation, particularly Chapter 1 of the 1975-76 First Extraordinary Session (Chapter 1x), and to the policy initiatives of the administration. Chapter 1x gave an indefinite life to the department, authorized certain new activities and mandated new responsibilities. To carry out this expanded role, the bill contained an appropriation of \$599,817 for the department. In addition, the department received a budget augmentation of \$405,750.

The department now consists of three divisions and the Commission on Housing and Community Development. The divisions are the Division of Codes and Standards, the Division of Community Affairs, and the Division of Research and Policy Development.

CODES AND STANDARDS PROGRAM

The Division of Codes and Standards strives to protect the public from unsafe and unsanitary structures and to promote durability in structures. This effort is carried out in six program elements, the manpower and cost of which are detailed in Table 2.

Table 2
Staff and Expenditures of Codes and Standards Program^a

<i>Program Elements</i>	<i>Man-Years</i>			<i>Expenditures</i>		
	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>
1. State Housing Law and Earthquake Protection Law	10.6	6.8	6.2	\$323,307	\$156,185	\$141,339
2. Employee Housing Act	12.3	26.7	32.6	245,266	618,359	792,573
3. Mobilehome parks and accessory structures	64.4	67.7	68.3	1,295,242	1,482,637	1,569,103
4. Mobilehomes	53.6	64.9	65.1	1,164,764	1,359,497	1,429,037
5. Factory-Built Housing Law	4.1	5.2	4.6	79,562	119,582	111,297
6. Special projects	2.9	3.2	3.2	58,787	70,209	71,865
Totals	147.9	174.5	180.0	\$3,166,928	\$3,806,469	\$4,115,214

^a Includes distribution of administration.

Revenues Fail to Meet Cost

The division's program costs are divided into direct inspection costs and general assistance costs. Table 3 compares inspection costs with revenues and shows that fees have covered the costs of inspections in the State Housing and Earthquake Protection element and in the Mobilehome Manufacturing element. However, in three elements, deficits were incurred in 1974-75 and are projected to increase in the current and budget years.

Under the Employee Housing Act, the department is required to cover through fees the cost of administration and enforcement. Fees are set administratively by the Commission on Housing and Community Development. In January 1975, fees were substantially increased. However, the level of enforcement was also increased so that program costs have increased faster than revenues.

Table 3
Direct Inspection Cost* and Revenues

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Projected 1976-77</i>
State Housing Law and Earthquake Protection Law:			
Cost	\$21,174	\$30,000	\$37,500
Revenues.....	21,174	30,000	37,500
Difference.....	-0-	-0-	-0-
Employee Housing Act:			
Cost	\$215,834	\$501,156	\$477,782
Revenues.....	140,425	190,000	200,000
Difference.....	\$-75,409	\$-311,156	\$-277,782
Mobilehome parks and accessory structures:			
Cost	\$906,669	\$1,037,845	\$1,079,605
Revenue	669,972	860,000	860,000
Difference.....	\$-236,697	\$-177,845	\$-219,605
Mobilehome manufacturing:			
Cost	\$1,164,764	\$1,359,497	\$1,429,037
Revenue	1,164,764	1,359,497	1,429,037
Difference.....	-0-	-0-	-0-
Factory built structures:			
Cost	\$79,562	\$119,582	\$111,297
Revenue	29,240	38,000	50,000
Difference.....	\$-50,322	\$-81,582	\$-61,297

* Includes any costs which are to be covered through fees.

Under the mobilehome parks element, the department is required to cover the cost of enforcement through fees. However, the fees are set partially by statute, and partially administratively. Deficits are currently running at approximately \$200,000 per year.

Under the factory-built housing element, the department is expected to cover all program costs through fees. Fees are currently set administra-

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

tively, by action of the commission. Revenues are currently covering less than half the cost of this program.

Department Should Have Fee Setting Authority

We recommend that legislation be enacted to give the department the power to set fees for all inspection programs.

The department is expected to cover specific costs in each program element. However, in some programs the fees are set by statute. It is difficult to hold the department responsible for covering costs when it cannot set fees. We are particularly concerned that the department act promptly to reduce the deficits in the mobilehome parks and factory-built housing program elements. Ultimately, when the employee housing act reaches a more stable operating level, we would expect it to cover costs through revenues also.

The Legislature would continue to set the level of enforcement since program costs are subject to the budget process. We anticipate that proposed fee schedules would be incorporated into the budget process. This would provide a basis for regular legislative review of the fee structure, and at the same time make the department responsible for balancing costs and revenues.

Compliance Problems Wane

Over the past two years, we have requested reports from the department on its progress in meeting its compliance goals in all inspection programs. These reports were necessary because of the tax enforcement record noted in past years. We find a new commitment within the department in carrying out its enforcement responsibilities. The Codes and Standards Division has initiated efforts to improve its ability to monitor the efficiency of its inspection activities.

We note, however, that the division has no uniform system for monitoring the *quality* of inspection activities, whether carried out by the state or by local government. It has recently initiated such a monitoring program within the Employee Housing Act. In this situation, a state inspector monitors the quality of local enforcement by reviewing 10 percent or a minimum of five camps which are under local jurisdiction. The division should consider such a system for other program elements.

Employee Housing Act Get Major Emphasis

The Employee Housing Act program provides for the enforcement of regulations relating primarily to housing provided by growers for migrant farm workers. The current administration has made a major effort to improve a badly neglected situation in this program area. The department has reported in the past that attempts at strict interpretation and enforcement of the employee housing regulations have resulted in closing down some labor camps. The current administration believes that a strict enforcement policy would result in further reducing the number of available units. The current operating policy of the department seeks to keep open as many camps as possible, as long as the immediate health and safety of the camp occupants are not in jeopardy. The department attempts to get

a gradual increase in quality, rather than force an employer to close down a camp. This practice is based on the premise that if there is no immediate danger to the health and safety of the occupants, and as long as there is a commitment to improve, then a marginal camp is better than no camp at all.

Under Chapter 1x, the department will submit to the Legislature a Farmworker Housing Plan. At that time, we expect the department to propose legislation that will make statutory policy consistent with operating policy.

The department has increased its level of activity within the Employee Housing Act through administrative adjustments. This has resulted in effectively doubling the level of enforcement to 26.7 man-years between the last fiscal year and the current year. This number includes six temporary positions which will not be carried into the budget year. For the budget year, the administration requests an additional 13 positions, of which five are inspectors, and eight are temporary.

Proposal Needs Refining

We withhold recommendation on the proposed increase in the Employee Housing Act enforcement program, pending further information from the department.

We have examined closely the justification submitted in support of this proposal. In addition, we have discussed with the department the policies behind the proposal. The department envisions a program which would work with both employers and employees to upgrade the quality of employee housing. This program proposes to follow up the preoccupancy inspections with periodic reinspections which would monitor the ongoing responsibilities of both employers and employees. To carry out this approach an "employee housing investigator" category is proposed. We believe this is a constructive and innovative approach which offers a potential improvement for both employees and employers.

Our concerns are with the implementation of this policy. We find some of the assumptions on which the analysis of workload rests to be questionable. We further noted several inconsistencies in the data used to develop the projected workload. We have requested that the department do additional research, refine its proposal, and discuss it with us prior to budget hearings.

The employee housing area, which is primarily housing for farmworkers, is a dynamic one at this time. Recent changes in the Employee Housing Act create one source of uncertainty. The rapid unionization of farmworkers is another. Expanded acreage in agriculture, and mechanization of agriculture create further uncertainty. We suggest that the department consider a pilot project to test the impact of this policy.

COMMUNITY AFFAIRS PROGRAM

The Division of Community Affairs, created by Chapter 1x, carries on an expanded program of technical assistance activities formerly done by the Division of Research and Assistance. Community Affairs includes 12.2 positions from Research and Assistance, and 16 positions established on the basis of the funding within Chapter 1x. The division's objectives are pur-

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

sued through three program elements. Table 4 details the program elements, personnel requirements and costs of this division.

Table 4
Division of Community Affairs *

	<i>Man-Years</i>		<i>Program Costs</i>	
	<i>1975-76</i>	<i>1976-77</i>	<i>1975-76</i>	<i>1976-77</i>
California Indian Assistance	4.0	4.2	\$201,000	\$203,404
Economic Development	5.0	8.5	353,446	668,076
Community Development and Housing Production	17.2	19.3	567,002	624,515
	26.2	32.0	\$1,121,448	\$1,495,995

* Includes distribution of administration.

Indian Assistance Program

The Indian Assistance Program provides aid to the 200,000 Indians in the state through assistance to tribal councils, Indian housing authorities and other Indian agencies. The department has been under contract to the Office of Planning and Research utilizing federal funds which account for approximately two-thirds of the program costs.

Economic Development

The Economic Development Program was transferred to HCD when the Department of Commerce was disbanded. The program element offers technical assistance to local governments, and operates a grant and loan program. This year's budget contains \$500,000 to be used as the state's share of a \$2.5 million grant and loan fund.

To operate the loan and grant program three new positions have been requested. Last year, the loan and grant program was carried out by manpower of the technical assistance program. Federal EDA officials have requested that the state discontinue this practice. Thus, the administration has requested three permanent positions.

Permanent Positions Opposed

We recommend that three requested permanent positions be classified as "limited term" positions.

The justification for these positions is based on the \$2 million federal grant which is to be the primary source of the funds for the loan and grant program. There is no reason to believe that this federal grant will be permanent. This limited term status will allow these positions to be tied to the availability of a fund for loans and grants and reviewed annually.

More Loans, Less Grants*

We recommend that loans constitute at least 50 percent of the total dollar amount of the Economic Development loans and grants.

The current year's loan and grant fund was used primarily for grants. Loans amounted to only 20 percent of the total program. Expanded use of loans as opposed to grants means that gradually a "revolving fund" could be established to provide an ongoing source of funds for "economic development."

We question the frequent practice of "piggybacking" direct federal grants and state grants onto one project. Last year 74 percent of the economic development funds were used to provide part of the "local share" necessary to get direct federal EDA grants. Less "piggybacking" would result in the funds being more widely dispersed throughout California.

Community Development and Housing Production

This element offers a broad range of technical assistance and project development expertise to local governments and housing sponsors. It can help housing oriented agencies to bring together in a comprehensive program the available resources of federal and state governments and private lending institutions. Particular emphasis is being placed on housing preservation and rehabilitation programs, and on assistance to local governments in formulation of programs under the federal Title I block grants. In housing production, the emphasis is on rural housing including farm worker housing.

Performance Report

We recommend that the Division of Community Affairs submit a report to the Joint Legislative Budget Committee by October 1, 1976, detailing the accomplishments of each program element.

At this time, there is little basis for evaluating this division. It has been in existence only since September, 1975, when Chapter IX became effective, and as of January, had not yet filled its authorized positions. We believe that a report on the accomplishments of the Division will provide a basis for future evaluation.

RESEARCH AND POLICY DEVELOPMENT PROGRAM

The Research and Policy Development program aims to identify housing and community development problems and needs, and to evaluate and recommend potential solutions. The division carries out this program through two elements, as shown in Table 4.

**Table 4
Research and Policy Development ***

	Man-Years		Expenditures	
	1975-76	1976-77	1975-76	1976-77
California Statewide Housing Plan.....	17.0	17.4	424,422	459,508
Planning Coordination and Review.....	5.8	5.9	144,737	156,661
	22.8	23.3	569,159	616,169

* Includes distribution of administration.

Housing Element Becomes Housing Plan

In 1970, the Legislature requested that the Department of Housing and Community Development prepare a California Statewide Housing Element. Chapter IX of 1975 requested that a California Statewide Housing Plan be submitted to the Legislature. Along with the name change, Chapter IX made requests for additional information and recommendations beyond that in the element. A substantial portion of the plan should be completed within the current year.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Within this program element, there are a number of activities which constitute a continuing workload for the Department. Such activities include statistical services and information gathering, legislative liaison and bill analysis, and annual updates of the plan, goals and needs. The Division estimates four man-years are needed for such activities. An additional 1.2 man-years are needed to do background work on a statewide housing information system. The division intends that 8.5 man-years be utilized for policy and needs studies.

Planning Coordination and Review

This program element establishes guidelines and regulations for certain specific planning responsibilities of local government. This activity includes review of local governments planning documents for compliance. In addition, this program element carries on certain activities relating to the Housing Finance Agency, and provides input relative to housing and community development to statewide plans of other departments and agencies.

Need for Report on Accomplishments

We recommend that the Division of Research and Policy Development submit a report to the Joint Legislative Budget Committee by December 1, 1976, listing its specific accomplishments and future projects.

We can accept the thesis that there are innumerable problems in California to be addressed within the broad area of housing and community development. This alone does not justify continued General Fund support. This report will provide a basis for evaluating whether continued support is justified based on both past performance and future projects.

ADMINISTRATION

The administrative operation gives direction to the program, determines operating policy and provides support services in the legal, accounting, personnel and budgeting functions. The Commission of Housing and Community Development provides policy guidance to the department.

Administrative Staff Expansion

We recommend deletion of one staff services analyst. Reduce item \$13,596.

To meet the workload from its expanded mandate, the department has requested four additional positions. The request is for one clerical position, one accounting position, and two legal positions. In addition, it is proposed that one temporary help position, a staff services manager, be made permanent. The staff services manager will carry out personnel duties and coordinate the budget process.

In the justification presented by the department for the legal counsel and graduate legal assistant, it is pointed out that a staff services analyst presently acts as in-house legal counsel. It states that the legal counsel position is necessary to assure that competent counsel is continually available. Because this function is presently being handled within the administration, we believe that one staff service analyst should be deleted

simultaneously with the establishment of a permanent legal staff.

Abolish Commission

We recommend that legislation be enacted that would (1) abolish the Commission on Housing and Community Development, and (2) vest in the director the powers to establish rules and regulations pertaining to building codes and standards.

Chapter IX, 1975-76 First Extraordinary Session, reduced the role of the Commission on Housing and Community Development from "setting policy for the Department" to "providing policy guidance" to the Department. However, the commission continues to retain the power to adopt rules and regulations regarding building codes and standards. A review of the membership of the commission shows it to be predominately industry oriented, with representatives of builders, manufacturers, unions and banks.

We question the ability of an industry dominated commission to act in the "public interest" where this might be in conflict with their primary "industry roles".

We have considered the alternative of a more balanced commission, but find continuing disadvantages in a commission approach to regulation. Increasingly, building codes are taking on a technical and scientific character not easily understood by a body which meets intermittently, regardless of its composition. The commission approach introduces further delay and rigidities into a process that is already cumbersome. We believe that the interest and inputs of the general public and the industry can best be weighed by the director.

We have reviewed the practices of other departments within the Business and Transportation Agency which carry on regulatory practices. In the departments which regulate banking, savings and loans, real estate and insurance, the power to make rules and regulations is vested in the department executive, usually the "Commissioner". We believe such an arrangement is appropriate for the regulation of building practices.

We note that prior to the creation of the commission and the department in 1965, the power to establish building codes and standards was vested in the head of the Division of Housing, which at that time was within the Department of Industrial Relations.

Position Not Justified

We recommend that the (exempt) position of "special assistant to the commission" be deleted, for a reduction of \$27,500 in salaries.

Last year, the Department requested that this authorized position be funded to "provide staff support to the Commission". Since that time the responsibilities of the Commission have been reduced. The Commission met ten times in 1974-75, and twice in the first six months of the current fiscal year. We find no justification for this position based on the Commission's workload. The position was unfilled as of January, 1976.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Personnel Classification Challenged

We recommend that the department initiate a request for a cost group classification study of the community development representatives.

Prior to 1975, the State Personnel Board had classified codes and standards inspectors and administrators, and community development representatives as part of the law enforcement "cost group" for salary adjustment purposes. While the duties of the community development representatives (CDR) would not by themselves justify such a classification, historical promotional patterns within the department led the State Personnel Board to include such CDRs in the law enforcement cost group. The State Personnel Board took action effective July 1, 1975 which changed the codes and standards inspections from the law enforcement cost group to a building trades cost group. It is our understanding that the department resisted efforts to change the community development representatives from the law enforcement cost group to the management staff services, and fiscal control cost group. As a result, the community development representatives remained in the law enforcement cost group. Last year's salary increases for state workers included a higher raise for law enforcement officers than for other state workers. The community development representatives enjoyed a 7½ percent increase as opposed to the 5 percent increase they would have received as management staff services, and fiscal officers. At this time, it is not known whether the law enforcement officers will again receive a higher raise than other state employees. This anomalous classification of community development representatives cost the state approximately \$6,000 in salaries for the current year. We urge that the department act immediately to remedy this situation.

**Business and Transportation Agency
DEPARTMENT OF INSURANCE**

Item 191 from the General

Fund	Budget p. 402
Requested 1976-77	\$6,264,992
Estimated 1975-76.....	5,877,237
Actual 1974-75	5,071,127
Requested increase \$387,755 (6.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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- | | |
|---|-----|
| 1. Protection of Public. Recommend legislation to abolish the certificate of convenience. | 317 |
|---|-----|

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 over \$9 billion.

The Department of Insurance is responsible for regulating the activities of insurance and title companies and insurance agents, and brokers in order to protect insurance policyholders.

The department is administered by the Insurance Commissioner, who is appointed by the Governor. Headquarters is in San Francisco with branch facilities in Los Angeles, San Diego and Sacramento. In performing its mission, the department utilizes two regulatory programs. The Regulation of Insurance Companies program includes the company consumer services element which processes general inquiries and complaints from the public regarding the actions of insurance companies, the tax collection element which collects premium, retaliatory, and surplus line broker taxes from insurance companies, and the general regulation element which conducts field examinations of insurers every three years and rating examinations every five years.

The Regulation of Insurance Producers program includes the producer licensing element which prepares, schedules, administers, and grades license examinations and issues and renews licenses, as well as the producer compliance element which investigates complaints from the general public concerning agents and brokers. Table 1 depicts man-years and cost devoted to each operating program and supporting elements. The costs of the department's administrative program are prorated to the two operating programs.

ANALYSIS AND RECOMMENDATIONS

The department's budget request of \$6,264,992 is \$387,755 or 6.6 percent above estimated expenditures for the current year. However, the department anticipates that budget year reimbursements of \$2,678,345, primarily representing fees for examining insurance companies, will result in a total proposed expenditure program of \$8,943,337.

New Positions (Tax Collection Element)

The department requests the addition of one clerk-typist position for this element to absorb an increase in clerical activity and eliminate a backlog of unprocessed audit reports that has accumulated.

New Positions (General Regulation Element)

The department requests the addition of two insurance examiner positions to assist the chief actuary in making complex and detailed analyses of premium rates and the amount of reserves which should be maintained by insurers. The two positions will use an electronic programmable calculator to conduct studies of credit insurance, medical malpractice insurance, variable benefit and premium products, cost comparison indices and health insurance.

The department requests the addition of one staff counsel position for the legal division in Los Angeles. The position will absorb an increasing

Table 1
Expenditure and Staffing Data for Departmental Programs

<i>Program</i>	<i>Element</i>	<i>Actual 1974-75</i>		<i>Estimated 1975-76</i>		<i>Proposed 1976-77</i>	
		<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>
Regulation of	company consumer services	56.3	\$1,277,230	65.8	\$1,566,531	65.8	\$1,597,042
Insurance.....	tax collection	13.6	308,297	15.9	378,128	16.9	394,101
Companies	general regulation	124.1	2,818,713	145.3	3,457,172	146.8	3,742,479
Regulation of Insurance	producer licensing	64.7	1,469,198	76.4	1,698,832	81.4	1,739,272
Producers	producer compliance	49.2	1,117,419	65.1	1,453,672	61.6	1,470,443
Administration (costs pro- rated to other programs)		(43.1)	(978,720)	(50.5)	(1,180,407)	(50.5)	(1,223,787)
Total Programs		307.9	\$6,990,857	368.5	\$8,554,335	372.5	\$8,943,337
Reimbursements			-1,919,730		-2,677,098		-2,678,345
Net Total Programs			\$5,071,127		\$5,877,237		\$6,264,992

legal workload generated by consumer complaints and the market conduct surveillance activities which commenced in the current year. The Los Angeles office has one counsel position. However, the workload has increased to 30 cases per month. The average caseload in the division is 12 to 15 cases per attorney per month.

Continued Positions (Producer Licensing Element)

The department requests the continuation of six clerical positions established in the current year as temporary positions to process license applications. The number of applications processed by the department exceeds projections by approximately 32 percent largely due to the diversification of life insurance agents into property and casualty insurance lines. The six proposed positions will not increase the department's budget as they will be funded from unexpended programming funds.

Continued Positions (Producer Compliance Element)

The department requests the continuation of two insurance officer II, one insurance officer I and one clerk typist II which were established administratively in the current year for the department's consumer complaint unit. The positions are used to investigate and process incoming consumer complaints and reduce a three month backlog of unresolved complaints. Consumer complaints are expected to increase approximately 24 percent in the budget year.

Certificate of Convenience

We recommend legislation to abolish the certificate of convenience in order to better protect the public and reduce costs to the Department of Insurance.

The Insurance Code authorizes the Insurance Commissioner to issue a certificate of convenience to individuals who are hired by an insurer to be agents and who are enrolled in training programs for potential agents approved by the Department of Insurance. The certificate is valid until the holder takes and successfully passes the licensing examination. However, in no event is the certificate valid after six months from the date of issuance. The certificate allows the holder to sell insurance while the certificate is in force even though he is not a licensed insurance agent. The selling of insurance by certificate holders, in our judgment, is not in the public interest because many holders are not sufficiently knowledgeable in insurance matters to represent accurately their services. Statistics maintained by the department indicate that the overall failure rate on the two licensing examinations (life and disability and fire and casualty) is 40 percent for holders of certificates of convenience. The failure rate on the life and disability examination is about 75 percent.

Additionally, the certificate of convenience places an administrative burden upon the department's licensing, legal and consumer affairs divisions. The licensing division is unable to incorporate information about certificate holders into the department's automated licensing file because so many holders fail the licensing examination. Also, a significant number never take the examination. This certificate also increases the workload of the legal division for disciplinary actions against holders and their employers.

DEPARTMENT OF INSURANCE—Continued

The department is unable to estimate the savings to the General Fund that would result from abolition of the certificate of convenience. However, we believe that the savings would be significant in the department's administrative, licensing and legal elements.

**Business and Transportation Agency
RIOT AND CIVIL DISORDERS INSURANCE**

Item 192 from the General
Fund

Budget p. 406

Requested 1976-77	\$200,000
Estimated 1975-76.....	200,000
Actual 1974-75	200,000
Requested increase None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

In response to the 1967 riots and civil disturbances in various American cities, Congress passed the 1968 Urban Property Protection and Reinsurance Act. The act established a program to make reinsurance available from the Department of Housing and Urban Development to companies operating in states where reinsurance had been difficult or impossible to obtain from the private sector because of potential riot losses, provided that the states agreed to share a portion of the losses. As a condition of eligibility for reinsurance, the companies agreed to establish and maintain membership in a state program.

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, in which membership is required of all companies writing lines of insurance reinsured by the federal program, and (2) required the state to negotiate an insurance contract with the association assuring the state's potential liability under the program. The state's premium for this insurance protection in the budget year is the amount requested in this item.

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

Refund Provisions

The state's insurance contract provides that the association shall retain 25 percent of the total premiums paid by the state. However, based on riot loss experience, the contract also provides for annual partial refunds of the

Table 1
Components of State Liability for Riot Losses

<i>Fiscal Year</i>	<i>Earned annual property insurance premiums</i>	<i>Maximum state annual liability for loss (5% of earned premiums)</i>	<i>State annual 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	993,144
1973-74.....	1,000,000,000	50,000,000	200,000
1974-75.....	1,080,000,000	54,000,000	200,000
1975-76.....	1,188,000,000	59,400,000	200,000
1976-77 (est)	1,306,800,000	65,340,000	200,000

remaining 75 percent of accumulated premiums to the General Fund. The first refund totaling \$906,472 was received by the Insurance Commissioner on January 1, 1975. A second refund of \$755,177 was received January 1, 1976. (The Governor's Budget estimated this amount at \$900,000.)

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 1976-77. Also, the appropriation will generate \$4,700 in revenue to the General Fund from premium taxes paid by insurers who are members of the association. The tax is 2.35 percent of earned premiums.

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 1976-77.

Table 2
**Illustration of Operation of Riot and Civil Disorders
 Insurance Program
 (1976-77 fiscal year)**

Assume net insured loss from a riot	\$75,000,000
Apply participating companies' retention at 1.5 percent of earned premiums (1.5 percent of \$1.3 billion)	19,500,000
Loss balance	55,500,000
Apply reinsurance premium deposits held by HUD	6,000,000
Loss balance representing the state's liability which is covered by insurance	49,500,000

The state's \$65.3 million liability limit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of \$15.8 million. Losses exceeding the state's \$65.3 million liability limit would be covered by loans from the U.S. Treasury to the Secretary of Housing and Urban Development (HUD) to be repaid from future reinsurance premiums received.

**Business and Transportation Agency
DEPARTMENT OF REAL ESTATE**

Item 193 from the Real Estate
Fund and Item 194 from the
Real Estate Education, Re-
search, and Recovery Fund

Budget p. 406

Requested 1976-77	\$6,726,251
Estimated 1975-76.....	6,546,019
Actual 1974-75	7,769,371
Requested increase \$180,232 (2.8 percent)	
Total recommended augmentation	\$35,000

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
193	Departmental Operations	Real Estate	\$5,998,251
194	Recovery and Education	Real Estate Education, Research and Recovery	728,000
			<u>\$6,726,251</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Automated Licensing. Augment Item 193 by \$35,000.* 322
Recommend feasibility study to assess the potential for cost reductions in operating department's license records system.
2. **Fund Consolidation.** Recommend consolidation of Real Estate Fund and Real Estate Education, Research and Recovery Fund, with allowances for reserve allocations. 325

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 real estate salesmen and brokers and sets minimum standards for real estate offerings.

Administered by the Real Estate Commissioner, the department has a currently authorized staff of 269 positions. Department offices are maintained in Los Angeles, San Francisco, San Diego, and Fresno, with headquarters located in Sacramento.

Program Funding

Department operations are supported by the Real Estate Fund, which is composed of license and other fees. The Real Estate Education, Research, and Recovery Fund supports the real estate education and research programs and a recovery program which provides for claim payments to be made to aggrieved parties under specified circumstances.

The latter fund receives 25 percent of revenues from real estate license issuance, as well as income from investments of surplus fund balances. Monies may be transferred between the two funds as provided by Chapter 1097, Statutes of 1974.

ANALYSIS AND RECOMMENDATIONS

The Budget reflects expenditures from both funds totaling \$6,726,251, or 2.8 percent above estimated expenditures in the current year. Special appropriations to state educational institutions have been made in past years to reduce the Real Estate Fund's surplus. Such appropriations are unrelated to department operations and should be deducted from budget levels to reflect operations expenditures as shown in Table 1.

Table 1
Basic Support Budgets

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>
Total expenditures to support			
Department of Real Estate.....	\$7,769,371	\$6,546,019	\$6,726,251
Less Special Endowments			
California State University and Colleges	289,933	160,067	—
California Community Colleges	<u>1,900,000</u>	—	—
	\$5,579,438	\$6,385,952	\$6,726,251

Basic Support Budget

The table shows that the current year budget actually increased 14.5 percent over the 1974-75 budget, and that the 1976-77 budget proposes an increase of 5.3 percent above the current year budget. Because the Real Estate Fund apparently has stabilized at a level adequate for department operations, we do not anticipate special appropriations for educational endowments in future budgets.

Following are the department's four operating programs.

I. TRANSACTION ACTIVITIES PROGRAM

This program is designed to protect the public in transactions with real estate salesmen and brokers. Two elements are contained in the program (1) licensing and (2) regulatory and recovery.

The licensing function includes the preparation, administration, and scoring of examinations required for salesman and broker licensing; the maintenance of license records; and the handling of inquiries received from licensees and the public.

The regulatory and recovery element combines two department functions. The first, the regulatory component, involves disciplinary action against licensees for violations of real estate law. Formal action against a licensee may be initiated by the department, and substantiation of the violation may cause suspension or revocation of the license, or the placement of restrictions on it.

Secondly, the recovery function is designed to assist in the recovery of money when legal violations impose a financial loss on a complainant. If the complainant obtains a fraud judgment against a licensee who is unable

DEPARTMENT OF REAL ESTATE—Continued

to pay the judgment amount, the injured party may then file a claim against the Real Estate Education, Research and Recovery Fund. If the department finds the claim valid, it is paid out of the Recovery Fund and the department then takes action against the licensee to recover the funds expended. Chapter 1097, Statutes of 1974, provides that the maximum amount paid out of the fund to claimants against any one licensee is \$40,000. In addition, Chapter 439, Statutes of 1975, (AB 1824) allows complainants to file claims against licensees in small claims courts.

Personnel and expenditures for the program are shown in Table 2.

Table 2
Transaction Activities Program
Staffing and Expenditures

	<i>Actual</i> 1974-75	<i>Estimated</i> 1975-76	<i>Proposed</i> 1976-77
Expenditures by element			
Licensing	\$1,344,559	\$1,598,261	\$1,653,758
Regulatory and recovery	2,558,809	2,818,184	2,874,777
Total program expenditures	\$3,903,368	\$4,416,445	\$4,528,535
Man-years by element			
Licensing	86.1	86.0	87.0
Regulatory and recovery	104.6	110.8	111.0
Total program man-years	190.7	196.8	198.0

Automated Licensing

We recommend that Item 193 be augmented by \$35,000 to contract for a feasibility study to assess the potential for reducing the cost of operating the department's semiautomated license records system.

Approximately seven years ago, the department replaced an obsolete data-processing system used in its licensing process with newer equipment which provided some improvement over the earlier system. However, the total license record-keeping process remained essentially unchanged. Extensive cardex, linedex and folder files continue to be maintained which require the support of 42 clerical positions at an annual cost of approximately \$346,956. The department informs us that because of its interest in improving these processes, and because the contract for the lease of the data-processing equipment expires in 1977, it is beginning now to address alternatives to the current process.

The department has not budgeted for a formal study of its licensing system and its ability to explore various alternatives adequately is therefore constrained. It is presently relying to a major extent on studies offered by various vendors which are done at no added cost to the state. However, these studies are oriented toward a specific vendor solution and address only portions of the total licensing function. In our judgment, a comprehensive and vendor-independent study is needed. Therefore, we recommend an augmentation of \$35,000 to allow the department to secure consultant services (which may be from another state agency or the private sector) for the purpose of conducting this feasibility study.

New Position (Licensing)

In anticipation of increases in program activities, the department is requesting the addition of one position in the licensing element. Information from educational institutions indicates greater than average enrollment in real estate courses, and the department believes that a direct relationship exists between the number of persons enrolled in such courses, and applications for and issuances of real estate licenses. The department further indicates that recent increases in workload demands requires an additional position. However, our analysis of licensing activities shows a drop in certain program functions, particularly in the numbers of examinations given to prospective real estate agents. Therefore, the department should carefully review workload requirements in licensing during the coming months and adjust its staffing allocations if forecasted trends do not materialize.

II. OFFERINGS AND SECURITIES PROGRAM

The objective of the Offerings and Securities program is to protect the public from fraud and misrepresentation of facts in sales of subdivided lands and real estate securities. The program contains three elements (1) in-state subdivisions, (2) real property securities and (3) real estate syndicates.

The in-state subdivisions component regulates California subdivisions by requiring the issuance of a public report which discloses essential information to the prospective buyer. The subdivider must furnish documentation substantiating the facts and statements included in the report, and claims are reviewed by the department to screen out fraudulent offerings.

Review of out-of-state subdivisions that are offered in California is the primary function of the real property securities element. Such offerings must be viewed by the department as fair, just and equitable before permission to sell is granted.

The real estate syndicate element regulates syndicates, other than corporations, if they are formed for the sole purpose of acquiring interest in real property. Securities offered by these syndicates are reviewed prior to public sale.

Staffing and expenditures for the program are presented in Table 3.

Table 3
Offerings and Securities Program
Staffing and Expenditures

	<i>Actual</i> 1974-75	<i>Estimated</i> 1975-76	<i>Proposed</i> 1976-77
Expenditures by element			
In-state subdivision	\$1,006,132	\$1,213,385	\$1,241,956
Real property securities.....	90,493	99,244	101,083
Real estate syndicates	73,519	83,425	84,839
Total program expenditures.....	\$1,170,144	\$1,396,054	\$1,427,878
Man-years by element			
In-state subdivisions	50.9	53.0	53.0
Real property securities.....	3.4	3.5	3.5
Real estate syndicates	2.8	2.5	2.5
Total program man-years	56.2	59.0	59.0

DEPARTMENT OF REAL ESTATE—Continued**Illegal Subdivision Investigation**

Illegal subdividing of lands in California continues to be a major regulatory problem. The most predominant offense is known as "4-4-4ing", in which land parcels are divided into multiples of four acres. Because subdivision regulations are restricted to parcel offerings of five acres or more, subdividers may avoid compliance with building and land codes in this manner.

Serious attempts by the department to curtail the rise in illegal subdividing began in August 1973. Investigative teams of three positions each are now located in Los Angeles, San Francisco, and Sacramento on a full-time basis. In addition, the San Diego and Fresno offices investigate illegal subdivision offerings as part of normal operations. Table 4 illustrates department results in combating "4-4-4ing" activities.

Table 4
Illegal Subdivision Operations

	<i>August 1973- November 1974</i>	<i>July 1974- June 1975</i>
Department investigations	497	312
Accusations filed	27	14
Desist and restrain orders filed	62	58
Referrals to district attorneys	10	26
Referrals to attorney general	N/A	11

Reporting of department activities in this area has not been included in budget documents. Because the offering of illegal subdivisions is contrary to the public interest, we believe that such information regarding illegal subdivision regulation should be furnished by the department.

III. EDUCATION AND RESEARCH PROGRAM

The two facets of this program are (a) the support of real estate courses and projects in educational institutions and (b) the publication of real estate manuals, bulletins, and reference books. The education component develops curriculum programs designed to improve the competence of license applicants and licensees. In addition, research in various areas of real estate activity, such as marketing, finance, land use, urban problems, and real estate economics, are supported by the program. 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.

Publications prepared by the department were formerly included in the activities of the administration program. However, documents informing licensees about reference material, educational opportunities, and changes in real estate law, as well as various other pamphlets and reports, are now distributed by the department as a part of the education and research program.

Table 5 presents expenditure and staffing data for the program. As a result of Chapter 1098, Statutes of 1974, a one-time appropriation of \$1,900,000 has been made to the community colleges to endow real estate

educational programs and appears under 1974-75 in the table.

Table 5
Education and Research Program
Staffing and Expenditures

	<i>Actual</i> 1974-75	<i>Estimated</i> 1975-76	<i>Proposed</i> 1976-77
Expenditures by element			
Education and Research	\$2,605,433	\$666,577	\$692,773
Publications	254,783	261,943	272,065
Total program expenditures	\$2,860,216	\$928,520	\$964,838
Man-years by element			
Education and Research	4.1	3.2	3.2
Publications	3.3	3.8	3.8
Total program man-years	7.4	7.0	7.0

IV. ADMINISTRATION PROGRAM

The administration program includes the management and policy formulation functions of the commissioner's office and central services such as accounting and personnel for the department. Program costs include overhead expenditures and are prorated among the three operating programs of the department. Cost and staffing data for the program are presented in Table 6.

Table 6
Administration Program
Staffing and Expenditures

	<i>Actual</i> 1974-75	<i>Estimated</i> 1975-76	<i>Proposed</i> 1976-77
Expenditures	\$483,668	\$503,014	\$550,134
Man-years	21.7	22.0	22.0

Unnecessary Separation of Funds

We recommend that the Real Estate Fund and the Real Estate Education, Research, and Recovery Fund be combined into a single fund for department activities. Reserves equal to 20 percent of license fee revenues for the educational and research program and equal to 5 percent of such fee revenues as a contingency for recovery claims should be separately allocated.

The activities of the department historically have been supported by two funds. The Real Estate Fund has been designated as the source of monies for the department's operations, and the Real Estate Education, Research, and Recovery Fund is available solely for educational and recovery functions. The separation of the two funds for the purposes outlined above, however, does not prevent the transfer of monies between the funds. Pursuant to Chapter 1097, Statutes of 1974, the department may make such transfers as deemed necessary. In our judgment, the allowance of fund transfers indicates that the funds need not be separated for specified purposes. We therefore recommend that the two funds be consolidated, thus relieving the department of unnecessary accounting duties and confusion related to the applications of fund monies.

DEPARTMENT OF REAL ESTATE—Continued

Even with fund consolidation, certain department activities require the establishment of fund reserves. The two significant activities for which such reserves are necessary are (1) the payment of recovery claims and (2) the support of education and research programs. Therefore, license fee revenues which are the primary source of support for these functions, should be allocated in accordance with the present allotment schedule.

Business and Transportation Agency
DEPARTMENT OF SAVINGS AND LOAN

Item 195 from the Savings and
Loan Inspection Fund

Budget p. 412

Requested 1976-77	\$5,100,781
Estimated 1975-76.....	4,128,160
Actual 1974-75	3,695,182
Requested increase \$972,621 (23.6 percent)	
Total recommended reduction	\$202,253
Pending	\$60,036

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|---|-----|
| 1. <i>Examination Element. Reduce \$63,452.</i> Recommend deletion of three proposed examiner III positions for examination element. | 327 |
| 2. <i>Economic and Financial Information Division. Withhold recommendation on \$60,036 for three proposed positions for this element pending review of workload prior to legislative budget hearings.</i> | 329 |
| 3. <i>Boards of Inquiry. Reduce \$138,801.</i> Recommend deletion of six proposed temporary help positions for boards of inquiry element. | 330 |

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for protecting the public by preventing conditions and practices which could jeopardize the safety and solvency of state-regulated savings and loan associations.

The department is administered by the Savings and Loan Commissioner, who is appointed by the Governor. Its headquarters is in Los Angeles with a branch office in San Francisco. The department is currently authorized 161 positions.

The department is supported from the Savings and Loan Inspection Fund which derives its revenues from an annual assessment of 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.

The size of the state-regulated industry is indicated in Table 1. Currently, there are approximately 5.9 million savings accounts in 98 state-char-

tered associations. There has been a 5 percent increase in the number of these holdings over the prior year with amounts in individual accounts averaging about \$4,009.

Table 1
State Regulated Savings and Loan Industry in California

<i>Detail</i>	<i>Actual 1973-74</i>	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>
Number of associations	95	94	98	106
Assets of associations (billions)	\$33.2	\$36.5	\$42.0	\$48.0
Assets examined (billions)	\$28.3	\$34.6	\$39.7	\$42.0
Number of savings accounts (millions)	5.2	5.5	5.9	6.2

The department performs its responsibilities under one operating program entitled "supervision and regulation" which is divided into six elements: (1) examination, (2) appraisal, (3) facilities licensing and legal assistance, (4) economic and financial information, (5) boards of inquiry and (6) administration. The examination element is by law responsible for examining associations at least once every two years to determine the quality of assets, compliance with state laws and regulations and utilization of sound management and accounting practices. The appraisal element makes field appraisals of real property upon which loans have been made by associations in order to determine lending and appraisal policies. The facilities licensing and legal assistance element conducts hearings and renders decisions on applications for new associations, branch offices, and mergers. The economic and financial information element provides the department with information which assists the other program elements. The boards of inquiry hear complaints from the public regarding alleged discriminatory practices of associations.

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of \$5,100,781 which is a net increase of \$972,621 or 23.6 percent above estimated current year expenditures. However, reimbursements from certain out-of-state associations estimated at \$25,000 in the budget year (representing travel expenses for appraising out-of-state loans) will produce a total expenditure program of \$5,125,781.

Table 2 shows man-years and costs devoted to the department's supervision and regulation program and supporting elements.

New Positions (Examination Element)

We recommend that three of the seven proposed examiner III positions for the examination element be deleted for a savings of \$63,452.

The department requests the addition of seven examiner III positions to examine state-chartered savings and loan associations which by law must be examined at least once every two years. Based on the department's workload standards and the constant rate of increase of association assets (approximately \$6 billion annually), only four additional examiner positions are required in the budget year. For example, in order to absorb

Table 2
Cost and Staffing Data for Departmental Program and Elements

<i>Program and Elements</i>	<i>Actual 1974-75</i>		<i>Estimated 1975-76</i>		<i>Proposed 1976-77</i>	
	<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>
Supervision and Regulation						
Examination	84.9	\$1,921,733	88	\$2,174,489	94	\$2,410,893
Appraisal	43.9	1,086,527	44	1,203,086	44	1,236,056
Facilities Licensing and Legal Assistance	9.0	257,398	10	306,772	13	357,787
Economic and Financial Information.....	16.2	435,824	17	468,813	20	807,587
Boards of Inquiry.....	—	—	—	—	10	313,958
Administration (costs prorated to other programs)	(35.5)	(605,604)	(38)	(629,446)	(40)	(743,616)
Total Programs.....	154.0	\$3,701,482	159	\$4,153,160	182	\$5,125,781
Reimbursements		-6,300		-25,000		-25,000
Net Total Programs.....		\$3,695,182		\$4,128,160		\$5,100,781

the current year increase in examination workload, the department will utilize an additional 3.1 man-years of examiner time over the staffing level for fiscal year 1974-75. Given the constant nature of the workload increase, four additional examiner positions should be sufficient in the budget year.

New Positions (Facilities Licensing and Legal Assistance Element)

The department requests the addition of one counsel position to perform public inquiry and complaint processing functions. Public inquiries and complaints are now handled by the examination element. However, the department intends to transfer the function to the facilities licensing and legal assistance element because inquiries from the public are becoming more complex and require the review of the department's legal staff. The department estimates that written complaints will increase by 28.5 percent in the budget year and oral complaints will increase by 15 percent. Legal interpretations are expected to increase 5 percent.

Anti-Redlining Regulations

The Savings and Loan Commissioner has issued departmental regulations (which will become effective in March 1976) to assist in curbing the practice of "redlining" by state-chartered savings and loan associations. "Redlining" is a process in which mortgage lenders identify "high risk" areas (usually by drawing red lines on maps to show areas of high unemployment, high crime rates and histories of property damage and decay) and then refuse to consider loan applications on properties in such areas, regardless of the credit-worthiness of individual loan applicants.

The regulations will help determine lending patterns by requiring each state-chartered savings and loan association to submit detailed information to the department regarding the number and total amount of its mortgage loans and savings accounts opened on a monthly basis, the number and applications denied by census tract, the number and amount of foreclosures by census tract, etc.

The proposed regulations provide for the establishment of two boards of inquiry (one in Los Angeles area and one in San Francisco) to review complaints filed with the commissioner that a mortgage loan has been denied, or that an applicant has been discriminated against in the setting of the terms or conditions of a loan, because of redlining. Each of the boards will be appointed by the commissioner and will be composed of a public member, a representative of the savings and loan industry and a representative of the commissioner. Each board of inquiry is charged with the responsibility of making recommendations to the commissioner for the resolution of the complaints which it hears.

New Positions (Economic and Financial Information Division)

We recommend that approval of \$60,036 for three proposed positions for this element be withheld pending additional review of department capabilities prior to legislative budget hearings.

In order to implement the anti-redlining regulations regarding disclosure of loan information by associations, the department is requesting one senior economist, one market analyst and a senior data processing technician position to collect and analyze this data. We withhold recommenda-

DEPARTMENT OF SAVINGS AND LOAN—Continued

tion on the three proposed positions until the department's capability to perform these tasks with existing staff can be examined.

The Economic and Financial Information Division currently collects certain data on each loan made by an association. Additional data processing funds were provided during the current year. Our review prior to legislative budget hearings will determine whether the disclosure provisions of these regulations will actually require the addition of the three proposed positions.

New Positions (Boards of Inquiry)

We recommend that six proposed temporary help positions for this element be deleted for a savings of \$138,801.

In order to provide staff support for the boards of inquiry the department requests the addition of one staff counsel II, one senior property appraiser, one special investigator, one secretary and six temporary help positions. We recommend deletion of the six temporary help positions because the regulations provide for only two boards of inquiry. The request of six temporary help positions was based on the preliminary draft of regulations which provided for six boards. Based on two boards rather than six, the six temporary help positions are not required.

**Business and Transportation Agency
STATE TRANSPORTATION BOARD**

Item 196 from the Transportation Planning and Research Account

Budget p. 416

Requested 1976-77	\$359,334
Estimated 1975-76.....	266,394
Actual 1974-75	197,902
Requested increase \$92,940 (34.9 percent)	
Increase to improve level of service \$50,000	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The State Transportation Board was established by Chapter 1404, Statutes of 1969. Membership consists of seven appointees of the Governor serving 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.

The initial legislation and Chapter 1253, Statutes of 1972, gave the board 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) reviewing and adopting a California Transportation Plan, (2) resolving inconsistencies, conflicts or disa-

reements between regional transportation plans and the state transportation inputs, (3) reviewing annual budgets of the Department of Transportation, and (4) allocating funds appropriated by the Legislature from the Transportation Planning and Research Account to local planning entities.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an expenditure of \$359,334 which is \$92,940 or 34.9 percent above the estimated current year expenditure of \$266,394. The budget includes funding for seven positions (four professional and three clerical) which is the same number of positions authorized in the current year. The proposed budget includes an increase of \$50,000 in consultant services and an assessment of \$36,000 for pro rata administrative charges.

Need for Increased Staff Capability

In the 1975-76 Analysis we recommended an increase in staffing capability to enable the board to administer its statutory duties effectively. Although the recommendation was adopted by the Legislature, the Governor deleted the required funding.

During the current year the board has rejected a draft of the California Transportation Plan submitted by the Department of Transportation. It is anticipated that during the budget year the board will review and approve a revised draft of the plan. The inclusion of \$50,000 in increased consultant services proposed by the administration should provide the board the required level of staffing capability in line with our last year's recommendation and the Legislature's action, so as to administer its duties properly pursuant to approving a transportation plan. A more detailed discussion of the plan is contained on pages 334-336 of the Analysis.

Business and Transportation Agency

DEPARTMENT OF TRANSPORTATION—SUPPORT

Items 197-204 from various funds	Budget p. 418
Requested 1976-77	\$30,767,954
Estimated 1975-76.....	25,211,004
Actual 174-75	27,280,285
Requested increase \$5,556,950 (22 percent)	
Total recommended reduction	\$1,638,130

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis page</i> |
|---|----------------------|
| 1. <i>Planning. Reduce Item 199 by \$157,130. Recommend reduction in statewide systems planning expenditures.</i> | 337 |
| 2. <i>State Studies. Reduce Item 199 by \$31,000. Recommended reduction in state transportation studies expenditures.</i> | 338 |
| 3. <i>Task Force Funding. Withhold recommendation and re-</i> | 338 |

DEPARTMENT OF TRANSPORTATION—SUPPORT—Continued

quire administration to prepare budget for systems planning to include funding for task force prior to appropriation of balance of planning funds (\$12,361,870).

4. *Reduce Item 199 by \$1.4 million.* Recommend deletion of 340 funds for car pooling programs.

GENERAL PROGRAM STATEMENT

Chapter 1253, Statutes of 1972, created in the Business and Transportation Agency the Department of Transportation consisting of what had been the Department of Public Works and the Department of Aeronautics. The department is responsible for administering the ongoing programs of two divisions, Highways and Aeronautics. Chapter 1253 also required the formation of the Division of Mass Transportation and the Division of Transportation Planning. The planning entity was charged with the responsibility of establishing a comprehensive multimodal transportation planning process and preparing a subsequent State Transportation Plan by 1976. Regional transportation entities and councils of governments were 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.

Although the total departmental budget is approximately \$1 billion, the legislative appropriation for support of the department and subventions to local planning entities is \$16,861,788 of that amount. However, the program budget also contains prior legislative appropriations, federal funds, continuously appropriated funds and reimbursements. Thus, on an expenditure basis the proposed budget contains \$30,767,954 which is subject to review and approval by the Legislature.

Table 1 displays the Department of Transportation appropriations and carry-over funds.

The proposed appropriation, together with the other available funding, will provide support for the Division of Mass Transportation, Division of Transportation Planning, Division of Highways, Division of Aeronautics, subventions for local transportation planning entities, and a portion of the general cost of department administration. The proposed appropriations are derived from the sources reflected in Table 2.

Because of (a) provisions in Chapter 1253, Statutes of 1972, which created the Transportation Planning and Research Account and provided for specified transfer to the account from various sources and (b) the administrative practice of separating support funds from local assistance funds, eight items are required in the Budget Bill to accomplish the transfers, appropriations, and separation of support funds from local assistance funds.

ANALYSIS AND RECOMMENDATIONS

The proposed expenditure of \$30,767,954 is \$5,556,950 or 22 percent above the estimated current year expenditure of \$25,211,004. The proposed budget provides funding for 427.2 positions which is 110.1 positions less than the staffing level authorized in the current year.

Table 1
Department of Transportation Appropriations and Carry-Over Funds

<i>Item No.</i>	<i>Description</i>	<i>Amount</i>	<i>Fund</i>
197	Support of Department of Transportation.....	\$706,623	Aeronautics
198	Transfer Funds to Transportation Planning and Research Account.....	(20,000)	Aeronautics
199	Support of Department of Transportation.....	8,221,079	Transportation Planning & Research
200	Schedule of Expenditures.....	—	State Highway Account
201	Transfer Funds to Transportation Planning and Research Account.....	(8,700,000)	State Highway Account
	(a) State Funds \$5,300,000		
	(b) Federal Funds \$3,400,000		
202	Local Assistance—Department of Transportation	4,072,848	Transportation Planning & Research
203	Local Assistance—Department of Transportation	3,400,000	Federal
204	Local Assistance—Department of Transportation	461,238	Aeronautics
	Total Appropriation	\$16,861,788	
Add:	Federal Funds	\$288,200	
	Reimbursements	157,343	
	Aeronautics Account Continuous Appropriation	3,200,000	
	Chapter 1130, Statutes of 1975.....	6,741,300	
	State Highway Account.....	19,323	
	Abandoned Railroad Account	3,500,000	
	Total Funds Available	\$30,767,954	

Table 2
Funding by Program and Source

<i>Program</i>	<i>Amount</i>
1. Transportation Planning.....	\$12,600,000
2. Mass Transportation	12,089,893
3. Highways	1,400,000
4. Aeronautics	4,351,161
5. General Support	327,100
Total Program	\$30,767,954
<i>Total Resources</i>	
State Highway Account.....	\$5,319,323
Aeronautics Account	4,387,861
Federal Funds	3,688,200
Transportation Planning and Research Account	13,715,227
Abandoned Railroad Account	3,500,000
Reimbursements	157,343
Total Resources	\$30,767,954

DEPARTMENT OF TRANSPORTATION—SUPPORT—Continued**1. TRANSPORTATION PLANNING**

The transportation systems planning program is accomplished through the following program elements: (a) regional planning, (b) statewide systems planning, (c) state studies, (d) liaison, and (e) program support (administration).

The proposed expenditures for the budget year are \$12,600,000 or 25.2 percent less than the \$16,849,211 estimated expenditures for the current year. The proposed budget provides funding for 325 positions which is 111 positions less than the current year staffing level of 436 positions.

State Transportation Plan

Since the passage of Chapter 1253, the major emphasis within the transportation planning program has been the preparation of a State Transportation Plan as mandated by the legislation. This plan was to be submitted to the Legislature by January 1976. However, the July 1975 draft of the plan prepared by the department has been determined to be unacceptable by the State Transportation Board because it failed to meet statutory requirements and was inadequate for use in formulating and implementing transportation decisions.

A 10-man task force is now being formed within the Business and Transportation Agency to modify and revise the plan. The draft policy plan and draft environmental impact report of the task force are currently scheduled for completion in September 1976. However, in our view, a more realistic completion date is January 1977. This will clearly delay required updates of the plan, originally scheduled for January 1977 and January 1978.

Support of the task force for the current fiscal year totals \$910,000 including \$211,000 in salaries. No support has been budgeted for the 1976-77 fiscal year.

The State Transportation Plan has cost approximately \$52 million to date. The reduction in annual expenditures for 1976-77 represents an arbitrary 25 percent cut from the current level of funding and does not reflect any basic changes in program direction. The rejection of the July draft by the board, however, suggests a need for certain basic revisions to the program, which will: (1) insure the adequacy of the first Transportation Plan for California, and (2) provide clear direction for transportation planning in the future.

In the following sections, we discuss in some detail elements of the draft plan and its strengths and deficiencies. We then suggest for certain elements the most desirable direction for the task force to proceed in developing an adequate first plan. Finally, we discuss the details of the planning budget for the 1976-77 fiscal year.

The Draft Plan

The State Transportation Board was correct in noting deficiencies in the July 1975 draft of the plan. The statutes specified inclusion of many topics of the plan, including: (1) inventories, (2) statutory requirements affecting transportation services, (3) financial resources, (4) state plans affect-

ing transportation, (5) advanced concepts for transportation systems, (6) alternative plans, and (7) an evaluation of alternative plans. Several of these topics were covered in very limited detail in the draft. In many areas the analysis was clearly not an adequate basis for policy decisions.

However, it is important that the July draft be viewed with realistic expectations. In many instances, significant limitations prevent addressing transportation problems in the comprehensive detail specified in the statutes. Often, reliable data are not available or would require a substantial effort to accumulate. One such case is information concerning the movement of goods. Or, a considerable amount of data may be available, but the framework for analyzing the significance of the data may be inadequate. This is the case with "statutory requirements", and to a considerable degree with "inventories".

Consequently, the department elected to emphasize those topics in the draft where good data and a reasonable analytical framework already existed. The July draft places a heavy emphasis upon urban and intra-regional people movement, with a focus upon the two main modes—highways and transit. This focus upon the supply side of the transportation system echoes that of many of the regional plans. Presumably, other aspects of transportation planning and other topics could receive more emphasis in future updates of the plan.

Improving the Draft Plan

In our view the topics chosen for analysis in the draft plan represent an adequate breadth of subjects for the first plan. However, the draft does require modifications and improvement if it is to be a useful document for formulating and implementing transportation decisions.

The task force has been specifically formed to improve upon the July draft and generate a policy-oriented transportation plan. Its analysis should focus upon the role of the state in transportation. Where adequate information is available state policy options should be delineated. Comments should also be made regarding subjects where information is inadequate to discuss policy options.

Policy-Oriented Analysis

Perhaps the most significant weakness in the July draft is the lack of clarity regarding the state's policy options in transportation. The state's role in transportation planning, regulation, financing, and systems implementation needs to be specifically addressed by the plan. Important decisions for transit, highways, aviation, and other elements of the transportation system must be made in the near future. The plan should be oriented to clarify critical decisions, and the likely outcomes of alternative choices.

A broad range of four policy alternatives was considered in the draft: (1) no build (no new system components), (2) "energy conservation and air quality", (3) "reduce dependency on the auto", and (4) "maximize mobility and modal choice". The latter three were examined at three levels of funding: (1) less, (2) existing, and (3) more. This approach takes the correct direction for a policy-oriented plan. However, it does not go far enough. It needs to define clearly alternate roles which the state might

DEPARTMENT OF TRANSPORTATION—SUPPORT—Continued

assume, and explore the trade-offs between choices.

Trends of the last few years make effective management of all the state's resources a top priority. The state has an extensive existing transportation system, and limited financial resources for maintenance and improvement of that system. At the same time, decisions related to transportation systems have a significant influence upon land use, economic activity, recreation, and the environment (e.g., air quality and energy consumption). Conflicting social goals exist. People desire a high degree of mobility and freedom of choice, and at the same time want to avoid damaging environmental impacts, or higher taxes. The transportation planning process should therefore provide direction; it should help balance conflicting goals and make the best use of the existing system and limited financial resources.

For example, alternative investments might be possible in systems capacity through expansion of transit service, or new highway construction. Or, travel demand might be modified by affecting land development. Each of these alternatives has costs associated with it, and implications for mobility and environmental impact. Good policy decisions require an understanding of the implications of such choices, and the trade-offs between them.

Areas of Omission

The July draft was criticized by the board and the public for its omissions and limited scope of analysis. Although some of the criticism is warranted, it must be recognized that this kind of plan realistically can address only a limited number of topics in detail.

Perhaps the most productive step that can be taken now would be for the task force to address the reasons behind omissions of topics specified in the statutes. The task force should also address the level of commitment necessary to analyze those topics. For example, an adequate analysis of goods movement in the state could require several years, and an extremely large funding effort. Currently there is not even a good theoretical background on which to base such an analysis. The task force should note this type of deficiency, and indicate the desirable level of commitment and appropriate steps to follow for an adequate discussion of the topic in the future.

State Responsibilities

The State Transportation Board is responsible for adoption of the California Transportation Plan. This is contingent upon the legislative passage of an act which "shall constitute a legislative declaration of statewide transportation goals, objectives, and policies".

In our view, the board must have realistic expectations regarding the first plan. Further, at this time the Legislature and the board should give consideration to both the timing and the content of future updates of the plan. A repeat of the confusion which has surrounded preparation of the first plan should be avoided.

The Transportation Planning Budget

The \$12.6 million budgeted for transportation planning is a 25 percent reduction from current year expenditures of \$16.86 million, which in turn represents another 25 percent reduction from the \$22.35 million spent in fiscal year 1974-75. This pattern of two successive annual reductions reflects several factors. Plan development required a large initial effort to produce data and begin analysis. Much of this initial work can be used as the foundation for further analysis, reducing funding requirements. In addition, the successive reductions appear to reflect the decreasing emphasis which the current administration seems to place upon transportation planning. A desirable level of continuing funding for the planning process depends upon the objectives set for the process, and the nature of that process. The nature and level of future funding beyond the budget year deserves serious consideration. A comparison of current year and department-proposed funding allocations is shown in Table 1.

Table 1
Transportation Planning Expenditures

Program Elements	Man Years		Program Costs	
	1975-76	1976-77	1975-76	1976-77
a. Regional planning	245	158	\$10,251,993	\$7,970,000
b. Statewide systems planning	71	70	2,287,919	1,951,000
c. State studies	26	14	813,848	470,000
d. Liaison	14	11	383,700	301,000
e. Program support	80	72	2,229,280	1,908,000

Monitoring Regional Planning

Of the \$7,970,000 allocated to the regional planning effort, \$3,400,000 is federal funds. The total effort projected is a 22 percent reduction from the current year.

No measures currently exist to assess the proper level of funding for regional transportation planning. Such measures should be developed by the state so that proper funding levels can be set. For example, such funding could be based on a combination of factors such as: total regional population, urban densities, highway mileage, transit service levels, or socioeconomic characteristics of the region's populace.

There is currently a lack of data to show the distribution of regional planning expenditures for the budget year. Consequently, the board should address the adequacy of the various regional work programs before allocating funds to the regions for fiscal year 1976-77.

Statewide Systems Planning

We recommend that statewide systems planning expenditures be reduced by \$157,130 to \$1,793,870, through reductions in selected program elements for a net reduction of 4.2 man-years (Item 199).

The element of goods movement, coordination and liaison should be reduced by one man-year, from \$40,200 to \$13,400. Very limited data on goods movement are available. A substantial investment would be required to accumulate the required data. Even with adequate funding, there would be no sound basis for analysis, and given the complexities of government regulation, any study of goods movement would be very

DEPARTMENT OF TRANSPORTATION—SUPPORT—Continued

difficult. If goods movement is to be considered, significant funding should be allocated for this topic in fiscal year 1977-78. Only a minimal effort to maintain existing information should be sustained until a major commitment is made by state policy makers.

Reductions of \$130,330 should be made in funds available for the projected first update of the plan. This is a 50 percent, 3.2 man-year reduction. With the rejection of the July draft of the plan, the updates will obviously be delayed. Some of these funds may be needed for the task force effort, but they should be budgeted accordingly.

State Studies

We recommend that expenditures in the area of state studies be reduced \$81,000, or 2.2 man-years, to \$389,000 (Item 199).

The reconnaissance study "Private Sector Financial Resources" should be eliminated, for a savings of \$31,000 and 0.7 man-years. As defined by the department, a reconnaissance study represents an initial exploration of a topic. "Private Sector Financial Resources" would include such topics as private ownership of mass transit, with service on a contract basis, and joint development of mass transit facilities between public and private entities. However, where private sector resources can lead to more efficient transportation services, such topics can be included in the "Transportation Strategies" study. Beyond that, a major commitment would be needed to address this potentially important topic. A token effort would not be of significant benefit.

The reconnaissance study "Needs of Low Mobility Population Groups" should be eliminated, for a savings of \$50,000 and 1.5 man-years. Specific needs of low mobility groups, such as the handicapped, are best addressed at the regional or local level. It is on a local basis that the location, needs, and current services available to low mobility population groups should be examined. Further, resource allocation to develop better mobility for such groups will occur outside the transportation planning process. Therefore, this study can contribute very little to enhancing the circumstances of low mobility groups.

The reconnaissance study "Transportation Strategies" is an example of the kind of state studies which can be quite useful. This study will be oriented toward low-capital improvements and greater efficiency in transportation. Examples of topics which should be covered include ramp-metering, exclusive bus lanes, staggered work hours, and similar low-capital techniques. These are topics which clearly fit within the purview of the state, and which should be explored for their potential contributions to better management of our transportation system.

Task Force Funding

We recommend withholding approval of the balance of the proposed transportation planning funds (\$12,361,870) until the administration includes funding for the task force.

During the current year a task force is being established to revise the July 1975 draft of the State Transportation Plan in order that an acceptable version of a plan can be adopted by the State Transportation Board. The

task force, which is not yet fully staffed, is supported by a redirection of planning funds contained in the Transportation Planning Program in the amount of \$911,000. No support funds are provided in the proposed budget for the task force.

The task force will not be able to complete its work prior to the beginning of the 1976-77 fiscal year. Realistically the budget should identify and set aside funds to support the task force until January 1977. In addition, the whole systems planning program of the department (\$12.6 million) will be impacted by whatever course of action the task force recommends. Therefore, the administration should prepare a proposed budget which explicitly identifies the activities of the task force. Otherwise the present version of the proposed planning program is meaningless.

2. MASS TRANSPORTATION

The budget proposes an expenditure for the program of \$12,089,693 which is \$8,503,710 above the estimated current year expenditure of \$3,585,983. Funding for 52.5 positions is included which is an increase of 4.8 positions above the 47.7 positions authorized in the current year.

The substantial increase in proposed funding is a result of including appropriations authorized by Chapter 1130, Statutes of 1975. This legislation appropriated \$18.9 million for various transportation purposes including research, feasibility studies, construction, and railroad right-of-way purchases. A large portion of the appropriation authorizes expenditures by various entities over a three-year period (1975-76 to 1978-79 fiscal years). The division proposed budget includes \$10,241,300 of the funding authorized by Chapter 1130.

State Role Undefined

In the 1975-76 Analysis we observed that although the stated purpose of the division's program is to increase the use of public transportation, few if any of the program's elements can be translated into accomplishment of the division's goal. Instead, the total program administered by the division represents a conglomeration of numerous activities which do not have a central focus.

The proposed program includes staffing for the on-going program element of the division. The addition of \$10,241,300 from Chapter 1130 is also included in the budget but no staffing is explicitly provided in the budget. To a large extent the division will simply administer the various tasks provided in Chapter 1130. The actual work will be performed by contractual services or others through a grant process. In our view, department staffing can be accomplished through the utilization of the staffing provided in the proposed budget.

Budget Amount Overstated

It appears unlikely that the division will expend the \$10.2 million provided by Chapter 1130 in the budget year. A large share of the allocation is available for expenditure in the 1977-78 fiscal year and thus can be carried over from the budget year. In addition, the division's budget is overstated in at least two instances, in the amount of \$2,383,800. First, \$1,883,800 is budgeted for the construction of bikeways. Such a program

DEPARTMENT OF TRANSPORTATION—SUPPORT—Continued

should be properly included within the existing bikeway program in the Division of Highways budget because the funding represents a supplement to a continuous bikeway program. Secondly, \$500,000 is included for "Guideway Capital Improvements". However, the funds are appropriated in Chapter 1130 to the City and County of San Francisco, not the department.

3. HIGHWAYS**Proposed Substitution of Funds**

We recommend the deletion of \$1.4 million from the Transportation Planning and Research Account proposed for car pool program (Item 199).

The Division of Highways is conducting a program within the department to encourage the use of car pools. The division is also "coordinating" car pool efforts in other areas of the state. The car pool program has stated goals such as "improve highway service" and "reduce transportation costs for California motorists." The program has been supported in the past from the State Highway Account. The budget proposes to support the program in 1976-77 from the Transportation Planning and Research Account rather than the State Highway Account. We question not only this proposed shift in funding but also the value of the program itself.

In the proposed budget for the 1975-76 fiscal year, the department made a similar request for funds. At that time the department requested \$189,425 from the Transportation Planning and Research Account to substitute for State Highway Account funds. We recommended that the funding be eliminated and the Legislature subsequently deleted the funds. The division later used \$167,447 in State Highway Account funding to support the program in the current year.

The car pool program represents a marginal internal activity in promoting car pools within the department and a current effort to "coordinate" other car pool programs that have been initiated as projects between local government and the federal government. The proposed funding level of \$1.4 million would in essence provide the funds necessary for the department to administer all of the programs.

The department's supporting documents reflect (a) car pooling has a limited demand capacity, (b) is seasonal in demand, and (c) has diminishing support from local governments. The funds available in the Transportation Planning and Research Account are minimal for improving public transportation services. They should not be drained away for programs that have a marginal value. We therefore recommend deletion of \$1.4 million contained in Item 199.

4. AERONAUTICS

The activities of the Division of Aeronautics include: promoting the use of general aviation, 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 programs administered by the division to

accomplish its stated purposes include: safety and regulation, local assistance, program development and management, and planning and research.

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 \$3.2 million from the Aeronautics Account to assist local airport entities in developing and improving local airport facilities. The \$3.2 million for capital improvements is continuously appropriated from the Aeronautics Account and therefore is not subject to the Budget Bill.

The budget proposes \$1,151,161 from the Aeronautics Account for support of the Division of Aeronautics (Items 197 and 204). The proposed amount includes a pro rata charge for departmental administration support. The proposed increase is \$134,294 or 12.9 percent above the estimated current year expenditure of \$1,033,567. The budget contains funding for 38.7 positions compared to 37.4 positions in the current year.

Need for Program Evaluation

To a large extent the division's program emphasis is primarily one of promoting the use of general aviation. The latter is accomplished through the distribution of promotional material, various clinics and seminars, and capital funds for airport expansions. It is apparent to us that the historic and traditional emphasis on increasing the demand for general aviation is contrary to the very real problems associated with the energy crisis.

Although the division is proposing to increase enforcement of safety regulations in the budget year, there appears to be a question of the ability of the division to enforce regulations on airport operators and pilots effectively. This lack of ability may well stem from (a) a rather vague basis to enforce safety regulations pursuant to existing statutes and state regulations, (b) lack of adequate staffing and (c) lack of desire to enforce safety regulations aggressively because such enforcement may well result in a decrease of general aviation usage via airport operating permit revocations and/or sanctions against pilots which is contrary to the major thrust of the division's program of promoting more general aviation.

The value of many of the elements of the Safety and Regulations Program are dubious. Each year, the staff analyzes 800 to 850 aviation accident reports. These reports are initially compiled by the Federal Aviation Administration through the National Transportation Safety Board. In our judgment, little is accomplished by analyzing at the division level completed accident reports which already contain findings relative to the cause of a given accident.

The proposed budget also contains funds for the first time for revocation

DEPARTMENT OF TRANSPORTATION—SUPPORT—Continued

of airport permits and other compliance actions. To date the division has (a) never revoked an airport operating permit, (b) never withheld a capital grant because of a safety question, or (c) never taken action to cite pilots for safety violations.

In our view the division should prepare a program evaluation study which will analyze the effectiveness of each program element. Such a study should be submitted to the Legislature by January 1977. Program elements which pertain to the regulation of aviation safety should include an analysis of the ability of the division to effectively enforce safety standards given existing statutes, regulations and manpower.

**Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION—FEDERAL
HIGHWAY ACT OF 1974**

Item 205 from the Federal
Funds deposited in State
Highway Account

Budget p. 429

Requested 1976-77	\$103,660,000
Estimated 1975-76.....	107,392,432
Requested decrease \$3,732,432 (3.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1470, Statutes of 1974, requires that specified federal funds received pursuant to the Federal Highway Act of 1973 by the Department of Transportation and deposited in the State Highway Account must be appropriated by the Legislature. Therefore, this item would appropriate \$103,660,000 in federal funds for the following purposes:

Highway Safety Improvements:

- (a) Local roads and highways (\$10,000,000)
- (b) Grade crossing protection works (\$4,000,000) \$14,000,000

Federal Urban Systems:

- (c) Local roads and highways 89,660,000
- Total Appropriation \$103,660,000

The Federal Urban System Program in the amount of \$89,660,000 represents approximately 22 percent of the total funds received by the state from the federal government for road improvements. The funds are apportioned on a population basis within the state to "urban areas" of 5,000 to 50,000 population and to "urbanized areas" with a population of 50,000 or more. The funds may be expended for roads and highway projects on both the state road system or local road systems.

The Federal Highway Act of 1973 also provided a local option relative to the use of the Urban System funds. At the option of local government,

the funds may be expended for public transportation projects, i.e., rail transit and bus transit in lieu of highway and road improvements.

**Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION—LEGISLATIVE
MANDATE**

Item 206 from the State Highway Account

Budget p. 433

Requested 1976-77	\$15,000
Estimated 1975-76.....	15,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1245, Statutes of 1975, requires a city or county planning commission to notify the Department of Transportation of application for a building permit for a building costing \$5,000 or more along the proposed right-of-way of a future state highway. Notification is to occur in sufficient time to permit the department to purchase the property. The \$15,000 from the State Highway Account is a legislative mandate to reimburse any local agency for any costs incurred by it pursuant to the statute.

This expenditure previously has been appropriated from the General Fund and this year is appropriated from the State Highway Account.

**Business and Transportation Agency
CALIFORNIA HIGHWAY PATROL**

Item 207 from the Motor Vehicle Account, State Transportation Fund

Budget p. 498

Requested 1976-77	\$191,112,888
Estimated 1975-76.....	187,686,956
Actual 1974-75	168,503,794
Requested increase \$3,425,932 (1.8 percent)	
Total recommended reduction	\$943,036

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|---|----------------------|
| | <i>Analysis page</i> |
| 1. <i>Helicopter replacement. Reduce \$171,571.</i> Recommend deletion for replacement of one helicopter. Also recommend special legislative review of planned flight operations expansion. | 346 |
| 2. Freeway telephones. Recommend department study of ex- | 348 |

CALIFORNIA HIGHWAY PATROL—Continued

- pansion plans for freeway call boxes in Los Angeles County.
3. *School Bus Driver Certification.* Recommend report on consolidation of certification program functions by Department of Education, Department of Motor Vehicles, and California Highway Patrol. 350
 4. *Vehicle Theft Control Project. Reduce \$234,724.* Recommend increases in state funding be no greater than current levels of federal grants for project. 351
 5. *New Academy Positions. Reduce \$65,316.* Positions not justified in budget year. Recommend staffing analysis by the Department of General Services to determine manpower requirements at new academy. 352
 6. *Training Reimbursements. Reduce \$283,300.* Recommend reduction in academy operations budget because reimbursement from outside agencies has been underestimated. 352
 7. *Minor Capital Outlay. Reduce \$188,125.* Recommend deletion of ten minor capital outlay projects not required. 353
 8. *Budgeting Minor Capital Outlay.* Recommend inclusion of minor capital outlay as line item in major capital outlay section of the Budget Bill. 354

GENERAL PROGRAM STATEMENT

The California Highway Patrol is primarily responsible for the safe and expeditious movement of people and goods along the California roadway system. To carry out this mission, the department is organized to implement two broad programs. The first is the control of vehicle traffic along legal roadways, which is accomplished by patrolling highways and enforcing the Vehicle Code, aiding distressed and injured motorists, clearing roadway obstructions, investigating accidents, and assisting other law enforcement agencies as required. Highway Patrol traffic officers are deployed along the entire state freeway system and roads in unincorporated areas, and have authority to act on roads in incorporated areas, to meet program requirements.

The enforcement and regulation of motor vehicles and equipment is the department's second broad program. Inspection of vehicles, commercial terminals, and retail outlets selling certain types of vehicle equipment are performed by both uniformed and nonuniformed personnel in this program.

Other activities of the department include abandoned vehicle abatement, vehicle theft investigation, and statewide traffic recordkeeping. Administrative support of all programs is based in the department's Sacramento headquarters, which is linked to the eight zone commands and 92 area offices by a sophisticated communications network.

ANALYSIS AND RECOMMENDATIONS

The budget proposed an increase of \$3,425,932, or 1.8 percent, over estimated expenditures for the current year. Authorized positions have decreased by 165.5 positions, or 2.1 percent, from current year staffing levels. This large reduction is caused primarily by the decision to reduce

the number of traffic officers by 180 positions and will result in no new cadets being trained at the department's academy in 1976-77.

Other significant program changes include the introduction of 200 radar units at an estimated cost of \$363,000 and state funding of the Vehicle Theft Program to offset the expiration of federal grants. A total of 14.5 new positions are proposed for the budget year, all nonuniformed personnel in administrative or support activities.

The department's program budget is divided into four programs: Traffic Management, Regulation and Inspection, Vehicle Ownership Security (vehicle theft), and Administration. Administrative costs are prorated over the other three programs.

I. TRAFFIC MANAGEMENT

Traffic management is the largest highway patrol program, accounting for \$174,021,935 or 91.1 percent of the proposed budget. Approximately 86.3 percent of the uniformed personnel and 41.9 percent of the nonuniformed personnel are included in this program. The department estimates that over 90 percent of the uniformed manpower in this program is used regularly on patrol duty, and that about 88 percent of an officer's time is spent in "on-sight" patrol with the balance consumed in report writing and court appearances.

The Highway Patrol integrates four functions in the program: (1) accident control, (2) optimizing safe traffic flow, (3) protection and assistance to highway users, and (4) flight operations. Despite the apparent distinction between these elements, one traffic officer can perform the first three elements coincidentally during patrol. The time that a traffic officer spends on patrol and in conducting enforcement actions (citations, warnings, arrest) is included in the accident control program. Removal of roadway hazards and relieving traffic congestion are duties of optimizing traffic flow, and the rendering of information to motorists is included in the protection and assistance function.

The flight operations component has been included in the Governor's Budget as a separate item for the first time. The department deploys three helicopters which operate out of Los Angeles and San Francisco and three fixed-wing aircraft which patrol roadways in the areas of Sacramento, Coalinga, and Barstow.

Program staffing and cost data are presented in Table 1.

Table 1
Traffic Management Program Staffing and Expenditure Data

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>
Program Expenditures.....	\$147,610,873	\$171,905,776	\$174,021,935
Man-years			
Uniformed.....	4,734.1	4,843.9	4,659.7
Nonuniformed.....	871.3	945.5	951.3
Total man-years.....	5,605.4	5,789.4	5,611.0

CALIFORNIA HIGHWAY PATROL—Continued**Reduction in Traffic Officer Positions**

As previously noted, a reduction of 180 traffic officer positions is anticipated by the department for 1976-77. The Traffic Management Program would absorb the entire proposed reduction. This action is not explained in budget documents nor have we been able to determine any reasons for the action except to reduce department expenditures.

The capacity of the department to maintain current levels of traffic management activity with this reduction in personnel cannot be determined at this time. Because decreases in positions will occur through attrition, any program effects will be amplified as the budget year progresses. We believe that the department, in cooperation with this office, should continuously monitor the performance of the traffic management program to determine the ramifications of proposed position reductions.

The department is also proposing the addition of 3.5 janitors and one automotive specialist in support of field operations at a total estimated cost of \$36,432. On the basis of workload increases, we believe that these requests are justified.

Experimentation with Radar

The department is proposing the introduction of mobile radar units at a total cost of \$363,000 in 1976-77. These units represent advanced technology in law enforcement equipment and the California Highway Patrol believes that their use will allow better enforcement of the 55-mile-per-hour speed limit. An initial order of 200 units is requested to test the equipment on an experimental basis. Currently, the department has eight radar units for speed counts only.

According to the department, use of radar offers several advantages. The proposed units can alert the traffic officer of approaching speed violators and measure the speed of the violator almost instantaneously. The units can be operated while the patrol car is moving with little interference to the traffic officer. It is envisioned that these units can measure speeding vehicles moving in either traffic direction, up to a range of 5,000 feet.

We believe that the department should periodically report to the Joint Legislative Budget Committee and to the fiscal committees on results of radar deployment. This office will also monitor the program to determine the effectiveness of radar use and the effect on manpower requirements.

Helicopter Replacement

We recommend deletion of \$171,571 budgeted for the replacement of one helicopter.

We also recommend special review of departmental plans for flight operations program expansion.

The three helicopters currently deployed by the department are used to coordinate patrol responses, minimize traffic slowdowns, and report on traffic flow. Helicopters are also used for the medical evacuation of individuals injured in vehicle accidents or other highway-related incidents. Staffing and operational costs are estimated to be approximately \$725,388

for the three aircraft in the current year.

The Highway Patrol is requesting the replacement of the helicopter with the greatest time logged in operations. The model presently deployed by the department is no longer produced, and spare parts are increasingly difficult to purchase. Maintenance costs have risen drastically because of the high utilization of these aircraft by the department.

Currently, the two helicopters deployed in the Los Angeles area operate around freeways and throughout the center city. However, the department has indicated that one of these helicopters will be brought to Sacramento for testing its capabilities in a less congested environment. In our judgment, fixed-wing aircraft adequately perform necessary air patrol functions in the Sacramento area and the advantages of a helicopter are marginal relative to the additional costs of operating in such areas. Moreover, if the department plans to remove one of the Los Angeles-based helicopters, we question the need for deployment of two helicopters in Los Angeles. We therefore believe that funds to provide a replacement could be deleted.

Twenty-five Helicopters Planned. Long-range plans include the purchase of 25 additional helicopters, according to a department study of aircraft operations issued in December 1975. The department estimates that these aircraft would provide an increase in the level of patrol miles equivalent to an additional 75 patrol cars and would allow helicopter service within 30 minutes to any location in the state at any time. Equipment costs for the helicopters and related items is estimated at \$6,342,000. With annual operational costs forecast at \$5,821,228, the helicopter expansion program would require an initial equipment and operations outlay of \$12,163,228.

Several critical questions should be addressed prior to embarking on expansion of helicopter operations:

a. What functions will be performed by helicopters that are unrelated to traffic control and assistance to motorists?

b. Is the department supporting reductions in patrol cars and traffic officers in direct relation to increases in helicopter units? If additional funding for the program is not available, which department operations will be most affected by the helicopter expansion program?

c. What will be the extent of backup patrol cars and other equipment in instances of inclement weather or helicopter downtime?

d. What percentage of annual helicopter operating time will be required to perform (1) assistance to local law enforcement agencies, (2) medical assistance to individuals along patrolled roadways, (3) medical assistance to individuals not along patrolled roadways?

e. To what degree will planned helicopter operations duplicate existing or proposed aircraft services in the state? Has a coordination plan been developed to eliminate duplication of services between the department and (1) state agencies and (2) other governmental or private operations?

Because of the expenditures involved in the planned purchase of helicopters, we believe that the Legislature should review fiscal and policy implications of the program to determine the need for a major investment in new aircraft and related equipment.

CALIFORNIA HIGHWAY PATROL—Continued**Purchase of Patrol Cars**

The department recently concluded the purchase of 1,511 1976 model automobiles for patrol use at a total cost of \$6,844,830. Bidding for the 1976 fleet involved intermediate-size cars, representing a major shift by the Highway Patrol from the use of standard-size vehicles in field operations. Because of reduction in vehicle weight, use of intermediate-size patrol cars will afford substantial savings in fuel costs to the department. Engine displacement for the recently purchased cars will be 440 cubic inches, equal to the engine size of patrol vehicles presently deployed.

In 1974, the Highway Patrol purchased 100 1975 model intermediate-size cars to test the performance characteristics of vehicles with an engine displacement of 360 cubic inches. The department indicates that the smaller engine was unable to meet the performance requirements of the department, as testing of the cars resulted in an engine failure rate of 26 percent.

Performance standards required for new vehicles not only involve high acceleration rates but attainment of a top speed of 115 miles-per-hour. Patrol vehicles with a 360 cubic inch engine displacement had acceleration rates of 10 miles-per-hour lower than vehicles equipped with 440 cubic inch engines, and the top speed attained by cars with smaller engines was 105 miles-per-hour. However, estimated annual fuel cost savings for intermediate-size cars with smaller engines are \$600,000 greater than for the recently-purchased vehicles.

The department indicates that high acceleration rates are necessary for the pursuit of speeding motorists. However, deployment of patrol cars in front of a speeding motorist (using radios and patrolmen working in teams) and forcing deceleration may permit speed regulation as effective as accelerated pursuit. This method is also safer to other motorists by reducing the number of speeding vehicles. We believe that the department should investigate alternatives to high-speed pursuit. Our office will also review this matter including vehicle performance standards related to speed enforcement.

Freeway Telephone System

We recommend that the department study plans for expansion of the freeway telephone network in Los Angeles, specifically to evaluate potential increases in department operating costs. Possible consolidation of the proposed 911 emergency system with the freeway telephone system should also be reviewed and a report submitted to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1976.

Freeway call boxes have been installed by Los Angeles County to provide motorists needing assistance with a direct line to the Highway Patrol. To date, approximately 2,930 telephones have been installed along 311 miles of freeway in the county. While the county is responsible for installation and service charges, the patrol absorbs the cost of telephone toll charges, which are estimated at \$38,759 for the current year. In addition, approximately 9 man-years are required for answering and responding to incoming calls.

Los Angeles County plans to install approximately 1,400 additional call boxes along freeways outside the center city area. Expansion of the program will require substantial increases in personnel at the Highway Patrol's Los Angeles Communications Center. As call boxes are placed at distances farther from the center city, message unit and long distance charges per call will rise rapidly, adding to current costs incurred by the department for participation in the program.

The degree of motorist assistance which freeway call boxes afford is questionable. A Highway Patrol position paper indicates that less than 6 percent of the incoming calls require subsequent actions by the department. Tow service requests account for approximately 55 percent and information requests for 35 percent of all telephone transactions. The remainder are classified as "nuisance calls"; for example, a motorist would request the patrol to tell his wife that he would be late for dinner.

Consolidation of Emergency Networks. Introduction of the 911 emergency system may alleviate department processing of calls that do not require patrol action. This system is designed to provide any individual with toll-free communications for emergency assistance by dialing "911" on any telephone. Current plans developed by the Department of General Services for the 911 system include receptionist areas located throughout the state to dispatch emergency calls to appropriate agencies. If the freeway telephones were directly linked to these receptionist locations, the Highway Patrol would handle only calls requiring patrol assistance and not contacts with towing companies. Because a combined system could prevent increases in staffing and operating expenses, we recommend that the department review the potential of a single network for motorist assistance.

II. REGULATION AND INSPECTION

The regulation and inspection program includes nine different elements with a net total cost in 1976-77 of \$13,961,162 from the Motor Vehicle Account. With the termination of passenger vehicle inspection in the current year, the largest portion of estimated program expenditures will be required by commercial vehicle inspection and enforcement with proposed expenditures for the budget year of \$8,926,250, or 63.9 percent of net total program costs. Personnel are deployed at commercial vehicle inspection sites along major state roadways, at platform scales, and with portable trailer-carried scales.

School pupil transportation safety uses the most manpower among program elements, with proposed staffing at 467.4 positions in 1976-77, 42.3 uniformed and 425.1 nonuniformed. The Highway Patrol contracts with counties to provide pedestrian crossing guards at school zones, certifies school bus drivers, and inspects school buses within this element.

Other program components include vehicle noise-reduction teams, abandoned vehicle abatement, regulation of special purpose vehicles, and other inspection and certification requirements. Table 2 shows staffing and cost data for the program.

CALIFORNIA HIGHWAY PATROL—Continued

Table 2
Regulation and Inspection Program Staffing and Expenditure Data

	<i>Actual</i> 1974-75	<i>Estimated</i> 1975-76	<i>Proposed</i> 1976-77
Program Expenditures.....	\$20,023,151	\$13,887,363	\$13,961,162
Man-years			
Uniformed	532.3	286.7	285.6
Nonuniformed	766.0	638.2	640.6
Total man-years	1,298.3	924.9	926.2

Consolidation of School Bus Program

We recommend that the Department of Education, the Department of Motor Vehicles, and the California Highway Patrol report by November 1, 1976 to the Joint Legislative Budget Committee and the fiscal committees on possible consolidation of functions related to school bus driver certification.

The school bus driver certification program involves the coordination of activities performed by three departments. The Department of Education regulates the number of instruction hours required for certification and trains school bus driver instructors. The Department of Motor Vehicles administers Class I and II license examinations, checks applicant driving and criminal records prior to license issuance, and issues the school bus driver certificate. The California Highway Patrol reviews the current status of an applicant's license, certifies reception of instruction, administers tests on appropriate regulations and first aid, and conducts a driving test for first-time applicants. The patrol also inspects school buses as part of commercial vehicle inspection functions, investigates accidents involving school buses, and regulates placement of school bus routes and stops.

We believe that duplication of functions may occur in this program. The departments involved in the program should review the potential of streamlining program operations and report to the Joint Legislative Budget Committee and the fiscal committees.

Abandoned Vehicle Abatement

Removal of abandoned vehicles from streets and highways is the function of the vehicle abatement program, which is supported by the Abandoned Vehicle Trust Fund as established by Chapter 49, Statutes of 1973. In the budget year, \$3,054,369 will be transferred from this fund to meet proposed expenditure levels. Wherever possible, the department contracts with local jurisdictions rather than undertaking the abatement itself. Of an estimated 200,000 vehicles abandoned during the current year, approximately 45,000, or 22.5 percent, will be removed as a result of this program.

The budget proposes the addition of two auditor positions for the program at an estimated total cost of \$24,576. These positions are reimbursable from the Abandoned Vehicle Trust Fund.

III. VEHICLE OWNERSHIP SECURITY

This program contains the vehicle theft element, which assists in the recovery of stolen vehicles, and the vehicle number identification component, which identifies and renumbers vehicles whose identification num-

bers have been removed. The Highway Patrol has been designated as the coordinating agency for the Vehicle Theft Control Project, a federally-funded program designed to reduce vehicle theft statewide through cooperation with local law enforcement agencies. Federal funds for the project expire June 30, 1976.

Program costs are estimated at \$4,060,349 for 1976-77, representing a 46.4 percent increase over current year expenditure estimates. A department request for \$888,889 of funds from the Motor Vehicle Account to replace federal funds for the Vehicle Theft Control Project contributes significantly to this increase. Cost and staffing data for the program are presented in Table 3.

Table 3
Vehicle Ownership Program Staffing and Expenditure Data

	<i>Actual</i> 1974-75	<i>Estimated</i> 1975-76	<i>Proposed</i> 1976-77
Program Expenditures.....	\$2,049,454	\$2,774,237	\$4,060,349
Man-years			
Uniformed.....	102.4	95.3	110.9
Nonuniformed	21.8	20.2	21.3
Total man-years	124.2	115.5	132.2

State Funding Should Equal Federal Grant Levels

We recommend a reduction of \$234,724 in proposed state funding of the Vehicle Theft Control Project in order that state funds equal current federal grant levels.

The department proposes increased state funding for the vehicle theft element to offset the loss of federal funds for the Vehicle Theft Control Project. Federal grant levels for 1975-76 were initially estimated to be \$888,889. However, the Governor's Budget indicates that federal reimbursement is expected to be approximately \$654,165. Proposed state funding should therefore be reduced by \$234,724 to reflect current estimates of federal grants.

A total of 17 additional positions which have been annually established by budget revision are proposed for the vehicle theft program. Termination of federal funding for the Vehicle Theft Control Project and reduction in state support of the project may affect the requested increase in staffing.

IV. ADMINISTRATION

Proposed budget expenditures for administrative support functions are estimated at \$25,741,373, or a 6.2 percent increase over estimated program costs for 1975-76. Increased charges from other state agencies account for slightly more than one-half of the program cost increase, with the remainder resulting from eight additional positions requested for the new academy in Bryte. Administrative costs are prorated over the department's other three operating programs. The program contains six elements: management and command, budget and fiscal management, operational planning and analysis, training, administrative services, and the Statewide Integrated Traffic Records System. Staffing and cost data for the program

CALIFORNIA HIGHWAY PATROL—Continued

are shown in Table 4.

**Table 4
Administration Program Staffing and Expenditure Data**

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>
Program Expenditures	\$22,029,907	\$24,234,520	\$25,741,373
Man-years			
Uniformed.....	351.4	345.0	343.9
Nonuniformed	637.4	650.2	658.9
Total man-years.....	988.8	995.2	1,002.8

Academy Positions Not Justified

We recommend deletion of six proposed support positions for the new academy for a total salary savings of \$65,316. A staffing analysis to determine manpower requirements for the new facility should be performed by the Department of General Services.

The budget proposes the addition of one stationary engineer, one electrician, one plumber, two janitors, and one stock clerk for academy operations. Current support staffing levels for academy functions are 1 maintenance mechanic, 1 materials and stores supervisor, 2 building maintenance workers, 2 janitor supervisors, 2 laborers, 1 stock clerk, and 12 janitors, or a total of 21 maintenance and support positions. As previously noted, the new academy will not be used for cadet training in 1976-77, and the training of personnel in the department and from outside agencies will not require full utilization of the new academy's facilities. We believe that present level of personnel represents adequate staffing for academy activities during the budget year. A study by the Division of Buildings and Grounds in the Department of General Services should be performed to determine whether (a) additional manpower is required when cadet training resumes and (b) part-time positions can be contracted from the Division of Buildings and Grounds to reduce the number of full-time positions requested.

The administration budget also proposes two additional groundskeeper positions at the academy. Extensive landscaping and grounds maintenance will be required at the facility and these positions are justified by the expected workload increase. The department is also requesting a one-time allocation of \$27,000 for moving equipment and supplies to the new academy during the budget year.

Outside Agencies Should Pay Full Costs

We recommend reduction of \$283,300 because the reimbursements from outside agencies have been underestimated and the department will receive this amount in reimbursements from other agencies for use of training facilities and instruction personnel.

The department receives reimbursements from other state and local agencies for instruction provided at the academy and for use of the facilities. Reimbursements from these agencies are estimated at \$150,000 for 1976-77.

Reimbursement rates for outside agencies are based on student training days (STD), computed by the number of days individuals spend at the facilities. The basic reimbursement rate is \$15.50 per STD for law enforcement training or use of facilities without instruction. An additional \$57.33 per STD is charged for driver instruction and an additional \$48.70 per STD is required for motorcycle training. Application of these rates to department estimates of outside agency training in 1976-77 is shown in Table 5.

Table 5
Estimated Reimbursements from Outside Agencies

Basic reimbursements	
Law enforcement instruction (5,750 STD @ \$15.50/STD)	\$89,125
Facility use only (14,865 STD @ \$15.50/STD)	230,408
Additional charges	
Driver instruction (1,050 STD @ \$57.33/STD)	60,197
Motorcycle instruction (1,100 STD @ \$48.70/STD)	53,570
Total estimated reimbursements from outside agencies	\$433,300
Estimated reimbursements as budgeted	150,000
Net increased reimbursements.....	<u>\$283,300</u>

Increased reimbursements will be used to defray administrative expenses for support of training requirements. We therefore recommend a reduction of \$283,300 in the budget allocation for administration costs.

MINOR CAPITAL OUTLAY

The department budget request for all minor capital projects is \$359,625. Included in this amount is an expenditure of \$112,500 for five gasoline storage and dispensing facilities at selected various offices. Pumps and storage tanks would be placed on property owned by the department. The average cost of the facilities would be paid back through oil and gasoline savings resulting from bulk fuel purchases. The facilities would provide reserves if fuel shortages occurred in the future.

Other items included in minor capital expenditures are \$25,000 for replacement of the air-conditioning system in the San Luis Obispo area office and \$9,000 for replacement of existing tile with carpet in the Sacramento office. Miscellaneous funds of \$25,000 are requested for unforeseen minor repairs of leased or state-owned properties.

Other Minor Construction

We recommend deletion of 10 minor capital projects for a total savings of \$188,125 as described below.

Included in the requests for minor construction is paving of the back portion of the Westminster field office lot. This office was recently constructed and the department determined at the time of construction that paving the rear portion of the property was unnecessary. We therefore recommend deletion of this item for a savings of \$7,000.

Old Academy. At the site of the old academy on Meadowview Road in Sacramento, several improvements are related to the motor transport shop, which will remain a patrol facility after transfer to the new academy. The department proposes to (1) connect this facility to city water (\$5,000), (2) pave for additional parking (\$70,000), (3) install security

CALIFORNIA HIGHWAY PATROL—Continued

lighting (\$18,000), (4) construct additional security fencing (\$25,000), and (5) fence and improve the used vehicle sales lot (\$27,300), for a total of \$145,300. We recommend that these projects be deferred pending the state's decision as to the disposition of the old academy site.

New Academy. Minor construction items for the new academy include (1) an alarm system (\$16,200), (2) awning for the cafeteria (\$5,625), (3) construction of an observation tower (\$5,000), and (4) a sprinkler system with ground cover (\$9,000). We believe these requests are premature because the department should determine the need for further additions to the facility based upon actual occupancy. We therefore recommend deletion of these projects for a total savings of \$35,825.

Budgeting Minor Capital Outlay

We recommend minor capital outlay be a line item budget under the major capital outlay section of the Budget Bill.

Construction projects valued less than \$100,000 are considered as minor capital outlay. This includes projects such as alterations and other small construction projects.

In prior years, funds were appropriated under the capital outlay section of the Budget Bill as a line item amount. However, for the past several years these projects have been funded under the department's support and operations budget. This has resulted in a lack of adequate coordination between major and minor capital outlay projects. In addition, funds have been transferred between minor capital outlay and support and operations. Such transfers tend to increase the support budget base line amount resulting in increases in the ongoing support and operations budget.

This method of funding is detrimental to providing the physical space alterations necessary to meet departmental program needs. Hence, we recommend the minor capital outlay program be presented in future budgets as a line item under the major capital outlay section of the Budget Bill. This will (1) provide the appropriate level of review by the administration and the Legislature, (2) assure that necessary capital improvements will be accomplished as intended and (3) prevent unsubstantiated increases in support budgets.

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

Item 208 from the Motor Vehicle Account, State Transportation Fund

Budget p. 510

Requested 1976-77	\$1,000,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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.

In the Budget Act of 1972, the language restricting the authorization to vehicles only was removed. The appropriation may now be used for any approved deficiency.

**Department of the California Highway Patrol
ADVANCE PURCHASE AUTHORIZATION**

Item 209 from the Motor Vehicle Account, State Transportation Fund

Budget p. 510

Requested 1976-77	\$2,500,000
Estimated 1975-76.....	2,500,000
Actual 1974-75	1,500,000
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order cars in one fiscal year for delivery in the next. This item provides the department with the authority to incur automotive purchase obligations up to \$2,500,000 in 1976-77 for vehicles to be delivered in 1977-78. No funds have ever been expended under this procedure. It provides authorization only, with actual expenditures made from the department's regular budget in the years affected.

**Business and Transportation Agency
DEPARTMENT OF MOTOR VEHICLES**

Items 210-216 from various
funds

Budget p. 513

Requested 1976-77	\$126,291,891
Estimated 1975-76.....	120,274,013
Actual 1974-75	96,539,531
Requested increase \$6,017,878 (5.0 percent)	
Total recommended reduction	\$454,557

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
210	Petit Jury Selection and Anatomical Donor Designation	General	\$115,517	372
211	Driver Licensing and Vehicle Registration	State Transportation Fund, Motor Vehicle Account	108,396,106	367 and 372
212	For Payment of Deficiencies in Appropriations	State Transportation Fund, Motor Vehicle Account	(500,000)	381
213	Collection of Vehicle In-lieu Taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	15,783,223	367
214	Environmental License Plate Issuance	California Environmental Protection Program Fund	880,745	377
215	Bicycle License Tags Issuance	State Bicycle License and Registration Fund	78,437	377
216	Undocumented Vessels Registration	Harbors and Watercraft Revolving Fund	1,037,863	377
			<u>\$126,291,891</u>	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|--|-----|
| 1. Fee Structure. Recommend department submit a study of alternatives for restructuring and updating fees charged for registration, licensing, and related services performed by the department. | 358 |
| 2. Program Planning, Budgeting and Control. Recommend department complete planning, budgeting and control study as was required by Legislature. Report submitted does not address most critical issues and should be resubmitted November 1, 1976. | 365 |
| 3. <i>Customer Child Protection Centers. Reduce Item 211 by \$91,904.</i> Recommend deletion of requested funding for 10 large field office customer child protection centers. | 368 |
| 4. <i>Mobile Field Office. Reduce Item 211 by \$143,407.</i> Recommend deletion of request to establish mobile field office to | 369 |

Analysis page

- provide department services in commercial shopping centers.
5. Motor Vehicle Inspection Program. Recommend department comply with language in Budget Act of 1975 requiring feasibility study for implementation of a Motor Vehicle Inspection program. Recommend study be submitted to the Legislature and Governor by new due date of September 1, 1976. 370
 6. New Motor Vehicle Board Not Funded. Recommend special legislative review of operations of New Motor Vehicle Board and department request to abolish board effective January 1977. 374
 7. *Field Office Murals. Reduce Item 211 by \$100,000.* Recommend deletion of requested budget for painting murals in field offices. 378
 8. *Budgeted Man-years. Reduce Item 211 by \$90,119.* Recommend reduction in requested staff increase because of expected increase in efficiency resulting from bilingual recruitment. 379
 9. *Minor Equipment. Reduce Item 211 by \$21,377.* Recommend reduction of \$4,080 in minor equipment request for replacement of carpeting in Division of Drivers Licenses Offices and recommend deferral of \$17,297 request for new office equipment until new office facility is constructed. 379
 10. *Minor Capital Outlay. Reduce Item 211 by \$7,750.* Recommend reductions in three field office improvement projects. 380
 11. *Budgeting Minor Capital Outlay.* We recommend minor capital outlay be a line item budget under the major capital outlay section of the Budget Bill. 380

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles is a major component of the Business and Transportation Agency designed to protect the public interest and promote public safety on California's road and highway transportation system. To accomplish this the department has been organized into six major divisions under its appointed director who by statute is responsible for administering and enforcing the provisions of the Vehicle Code relating to the department. These six divisions and their major program objectives are as follows:

1. Vehicle Licensing and Titling—to protect the public's interest by identifying ownership through the process of vehicle registration.
2. Driver Licensing and Control—to promote safety on highways by licensing and controlling drivers.
3. Occupational Licensing and Regulation—to provide public protection by licensing and regulating occupations and businesses related to the manufacture, transportation, sale, and disposal of vehicles, and the instruction of drivers in safe operation on the highways.
4. Compulsory Financial Responsibility—to provide a source of com-

DEPARTMENT OF MOTOR VEHICLES—Continued

pensation to those damaged and/or injured in automobile accidents through the Compulsory Financial Responsibility Law.

5. Associated Services—to provide services not directly related to motor vehicles or drivers' licensing to the public and to other state agencies as required by statute.

6. Administration—to administer Vehicle Code provisions and statutes, to provide departmental policy, and to provide management support services to all departmental programs.

In order to perform these duties the department proposes the operation of 147 field offices in 14 districts throughout California and a central headquarters facility in Sacramento. The workload associated with these facilities is projected at 7,893.6 man-years in 1976-77 as compared to 7,560.2 estimated in 1975-76, an increase of 4.41 percent.

The department estimates it will process a total of 17,110,000 vehicle registrations in the coming fiscal year while issuing approximately 4,790,000 drivers' licenses. The department will also maintain records on 13,719,000 outstanding drivers licenses, issue 407,000 identification cards, and process 546,000 undocumented vessel registrations. These major workload indicators reflect a growth less than 1 percent in vehicle registrations, 3.2 percent in drivers' license issuance, 57.1 percent in identification card issuance, and 5.4 percent in undocumented vessel registrations.

ANALYSIS AND RECOMMENDATIONS

The Department of Motor Vehicles proposed expenditure total for 1976-77 will increase 5.0 percent over the current budget year, an increase of \$6,017,878 for a total of \$126,291,891. These figures do not include the proposed expenditure of \$306,381 in federal funds or reimbursements of \$7,129,176 for services the department will provide to other agencies.

Expenditure totals and a breakdown by division are shown in Table 1 which includes actual and estimated expenditures for the two previous budget years. Table 2 provides a breakdown of budget changes over the current year.

Fee Structure and Fund Conditions

We recommend that the department study alternatives for restructuring and updating registration, licensing, and service fees. The study should give special attention to development of plans to ensure that programs charging fees for their operations realize revenues at least equal to expenditures.

We recommend that the results of this study be submitted to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1976.

The Department of Motor Vehicles' budget has increased over the past

Table 1
Program Expenditure Summary

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Change from 1975-76</i>	<i>Percent Change</i>
1. Vehicle Licensing and Titling	\$50,165,639	\$63,137,163	\$65,705,830	\$2,568,667	4.1%
2. Driver Licensing and Control	40,755,277	47,303,751	50,222,160	2,918,409	6.2
3. Occupational Licensing and Regulation	5,202,322	7,485,637	7,451,006	-34,631	-0.5
4. Compulsory Financial Responsibility Law	2,324,655	3,340,639	3,351,913	11,274	0.3
5. Department of Motor Vehicles Associated Services	4,776,279	5,775,080	6,590,158	815,078	14.1
6. Administration—Distributed to Programs	(9,307,486)	(10,830,972)	(10,968,404)	(137,432)	1.3
Field Office Murals—Undistributed	—	—	100,000	100,000	—
Chapter 53, Statutes of 1973, Fire Damage Repair—Undistributed	19	233,900	—	-233,900	—
Totals, Programs	\$103,224,191	\$127,276,170	\$133,421,067	\$6,144,897	4.8%
Less Reimbursements	6,684,660	7,002,157	7,129,176	127,019	1.8
Net Totals, Programs	\$96,539,531	\$120,274,013	\$126,291,891	\$6,017,878	5.0%

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 2
Summary of Budget Expenditure Changes from Current Year

	Changes over Current Year		
	Man-years	Amount	Percent
1. Workload adjustment			
a. Personnel requirements	266.6	\$2,704,544	2.11%
b. Operating expenses and equipment			
(1) Workload decrease		-74,233	-0.05
(2) Price increase		1,434,743	1.12
2. Merit salary adjustment		1,336,682	1.04
3. 1975 Statutes			
a. Chapter 170/75 (AB 723) Air Pollution Motor Vehicle Inspection	7.3	80,013	0.06
b. Chapter 182/75 (SB 678) Occupational Licenses: Special License Plates	-9.0	-155,600	-0.12
c. Chapter 325/75 (SB 542) Drivers License Stickers: Anatomical Donor Designation	4.2	84,349	0.07
d. Chapter 505/75 (AB 2101) Vehicle Salesmen: Licensing	-2.2	-35,187	-0.03
e. Chapter 527/75 (AB 1371) Multiyear Trailer Plates ..	-0.5	-29,359	-0.02
f. Chapter 657/75 (AB 1681) Petit Jury Panel Selection	—	168	—
g. Chapter 700/75 (AB 1886) Vehicles: Licensing of Vehicle Identification Verifiers	1.0	11,247	0.01
h. Chapter 844/75 (SB 193) Accreditation of Traffic Violator Schools	3.1	63,221	0.05
i. Chapter 943/75 (AB 509) New Motor Vehicle Board: Motorcycle Dealers	—	3,542	—
j. Chapter 1036/75 (AB 2044) Motor Vehicles: Lien Sales	3.4	34,656	0.03
k. Chapter 1050/75 (AB 1864) Off-Highway Vehicles ..	7.8	91,187	0.07
l. Chapter 1133/75 (SB 330) Drunk Driving Treatment Centers in Lieu of Penalties	-1.7	-19,127	-0.01
m. Chapter 1179/75 (SB 192) Parking Offenses: Registration Suspension	13.3	225,009	0.17
n. Chapter 1198/75 (AB 620) Identification Cards: Senior Citizens and Deletion of Minimum Age	19.6	262,458	0.20
o. Chapter 1250/75 (AB 934) Bicycles: Definition, Registration and Licensing	—	13,268	0.01
4. Costs of Drivers Licenses and Identification Cards			
a. Workload increase	—	63,550	0.05
b. Price increase	—	265,000	0.21
5. Attorney General Charges (New Motor Vehicle Board and DMV)	—	23,800	0.02
6. Hearing Officer and Reporter Fees (New Motor Vehicle Board and DMV)	1.0	-114,800	-0.09
7. Abolish New Motor Vehicle Board	-7.5	-133,360	-0.11
8. Mobile Field Office	6.2	143,407	0.11
9. Field Office Murals	—	100,000	0.08
10. Field Office Customer Child Care Areas	13.0	91,904	0.07
11. Administrative Adjudication of Traffic Offenses	—	300,000	0.23
12. Utilizing CLETS for Criminal History Background	4.5	-36,304	-0.03
13. Minor Capital Outlay	—	-200	—
14. Savings from Purchase of Copy Machines in 1975-76 ...	—	-423,262	-0.33
15. Post Licensing Control Reporting and Evaluation System (federally funded in 1975-76)	1.6	34,641	0.03
16. Controlling Use Tax Collection (fully reimbursed)	1.7	14,292	0.01
17. Increased Man-years for District 32	—	764	—
18. Chapter 53/73, Fire Damage	—	-233,900	-0.18
Subtotal	333.4	\$5,776,733	4.78%
Reimbursements	—	-127,019	—
Federal Funds	—	368,164	—
Total Expenditures	333.4	\$6,017,878	5.00%

five years from \$84 million to \$133 million or 58 percent. The largest portion of this increase has resulted from inflation, increased workload, and increased statutory requirements for additional services to the public. These developments have generally followed the growth trends established throughout state government. Funds which support the department's operations have also grown over the years but at a slower rate.

Fund Condition. Support for the department comes from a variety of special funds with most appropriations originating in the Motor Vehicle Account, State Transportation Fund and the Motor Vehicle License Fee Account, Transportation Tax Fund. Together, these two sources have accounted for 96 to 98 percent of the department's total budget over the past five years. The increases in total resources in these two accounts and the portion of such resources appropriated to the DMV are presented in Table 3. Table 4 compares these same figures by means of an index with 1972-73 serving as the base year equal to 100 percent. The tables show that while all figures have grown over the five-year period, the department's expenditures have grown considerably faster than the resources in the two funds. This same situation exists for other agencies receiving funds from the Motor Vehicle Account.

Fee Structure. While the DMV has become a greater burden on the Motor Vehicle and Motor Vehicle License Fee Accounts, its fee structure has remained static in some areas. The most noticeable of these has been the fee charged for issuance of a driver's license. This fee has remained at \$3 since 1953 except for the \$0.25 increase approved in 1971 to provide colored photographs in place of black and white. The effects of this static condition for the drivers' license program are shown in Table 5 which indicates the program not only spends more than it charges for its services, but the gap between expenditures and fee collections continues to widen at a rapid rate.

The number of driver's licenses issued annually has increased 14 percent over the past five years while fees collected for this operation have increased only 10 percent. More significantly, the expenditure necessary to issue these licenses has increased 40 percent in the same period. Where expenditures exceeded fee collections by \$6.7 million in 1972-73, the difference is estimated at \$13.4 million for 1976-77.

Related Developments. Support from the Motor Vehicle Account for agencies other than DMV has also grown faster than resources in the account itself. Thus, the need for an ever-growing share of the Motor Vehicle Account to support agency operations is not unique to the Department of Motor Vehicles.

The result of these growing operational expenses is a decline in money available for transfer from the Motor Vehicle Account to the State Highway Account. These transfer funds have in the past assisted in the support of the operations of the Department of Transportation (CALTRANS).

Table 3
DMV Expenditures from Motor Vehicle Account
and Motor Vehicle License Fee Account

	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>
Motor Vehicle Account Total Resources	\$333,863,790	\$387,873,119	\$394,754,639	\$441,590,013	\$402,121,819
DMV Total Appropriation from Motor Vehicle Account ^a	72,961,846	75,318,809	84,249,152	114,715,848	110,271,842
Motor Vehicle License Fee Account Total Resources	318,137,070	353,410,622	348,057,978	384,740,984	435,868,332
DMV Total Appropriation from License Fee Account	9,327,365	10,495,862	12,526,442	14,914,976	15,783,223

^a Includes appropriation for capital outlay.

Table 4
Index of Vehicle Account Expenditures by DMV

	1972-73 ^a	1973-74	1974-75	1975-76	1976-77
Motor Vehicle Account	100.0%	116.1%	118.2%	132.3%	120.4%
DMV Appropriation from Motor Vehicle Account	100.0	103.2	115.5	157.2	151.1
Motor Vehicle License Fee Account	100.0	111.1	109.4	120.9	137.0
DMV Appropriation from License Fee Account	100.0	112.5	134.3	159.9	169.2

^a 1972-73 base year equals 100%.

Table 5
Drivers' License Issuance
Revenues and Expenditures

	1972-73	1973-74	1974-75	1975-76	1976-77
Drivers' License Issued.....	4,193,000	4,405,000	4,677,000	4,640,000	4,790,000
Drivers' License Fees Collected.....	\$13,312,147	\$14,206,602	\$14,379,723	\$14,299,000	\$14,679,000
Expenditures	\$20,086,706	\$21,062,464	\$23,076,844	\$27,007,769	\$28,133,893
Fees Less Expenditures.....	\$-6,774,559	\$-6,855,862	\$-8,697,121	\$-12,708,769	\$-13,454,893

With transfer funds in serious decline, funding for CALTRANS has been placed in jeopardy. Projections of future transfer fund availability point to further declines and indicate the possibility of deficiencies in the Motor Vehicle Account unless new revenues and/or cost reductions are forthcoming. Without new revenue sources or the more efficient use of current funds, support problems for the Department of Transportation will continue while capital outlay funds for the DMV and California Highway Patrol could become scarce or nonexistent.

We believe that the Department of Motor Vehicles should review the fee structure which it administers. This study should closely examine whether fees charged for services meet the costs of performing such services, recommending alternative procedures if they do not. The department should also critically probe areas where cost reductions might be realized in order that department support requirements do not continue to outpace the growth of support fund resources.

Progress of Required Reports

The department was required to make various special reports to the Legislature as a result of recommendations contained in the Supplementary Report of the Committee on Conference, Budget Bill of 1975. A brief discussion of these reports together with associated issues follows.

Program Planning, Budgeting and Control

We recommend the department conduct a feasibility study of developing an integrated and more detailed program structure and manpower reporting system. This study should provide information on program planning, budgeting, and control alternatives lacking in the current report which was required by the Legislature. The new report should be submitted to the Joint Legislative Budget Committee by November 1, 1976.

The Legislature approved language calling for the department to study all practicable alternatives for achieving improved program alignment of its organization and strengthening of its program planning, budgeting, and control functions. We do not believe that the study on this topic submitted for legislative review addresses the critical questions called for in the recommendation.

The study submitted is an explanation and justification of the department's current operations in these program and control areas ending with the conclusion that a study of alternatives is needed. The department states that the most likely areas for improvement are development of a more detailed program structure and a program cost accounting system. The department further states these studies should be accomplished with resources currently available. We agree with the need to examine these areas but point out that these goals were to be accomplished through the current study effort.

We recommend, therefore, that the department complete the requirements previously set for it in these areas by November 1, 1976 and that it do so with existing resources. In addition, we recommend the department's further study be a comprehensive effort and include examination of all parts of its fragmented information base, EDP reporting and MARC efficiency systems, and cost allocation crossover system.

DEPARTMENT OF MOTOR VEHICLES—Continued**Post Licensing Control Reporting and Evaluation System**

The department has submitted the required interim report on development of its post licensing control reporting and evaluation system. The report notes that when further developed, the system will enable the department to allocate resources to its driver improvement programs on the basis of hard data at subprogram levels. The system has been under development for several years and began collecting useful data in February of 1975. This data will assist in driver improvement program decisions as well as the continuous refinement of the system itself.

Until now the development process has been limited to the area of negligent operator activities and has been funded from federal funds through the Office of Traffic Safety. Eligibility for federal funding has been exhausted with the result that the 1976-77 budget includes \$52,425 to complete the system's development. A final program effectiveness report will be submitted to the Joint Legislative Budget Committee by May 30, 1976.

Computer Issuance of Registrations and Licenses

The supplementary report language directed the department to provide the Joint Legislative Budget Committee with an interim report of on-line issuance of vehicle registrations and drivers licenses by December 1, 1975 with a final report due April 1, 1976.

The interim report indicates that the project has developed few concrete conclusions to date and is still testing general assumptions in various areas. One reason given for this is the project's interrelationship with other computer studies being done by the department, including replacement of DMV's interim computer system, administrative adjudication, and the handling of parking citation information (SB 192).

While we appreciate the complexity of these parallel developments, we believe the department can develop more concrete conclusions regarding on-line issuance. We note the on-line pilot project scheduled for April 1976, and urge the department to make results available to the Legislature at the earliest possible date to assist in determining legislative policy in this area.

Replacement of Interim Computer System

The department was directed to prepare an interim report on replacement of its interim computer system by December 1, 1975 with a final report due in April, 1976.

Our review of the interim report indicates that the department is considering three alternative replacement schemes: (1) replacement of interim equipment through the bid process, (2) consolidation with the Teale Data Center, and (3) additional upgrading of the interim system. Again, the final decision hinges in part on the outcome of other computer studies underway in the department.

The department believes that a final replacement decision may have to await expression of legislative intent toward administrative adjudication and on-line issuance. We would again urge the department to make logical

assumptions as to possible outcomes and proceed to develop a final recommendation and contingency plans based on such information.

Reorganization of Planning Functions

In past analyses we have commented on the department's need to take a more aggressive approach toward comprehensive long-range planning and development of program plans. We have also recommended the creation of a departmental planning unit to perform departmentwide planning and research versus the traditional planing-by-division structure of the DMV. We have maintained that the existing decentralized planning structure did not encourage the coordination and most effective use of planning resources.

Recently the department has taken some actions which may strengthen its planning operations. The director has approved the consolidation of previously fragmented planning resources into one umbrella unit under the supervision of the head of the research and statistics unit. This reorganization has the effect of combining personnel from the management and reporting control (MARC) standards unit, the management analysis unit, and the research and planning unit into a central planning organization of approximately 100 persons.

The ultimate structure of this unit has not been determined pending a review of unit resources and responsibilities by its new supervisor. Information supplied by the department indicates no promotions or position upgrades were included in the consolidation. Thus, no increase in operating expenses is requested at this time.

Parallel to this the department is seeking to update its MARC and AMIS (Automated Management Information System) units to enable better monitoring of DMV operations, expenditures, and program effectiveness. These information systems should assist the department in implementing and updating its comprehensive long-range plan.

With these outlined efforts still in the early stages of development we believe evaluation of their effectiveness should be withheld until more information is available.

I. VEHICLE LICENSING AND TITLING

The vehicle licensing and titling program has been established to (1) register vehicles and establish ownership records, (2) collect in lieu taxes, weight fees, and registration fees, and (3) provide vehicle registration information.

The department estimates that this program will process 2,241,000 original and 14,869,000 renewal registrations in 1976-77 while collecting approximately \$782 million in revenues. Support for this program is budgeted at \$65,705,830, an increase of \$2,568,667 (4.07 percent) over 1975-76 totals. (Items 211 and 213.)

Program inputs and outputs are summarized in Tables 6 and 7, respectively.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 6
Vehicle Licensing, Program Inputs

Program Elements	Man-Years		Program Costs	
	1975-76	1976-77	1975-76	1976-77
Vehicle licensing	1851.2	1979.2	\$30,624,600	\$32,442,493
Vehicle fee collection	1009.2	1027.6	18,917,118	19,205,171
Vehicle record maintenance	396.9	416.2	5,684,464	6,020,139
Vehicle information	175.4	183.2	2,390,659	2,514,160
Administration distribution	306.6	297.0	5,525,846	5,523,867
Totals	3739.3	3903.2	\$63,142,687	\$65,705,830

Table 7
Vehicle Licensing, Program Outputs

Program Activities	1975-76	1976-77
Vehicle registrations	16,971,000	17,110,000
Fees, Motor Vehicle Account	\$376,737,300	\$366,385,300
Fees, Motor Vehicle License Fee Account	\$370,000,000	\$415,000,000
Records processed	16,867,000	18,134,000
Information requests—item count	27,089,000	28,673,000
Fees, information requests	\$959,100	\$976,900

Customer Child Care Centers

We recommend deletion of the department's budget request for \$91,904 in Item 211 to operate customer child protection centers in 10 of its large field offices.

The department is requesting \$91,904 in 1976-77 for the creation and operation of customer child care facilities in certain of its large field offices. The department plans to set aside portions of the public lobby areas in these offices as centers where children could play and be supervised while parents conducted their business with the DMV. In addition to supervisory personnel, the department would supply furniture and various play materials to keep the children occupied. The amount budgeted for these services includes \$7,310 for materials and supplies and \$84,594 to cover salaries and staff benefits. These totals have been reduced from original plans for 66 centers at a cost of \$609,000.

During the past year the department has operated a pilot customer child protection program in one of its Los Angeles offices. Pilot results show that between 10 and 50 children used the center on any given day with the average being about 18. The average stay in the care center was approximately 30 minutes with the range being from 5 minutes to over 3 hours. Supervisory personnel were on duty at all times. The department reports it lacks figures on the number of parents who bring their children to DMV offices as well as the percentage of these children who actually use the care facility.

We have recommended funding for this program be denied for the following reasons.

1. The program would be expanded statewide at an additional cost of \$500,000 to \$1 million if the department was satisfied with results at the 10 proposed centers.

2. Pilot results indicate use of the test care facility was low.

3. If the department goes to computer issuance of registration and licensing, customer waiting time would be significantly reduced along with the need for child supervision.

4. The department's concern for the safety of uncontrolled children can be resolved through proper parental control of children without added cost to the state.

Mobile Field Office Pilot Program

We recommend deletion of \$143,407 in Item 211 for establishment of a mobile field office pilot program to provide department services in commercial shopping centers.

The department is requesting budget support to establish, equip, and staff a full-service mobile field office. The program would involve renting a trailer-type facility to take department services closer to customers in the hope of saving customer travel time and fuel. The trailer would periodically move from center-to-center and among regions of the state in dispensing its services. The proposal would authorize the creation of 6.2 new positions to perform these services.

Discussions with the department indicate that many details of the mobile office project are still to be worked out. These details, by no means insignificant, include the following:

1. The department has not made a comparison of projected transaction costs at the mobile facility and those at existing stationary facilities. Initial indications are that mobile transaction costs will either equal or exceed those at stationary offices.

2. The mobile facility would provide a service overlap with many existing field offices and would draw off business from these offices. Overhead expenses for affected existing offices would not follow the decline in workload however.

3. The department's request for 6.2 new positions does not account for the question of staffing arrangements as the facility moves around the state.

4. Service would be sporadic as the mobile facility moves around the state. Customers would be able to use the extended service for very short periods before it was relocated. Normal service patterns would then resume in the affected areas. Confusion could well result over whether the mobile facility had relocated or not.

5. If a house trailer were selected as the mobile facility then each relocation would require electrical and telephone hookups. Arrangements have not been made for this. On the other hand, if a self-contained recreational vehicle were selected, would it be large enough to provide the proposed services? Where would new driving test routes be established?

6. The department proposes also to serve remote areas not now served by existing field offices or travel locations. However, the proposed shopping center sites are generally found in heavily populated urban and suburban areas already served by existing field offices.

These problems with the proposal should not be ignored. The question of the tradeoff of convenience to the customer against added cost to the state is unresolved. Again, if the department seeks to reduce customer travel time and fuel costs then it should be more vigorous in promoting the transaction of business through the mails.

The department states that its capital facility planning has been built

DEPARTMENT OF MOTOR VEHICLES—Continued

around the concept of "the largest portion of the population traveling the least distance to their field office." Given this established criteria, the department's extensive network of 147 field offices and 53 travel service locations, and the precarious condition of the Motor Vehicle Fund, we recommend that the mobile field office proposal be deleted.

Motor Vehicle Inspection Program

We recommend that the Legislature instruct the Department of Motor Vehicles to comply with the supplementary language report of the Budget Act of 1975 requiring the department to submit a feasibility study for implementation of a Motor Vehicle Inspection program. The study should evaluate all principal modes of inspection and be conducted in coordination with the Department of Consumer Affairs, Air Resources Board, and California Highway Patrol. The completed study should be submitted to the Legislature and the Governor by the new due date of September 1, 1976.

In our 1975-76 Analysis (pages 339-344) we pointed out in considerable detail the need for a motor vehicle inspection feasibility study. This was done because the random vehicle inspection program then in operation had failed to influence motorists to maintain their vehicles in a safe condition. Our recommendation that the Department of Motor Vehicles (DMV) conduct a vehicle inspection feasibility study was included in the supplementary language report adopted by the Conference Committee on the Budget Act of 1975.

Parallel Legislative and Administrative Developments. We initially recommend the inspection study be undertaken after discussions with National Highway Transportation Safety Administration (NHTSA) officials indicated such a study would be viewed as an acceptable first step in meeting federal highway safety standards. Full compliance with these highway safety regulations was scheduled for June 30, 1978. Following publication of the 1975-76 Analysis, additional meetings with federal officials pointed out the need for a brake and tire safety inspection program in addition to the required feasibility study of implementation of a vehicle inspection program. These two programs in combination were then to serve as California's initial response to meeting federal highway safety standards and to avoid possible federal sanctions and loss of federal funding (\$10.6 million in federal highway safety grants).

The Legislature responded by approving a budget augmentation of \$2.215 million to conduct an experimental brake and tire inspection program in addition to the approved feasibility study. However, in his review of the Budget Act of 1975, the Governor vetoed the appropriation for the brake and tire program.

Response of DMV and Business and Transportation Agency. The DMV and Business and Transportation Agency have since interpreted the Governor's veto of the experimental brake and tire inspection program as a veto of the feasibility study as well. We believe that while the two projects are related, they are not related to the extent that they cannot be considered independent projects. Therefore, we believe that the requirement

for the inspection feasibility study remains in effect. The Business and Transportation Agency disagrees with this conclusion and has instructed the DMV not to commence the inspection feasibility study.

Continued Need for Feasibility Study. At this time California lacks any vehicle safety inspection whatsoever. The random vehicle inspections formerly carried out by the California Highway Patrol (CHP) have been judged ineffective and the program terminated at a substantial savings to the state. No replacement program, however, has been developed to fill the void created by termination of the CHP's random inspections. The inspection feasibility study approved by the Legislature was to have addressed this problem by providing additional data on which to base program decisions. By reviewing inspection programs already operating in other states, the feasibility study was to have helped determine which type of inspection program, if any, was best suited for conditions in California.

The situation regarding possible loss of federal highway safety funds continues to be unclear as federal efforts remain uncoordinated. During interim hearings held by the Assembly Transportation Committee, NHTSA officials testified that California was not in compliance with either motorcycle safety or vehicle inspection requirements and faced the loss of federal highway safety funds. These federal officials indicated that notices of sanction hearings were being prepared and that such hearings would focus on California's lack of progress in the area of vehicle inspection. Following this the U.S. Secretary of Transportation announced an indefinite reprieve in federal plans to cut off highway safety funds, further clouding federal plans on vehicle inspection.

We believe the basic issue of highway safety remains. A substantial number of mechanically unsafe vehicles continue in operation on the state's roads and highways, with many motorists unaware of such safety problems. A reasonable program of periodic safety inspection could do much to raise the level of safety consciousness among motor vehicle operators and in providing consumer protection when unsafe vehicles change ownership. The removal of unsafe vehicles from roadways would also result in a reduction of traffic injuries, fatalities and property damage. To develop a vehicle inspection program that will meet these and other needs requires information as to inspection feasibility, cost effectiveness, and cost efficiency. California now lacks this information. We believe that the need for this study remains so that officials may have reliable information on which to base policy determinations. Therefore, we recommend that DMV be directed to commence the project at once. In doing so the department should seek the cooperation of related agencies and make use of existing resources, including DMV's recently reorganized and consolidated research and planning unit.

Year-Round Registration

1976 marks the inauguration of the department's new system of year-round vehicle registration as provided for in Chapter 889, Statutes of 1973 (SB 1356). Year-round registration should allow for a leveling of department workload, an increase in efficiency, and enable the department to provide additional services in the future. The program changeover was

DEPARTMENT OF MOTOR VEHICLES—Continued

originally scheduled for implementation in 1975 but was delayed to enable the department to acquire sufficient computer capability for the change in service. The necessary computing resources have been acquired and have permitted the program to proceed.

Conversion to the new system is generating minor problems and complaints among customers making the adjustment. This is to be expected because of the magnitude of the change and the confusion resulting from the rescinding of plans to offer a one-time 10 percent reduction in registration fees to make implementation more palatable to the public. We foresee no major or continuing problems in these areas, however.

The operation of year-round registration will be more expensive than annual registration. This change was noted in the Legislature's past deliberations as to the merits of the switchover but was accepted due to a substantial increase in revenue to the state and local governments. The department's revised estimates of year-round support costs show an increase of \$760,000 in addition to the \$860,000 originally forecast. This change has resulted from corrections made in previous assumptions concerning operating costs of the annual registration process. However, the net effect of year-round registration remains one of significantly increased revenues. The Motor Vehicle Account will realize enough increased revenues to offset year-round operational costs while the Motor Vehicle License Fee Account is expected to show a net gain of \$30 to \$40 million annually.

II. DRIVER LICENSING AND CONTROL

This program is designed to promote the public's maximum use of the road and highway system while minimizing exposure to injury, death, or property loss. These goals are achieved through the activities of licensing drivers, promoting safe driving practices, and exercising control over drivers who have mental or physical impairments or have been judged to be unsafe. New operations in 1976-77 will include providing anatomical donor stickers with driver's licenses and identification cards and furnishing information to county jury commissioners to expand potential jury populations.

During the 1976-77 budget year this program is expected to process 4,790,000 original and renewal driver's licenses while maintaining records on 13,719,000 outstanding licenses. An estimated 407,000 identification cards will also be issued through the program. The department's support request is \$50,222,160, an increase of 6.17 percent over the current year (Items 210 and 211).

Program inputs and outputs are shown in Table 8 and 9, respectively.

Table 8
Driver Licensing, Program Inputs

Program Elements	Man-Years		Program Costs	
	1975-76	1976-77	1975-76	1976-77
Drivers license issuance.....	1554.7	1621.1	\$27,007,769	\$28,133,893
Post licensing control	806.6	842.2	13,048,577	13,734,480
Certificate issuance.....	9.3	9.7	210,503	228,165
Information services.....	234.8	253.5	3,737,864	4,084,390
Administration distribution.....	213.2	216.2	3,968,059	4,041,232
Totals	2818.6	2942.7	\$47,972,772	\$50,222,160

Table 9
Driver Licensing, Program Outputs

<i>Program Activities</i>	<i>1975-76</i>	<i>1976-77</i>
Drivers licenses issued	4,640,000	4,790,000
Drivers license fees	\$14,299,000	\$14,679,000
Post licensing control		
Warning letters sent	134,000	139,000
Persons called to group meetings	42,400	49,200
Reexaminations and hearings	82,290	88,990
Licenses suspended or revoked	176,170	187,720
Licenses reinstated	186,000	196,000
Special operators certificates issued	15,560	16,190
Information requests	10,165,000	10,901,000
Information fees	3,995,600	4,097,100

Administrative Adjudication

Resolution Chapter 86, Statutes of 1975 (SCR 40), requested the Department of Motor Vehicles to study the feasibility of implementing a system of administrative adjudication of traffic offenses in California. In carrying out the study the department was to seek the cooperation of the Judicial Council and consult with the County Supervisor's Association and League of California Cities. This legislation followed closely our recommendation in the 1975-76 Analysis where we suggested a critical review of such adjudication systems operating in other states and a study of implementation feasibility in California.

SCR 40 provided for the appointment of an advisory committee and study team to analyze administrative adjudication and report to the Legislature and Governor by April 1, 1976. The feasibility study team has since visited New York, Rhode Island, and Washington State to gather information for the study and report. The advisory committee, with members representing the DMV, courts system, automobile associations and local government, has met regularly with the study team to shape a California model of administrative adjudication. The project expects to meet its April 1, 1976, reporting date and submit its findings for legislative review.

The Law Enforcement Assistance Administration's designation of administrative adjudication as an exemplary project coupled with actual experience in New York and study progress to date have provided the Department of Motor Vehicles with confidence in the system's feasibility for California. In view of this, plans are now being made for an implementation study which will begin in June 1976 and require approximately 18 months to complete. During this time, necessary EDP systems analysis and programming will be completed along with the further refinement of the California model. Legislative approval will be sought to put the system into initial operation by January of 1978.

Resources to carry out the implementation study and programming are included in the 1976-77 Budget Act appropriation. A total of \$300,000 has been budgeted with additional funding being sought from federal sources. The Office of Criminal Justice Planning, which administers federal Law Enforcement Assistance Administration funds, has deferred action on the

DEPARTMENT OF MOTOR VEHICLES—Continued

department's grant proposal pending a statement of legislative intent of California's commitment to proceed with administrative adjudication. Passage of the Budget Act containing funds to continue the project should serve to express legislative intent in this area.

We believe that continued support of the administrative adjudication study and implementation effort is warranted. Experience in other states and study results thus far indicate that administrative adjudication is a significant step forward in improving both the disposition of traffic offenses and functioning of the judicial system. As many as 40 municipal court and 13 justice court judicial positions would become available to handle criminal matters and help relieve the backlog in California's courts. Driving records and driver improvement activities would be enhanced and the efficient use of law enforcement personnel would be increased.

We recommend that the project actively pursue federal funding and substitute federal resources for state resources wherever possible. Any savings of state funds should be reserved as seed money for future federal grants and operation of the pilot project.

III. OCCUPATIONAL LICENSING AND REGULATION

The department provides consumer protection to the motoring public through its occupational licensing and regulation program. This protection is realized through the program's regulation of persons and firms engaged in the manufacture, transportation, sale, distribution, and dismantling of vehicles. The program also serves as a means of remedial or recovery action for victims of financial loss.

Support for this program is budgeted at \$7,451,006 for 1976-77, a decrease of \$34,631 (-0.46 percent) over the current budget year. This amount will support a workload decrease of 4.1 man-years (Item 211).

Program inputs and outputs are presented in Tables 10 and 11, respectively.

New Motor Vehicle Board Not Funded

We recommend that the Legislature give special review to the department's proposal to abolish the New Motor Vehicle Board effective January 1977. This review should critically examine the operations of the board and the overlapping legal and fiscal responsibilities.

Chapter 1397, Statutes of 1967, established the New Motor Vehicle Board as a regulatory body to hear appeals from actions taken by the Department of Motor Vehicles against new motor vehicle dealers. Legislation in 1973 (Chapter 996) expanded the board's jurisdiction to include handling of consumer complaints against dealers and the resolution of disagreements between dealers and manufacturers in addition to its appeal responsibilities. An indication of the board's workload is provided in Table 12 which shows the greatest number of cases falling under the consumer complaint category. Cases falling under the appeals and protest categories, however, tend to be the more complex, expensive, and now controversial matters conducted by the board.

Table 10
Occupational Licensing, Program Inputs

Program Elements	Man-Years		Program Costs	
	1975-76	1976-77	1975-76	1976-77
Occupational licensing	105.8	106.9	\$1,968,460	\$1,853,428
Occupational regulation	220.6	215.9	4,798,934	4,867,029
Administration distribution.....	41.3	40.8	718,243	730,549
Totals	367.7	363.6	\$7,485,637	\$7,451,006

Table 11
Occupational Licensing, Program Outputs

Program Activities	1975-76	1976-77
Occupational licenses issued	20,840	22,110
Special license plate fees	\$1,019,000	\$1,076,000
Application fees	\$328,500	\$381,600
Salesmen licenses issued.....	51,755	38,565
Salesmen license fees	\$968,500	\$690,200
Driving school licenses issued.....	255	280
Driving instructor licenses issued	995	1,040
Driving school and instructor fees	\$41,000	\$49,900
Complaints against licensees.....	13,300	15,000
Dealer and dismantler reviews	1,590	1,790
Administrative actions against licensees	2,900	3,400
Administrative service fees	\$2,230,000	\$2,500,000
New vehicle dealers fees	\$150,000	\$2,000
Field reviews of driving school programs.....	1,830	2,100

Table 12
New Motor Vehicle Board Caseload

	Appeals	Consumer Complaints	Protests ^a
1972	13	273	—
1973	15	603	—
1974	13	710	11
1975	7	834	69

^a Authority to handle protest cases was included in 1973 legislation. 1974 protest figures represent 6 months' activities.

Developing Controversy. Controversy has developed over the board's handling of appeals and protest cases. The number of protest cases in 1975 was eight or nine times as large as forecast. This is significant because about one-half of these protests require hearing procedures costing nearly \$2,000 each. According to the board, the protest cases are heard by the Office of Administrative Hearings with the average case taking two days to complete. Therefore, each day of such hearings generate costs of approximately \$1,000.

Additional controversy has arisen over the board's modifications of department actions in appeals cases. The department states that the rate of reversal is one indicator that the board is serving the special interests of new motor vehicle dealers and not those of the general public. Figures show that since 1969, of the 57 appeals cases where the board has reviewed department actions, the board has sustained the department's decision in 25 cases (44 percent) and modified the decision in 32 cases (56 percent). When the DMV's actions have been modified the department has, in effect, appealed the appeal by taking the matter to court. The board

DEPARTMENT OF MOTOR VEHICLES—Continued

reports the courts have consistently upheld board decisions.

Financial Questions. Disagreement also exists between the board and department over how much the board's operations actually cost. DMV estimates a budget of approximately \$400,000 in 1975-76. The board maintains that this figure is exaggerated. Until this question is resolved, it cannot be determined with any certainty whether the \$35 fee paid by new vehicle dealers, distributors, and manufacturers (\$150,000 total) covers the expenses incurred by the board. Any costs not covered are made up from the Motor Vehicle Account.

Several suggestions have been mentioned by the board and the department regarding the resolution of the financing question. These include a provision where the board would conduct its own hearings and also the recommendation that the DMV conduct the hearings. Little progress has been made on these proposals.

Recommended Action. No clear picture has emerged from the various allegations other than the department's proposal to abolish the board by deleting funds for its operation. We believe the need exists for special legislative review of this issue. This review should examine the issues outlined above as well as questions of overlapping authority and possible alternate funding mechanisms to ensure that state money does not subsidize a service provided to special as opposed to public interests.

IV. COMPULSORY FINANCIAL RESPONSIBILITY LAW

The purpose of this program is to administer and enforce provisions of the Compulsory Financial Responsibility Law. This law insures that a source of compensation is available to persons damaged and/or injured in automobile accidents by requiring operators of motor vehicles to maintain a form of financial responsibility during all times of operation.

The department request for support of this program in 1976-77 is \$3,351,913, an increase of \$11,274 (0.34 percent). This represents a reduction of 3 man-years from 1975-76.

Program inputs and outputs are summarized in Tables 13 and 14, respectively.

Table 13
Compulsory Financial Responsibility Law Program Inputs

<i>Program Elements</i>	<i>Man-Years</i>		<i>Program Costs</i>	
	<i>1975-76</i>	<i>1976-77</i>	<i>1975-76</i>	<i>1976-77</i>
Driving privilege control.....	200.7	196	\$2,723,731	\$2,701,985
Information services.....	24.9	24.4	347,663	347,675
Administration distributions.....	15.1	17.3	269,245	302,253
Totals.....	240.7	237.7	\$3,340,639	\$3,351,913

Table 14
Compulsory Financial Responsibility Law, Program Outputs

<i>Program Activities</i>	<i>1975-76</i>	<i>1976-77</i>
Accident reports processed.....	622,000	593,000
Orders of suspension issued.....	132,300	139,915
Reinstatement of driving privilege.....	57,700	61,600
Reinstatement fees.....	\$346,200	\$369,600
Information requests.....	31,400	33,000
Information request fees.....	\$31,400	\$33,000

V. DEPARTMENT OF MOTOR VEHICLES, ASSOCIATED SERVICES

The purpose of this program is to provide the public with a variety of auxiliary services not directly related to the regulation of street vehicles or drivers licensing. This program utilizes the department's network of service locations to provide identification cards, vessel registration and tax collection, off-highway vehicle and bicycle licensing, and the issuance of special license plates.

The department is requesting \$6,590,158 to support this program in 1976-77, an increase of \$815,078 (14.11 percent) over the current year. This will enable the program to handle an expected workload increase of 52.5 man-years (Items 211, 214, 215, and 216).

Program inputs and outputs are summarized in Tables 15 and 16, respectively.

Table 15
Associated Services, Program Inputs

Program Elements	Man-Years		Program Costs	
	1975-76	1976-77	1975-76	1976-77
Identification card issuance	36.3	57.4	\$647,329	\$953,427
Undocumented vessel registration	71.2	74.4	1,019,296	1,069,663
Environmental license plate issuance	66.4	69.2	615,836	712,529
Use tax collection	141.5	145.6	1,773,013	1,845,682
OHV registration	70.5	91.8	1,306,858	1,559,917
Bicycle licensing	—	—	63,169	78,437
Administration distribution	8.0	8.0	349,579	370,503
Totals	393.9	446.4	\$5,775,080	\$6,590,158

Table 16
Associated Services, Program Outputs

Program Activities	1975-76	1976-77
Identification cards issued	259,610	407,910
Identification card fees	\$834,000	\$1,302,700
Vessel registrations	518,100	546,000
Vessel registration revenue	\$1,680,300	\$1,770,100
Environmental License Plates Issued	214,800	240,300
Environmental License Plate fees	\$3,058,800	\$3,413,700
Use tax collections	\$66,730,000	\$67,157,000
OHV registrations	161,800	168,100
OHV service fees	\$937,300	\$1,485,300
OHV recreational fees	\$970,800	\$1,608,600
OHV in-lieu taxes	\$647,200	\$1,072,400
Bicycle license tags issued	1,000,000	750,000

VI. DEPARTMENTAL ADMINISTRATION

The purpose of the department's administration program is to provide executive direction in administering and enforcing provisions of the Vehicle Code, formulate departmental policy and provide management support services (to include EDP services) to all department programs.

The budget request for this program is \$10,968,404 (1.27 percent) over the current year. This allows for a net decrease of 4.9 man years. (The costs

DEPARTMENT OF MOTOR VEHICLES—Continued

of this program are distributed to the department's other operational programs).

Program inputs are summarized in Table 17.

Table 17
Department Administration, Program Inputs

Program Elements	Man-Years		Program Costs	
	1975-76	1976-77	1975-76	1976-77
Executive	21.6	20.6	\$475,622	\$475,455
Program administration	160.4	165.0	3,400,109	3,570,571
Legal	20.4	22.4	428,420	470,624
Fiscal and business management.....	88.0	88.2	1,147,008	1,175,007
Personnel and training.....	80.1	81.0	1,188,707	1,242,856
Operations and management analysis	72.4	72.4	1,147,633	1,196,985
Research and planning.....	41.5	33.1	827,315	667,083
Public information.....	4.1	4.1	78,858	78,087
EDP services.....	95.7	92.5	2,137,300	2,091,736
Totals.....	584.2	579.3	\$10,830,972	\$10,968,404

Field Office Murals

We recommend deletion of \$100,000 in Item 211 for the painting of murals on walls of department field offices.

During the current budget year the department experimented with a program of painting wall murals in 39 of its field offices, 16 of which are still in progress. The department states that it initiated the program in an effort to improve its public image and foster better community relations. Of the amount expended on this project, \$4,000 was drawn from maintenance funds to purchase artists' supplies while \$17,665 in funds for temporary help was used to pay artists for their work. Following initial legislative inquiries, the payment of artists for their work was halted in favor of the soliciting of donated artists' time in various communities.

The department now proposes to continue and expand this program throughout its remaining field offices in 1976-77 at a cost of \$100,000. The budgeted total would be used to fund both artists' fees and supplies. The practice of asking for donated services would be discontinued. Based on the expenditure breakdown for 1975-76, the bulk of the new amount budgeted can be expected to be used for payment of artists' fees.

The department reports that in a trial bid conducted for the painting of a selected portion of one office, the mural artists' bid was slightly lower than the bid of the Department of General Services. Even if it can be verified that free-lance artists can underbid painting contractors on selected projects, this does not mean that the painting of murals can be considered an economy move by the department. We note that the department has no plans to repaint en masse the walls now scheduled for murals. Repainting of field office walls is done when needed and approved through regular maintenance requests. Consequently, the mural project would paint walls not scheduled for repainting.

In addition, we note that alternatives do exist for improving the department's public image and office decor. Artists could continue to be solicited for their services or the various field offices could offer their walls for

rotating shows by local artists. If friendly service is the goal, this can more easily be accomplished through courteous and competent delivery of services rather than through the painting of murals on walls.

Again, we are concerned with the increasing demands being placed on the Motor Vehicle Account and believe prudent policy would be to minimize unnecessary expenditures from this account.

Reduction of Temporary Personnel

We recommend a reduction of \$90,119 in Item 211 for additional temporary personnel in District 32 (Los Angeles). We expect increased operating efficiency to result from the department's program to place bilingual staff at counters in the affected district, thereby eliminating the need for additional temporary help.

The department has requested an additional 8.5 temporary positions in 1976-77 for the 10 offices in its Los Angeles district. This request comes as the result of an increase of 3.5 percent in the district's utilization rate. The department seeks to reduce this rate to match the overall division utilization rate increase of 2 percent.

The calculation of utilization rates is based on a number of factors with one of the most important being the actual time employees spend working. For example, if long lines persist and service counter personnel are required to remain at the counter continually, their utilization rate increases.

The department reports long lines in its Los Angeles offices because of the area's high percentage of minority and non-English speaking applicants. Such language barriers slow the transaction and service process and create longer waiting lines, requiring department personnel to remain longer at service counters.

Recently the department initiated its program of recruiting employees with bilingual skills. These employees will be placed in areas like Los Angeles to handle language problems. Registration and licensing activities will be speeded up, lines should shorten, and increased efficiency should result. These improvements should enable the department to accommodate its work load without additional personnel.

Minor Equipment

We recommend a reduction of \$4,080 in Item 211 for minor equipment expenses for installation of new carpeting in offices of Division of Drivers Licenses. The department is withdrawing its request because the proposal does not meet necessary criteria for approval.

We recommend also that \$17,297 budgeted for minor equipment in North San Diego field office be deferred until the facility is constructed.

The department initially proposed to install new carpeting in the Drivers Licenses Division offices and included the request in its minor equipment budget. The department has since indicated it cannot justify the expenditure according to criteria established for minor equipment purchases. Consequently, the proposal for carpeting has been withdrawn but came too late to be reflected in the Governor's Budget.

The department is requesting \$17,297 to purchase minor equipment for its new North San Diego field office. This office is to be constructed in

DEPARTMENT OF MOTOR VEHICLES—Continued

1976-77 and purchased equipment will have to be stored until the facility is completed. Purchase of this new equipment can be deferred until next year at which time it should be included among the department's minor capital outlay proposals.

Minor Capital Outlay

We recommend a reduction of \$7,750 in Item 211 for minor capital improvement projects.

One project proposes to install chain link fencing at the Carmichael field office at a cost of \$4,500. The purpose is to control pedestrian walking patterns. We recommend it be deleted for a reduction of \$4,500.

The Hayward field office has been plagued with roof leaks because of poor flashing around the roof mounted mechanical system. Originally the department requested \$7,000 to construct a roof above the mechanical equipment. Subsequently, the department determined that by installing new flashing costing \$5,000, a savings of \$2,000 can be realized. We recommend a reduction of \$2,000.

One minor project request is for the installation of soundproofing material in hearing rooms and group educational meeting rooms (\$27,800). Several of the requested alterations are in leased facilities for which new state owned facilities are currently under construction (West Covina and Modesto). We recommend they be deleted for a reduction of \$1,250.

Budgeting Minor Capital Outlay

We recommend minor capital outlay be a line item budget under the major capital outlay section of the Budget Bill.

Construction projects valued less than \$100,000 are considered as minor capital outlay. This includes projects such as alterations and other small construction projects.

In prior years, funds were appropriated under the capital outlay section of the Budget Bill as a line item amount. However, for the past several years these projects have been funded under the department's support and operations budget. This has resulted in a lack of adequate coordination between major and minor capital outlay projects. In addition, funds have been transferred between minor capital outlay and support and operations. Such transfers tend to increase the support budget base line amount resulting in increases in the ongoing support and operations budget.

This method of funding is detrimental to providing the physical space alterations necessary to meet departmental program needs. Hence, we recommend the minor capital outlay program be presented in future budgets as a line item under the major capital outlay section of the Budget Bill. This will (1) provide the appropriate level of review by the administration and the Legislature, (2) assure that necessary capital improvements will be accomplished as intended and (3) prevent unsubstantiated increases in support budgets.

Department Efforts Summarized

In summary, we believe that the department's efforts to improve staff development and morale, to consolidate and integrate program planning resources, to provide bilingual services at its public counters, and to increase the efficient handling of its business and service responsibilities are steps to be commended. We support also the development of a comprehensive department approach in delivering its services and the move away from the division-by-division decision making which has previously characterized the department.

We take issue, however, with the DMV attitude about its relationship with those using its services. We believe that certain departmental efforts to enhance its public image and to extend its services exceed its responsibilities and the needs of the public.

Unlike commercial concerns, the DMV does not need to entice customers to purchase its services which are governmental and essentially non-competitive in nature. The DMV regulates driving privileges. Drivers come to the department to obtain and maintain that privilege. No promotion should be necessary. We oppose, therefore, the creation of customer child protection centers, muraling of walls, unnecessary carpeting of offices, and the establishment of mobile service facilities. DMV clients typically have mobility. Unlike agencies providing health care or library services, DMV does not need to reach out for the aged, the infirm and those without transportation. DMV customers make only infrequent visits to DMV offices. Therefore, the department's aim should be to provide quick, basic, and economical service in minimal functional facilities.

Item 212, For Payment of Deficiencies in Appropriations

Existing law does not permit the creation of deficiencies in appropriations from the Motor Vehicle Account, State Transportation Fund. This means that the Department of Motor Vehicles is not allowed to borrow from the regular Emergency Fund to meet unforeseen and unanticipated financial needs. The Legislature has recognized this and for many years has provided a special contingency authorization to protect the Department of Motor Vehicles. The amount authorized for this protection has varied somewhat over the last ten years but has remained at \$500,000 since 1971-72. No actual expenditure from this amount is forecast for the coming year.

STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 217, transfers from other items and reimbursements from various funds.

Budget p. 530

Requested 1976-77	\$10,390,762 ^a
Estimated 1975-76.....	10,017,727
Actual 1974-75	13,605,580
Requested increase \$373,035 (3.7 percent)	
Total recommended reduction	\$155,081

^a Reimbursements and transfers from other items.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. *Billing Rates.* Recommend billing rates be reduced to avoid substantial income surplus. 383
2. *Position Reduction.* Reduce \$92,405. Recommend 3.8 positions be deleted to reduce overhead. 385
3. *Training.* Reduce \$25,000. Recommend training program be scaled down. 385
4. *Equipment.* Reduce \$8,000. Recommend elimination of unnecessary equipment purchases. 385
5. *Computer Printer.* Reduce \$29,676. Recommend excess printer capacity be reduced. 385

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four consolidated data centers authorized by the 1972 Session of the Legislature. It has been in process of implementation since that time. The center will provide essential computer services to 34 departments and the Legislature during the 1976-77 fiscal year. Most of the departments are customers of the center in the current year.

The center, which is a part of the Business and Transportation Agency, was established to provide a modern computing capability to its users while at the same time minimizing the total cost of data processing to the participating departments. The state has invested approximately \$9 million and a substantial amount of personnel resources to implement the Teale Data Center. This amount includes preparation of the computer site and departmental program conversion.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes an expenditure program for the data center totaling \$10,390,762 in the budget year as compared with estimated expenditures of \$10,017,727 in the current year. The appropriation amount in the budget is zero because all funds are derived from user departments as reimbursement for services provided by the center.

Significant Developments

Approximately one year ago the center, which was still in process of implementation, faced both a funding shortage and major decisions regarding equipment requirements. The center leased two IBM 370/168 computers at that time and proposed to purchase them. Although the need for added funding was generally conceded, our office and others were concerned that equipment requirements be stated accurately before state funds were committed to the purchase of expensive computing equipment. Accordingly, Chapter 15, Statutes of 1975 (AB 355) was enacted to provide the required funding. However, the statute also required an independent and comprehensive evaluation of the center's needs before any major equipment purchase.

On March 18, 1975, the Business and Transportation Agency, after reviewing proposals from several firms, contracted with Boeing Computer Services, Inc., for the performance of the required study. The study was completed on schedule on April 30, 1975. In essence, it validated the requirement for the dual IBM 370/168 installation and recommended the purchase of the computer mainframes in lieu of a more expensive leasing arrangement. The report's numerous other recommendations included one that comparable peripheral computer equipment (for example, disk drives, video terminals, tape drives) be acquired from vendors other than IBM to the extent that savings could be realized.

Based on our analysis of the consultant's report, we wrote to the Chairman of the Joint Legislative Budget Committee to recommend purchase of the IBM computer mainframes and the replacement of the IBM disk drives. We recommended also that the Teale Center provide the Legislature a report on the disposition of each recommendation contained in the Boeing report. Following the Boeing report, the Teale Center purchased the computer mainframes and secured a replacement vendor for the IBM disk drives. The mainframe purchase will result in savings of approximately \$1.6 million over a five-year period. The disk replacement will enable a net savings of about \$200,000 annually.

On November 4, 1975, we received a report from the Teale Center which stated that of the 121 Boeing recommendations, 71 had been implemented, 29 incorporated into the center's schedule of projects, and 21 rejected. We have reviewed this report with the Director of the Teale Center and are satisfied that the center has used the report in an appropriate manner to improve overall center effectiveness.

Billing Rates

We recommend that the Teale Data Center revise its rate schedule downward if projected 1976-77 reimbursements remain firm to avoid substantial income surplus.

Because the Teale Center is self-supporting, it relies on reimbursements in order to meet total operating expense. Although there is some margin for flexibility, the center's total cost of operation is determined by (1) an equipment configuration which is somewhat rigid, and (2) sufficient personnel to operate that equipment and perform numerous service-related functions. The result is a more or less fixed cost of \$10 million for operation.

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

Although the Teale Center entered the current fiscal year with sufficient total interagency agreements to support its cost of operation, the following events occurred which have created a temporary fiscal dilemma. First, because of general cutbacks in the Department of Transportation, it will reduce by over \$1 million the amount of service received from the Teale Center in the current year. Second, in order to distribute workload and provide users an opportunity for savings, the Teale Center offers a 35 percent discount for work not processed during the heavy-demand day shift. The response to this discount has been substantial and has reduced income from departments which have shifted their processing to swing or graveyard shifts. Third, departments have scrutinized their use of computing and have cut back where possible, thereby reducing further Teale Center income. Fourth, the Teale Center has effected operating system (software) and equipment modifications which have caused a more efficient use of the computers, and this too has had the effect of reducing computing costs. The net result of the foregoing has been to create a gap in the current year between projected expenses and income.

The Business and Transportation Agency and the Director of Finance propose to close this gap by transferring to the Teale Center's account the full amount of funds departments have budgeted in the current year for the center. The rationale is that these funds, when added to anticipated new business and economies which the center has effected, will provide sufficient operating funds for the remainder of 1975-76.

However, a number of departments planned to spend less than the full amount budgeted for the center. Therefore, Finance and the agency have proposed to give such users a comparable rebate in 1976-77. The plan is to fund this rebate (estimated at about \$500,000) out of a projected 1976-77 net income surplus of \$1.4 million. This surplus is anticipated because the cost to operate the center is essentially a fixed cost and will be less than the amount of income produced in 1976-77 at current billing rates together with increased use of the center.

Although the Teale Center wants a surplus in 1976-77 to alleviate cash-flow problems, and intends to seek authority to establish a revolving fund for this purpose, it is our opinion that until such authority is granted the center should not create a substantial surplus by maintaining high rates. Lowering the rates in 1976-77 will benefit all users and make the center's services more attractive to potential new users. Further, a rebate could still be provided in the budget year at no added cost to the center by using surplus computing capacity which will be available during normal processing hours.

In the meantime, the Teale Center should continue its efforts to reduce its cost of operation in order to minimize the current fiscal problem. We believe that further economies can be made, and recommend below specific reductions for the budget year, some of which could be implemented in the current fiscal year.

Reduce Overhead Positions

We recommend that 3.8 positions be deleted and the budget reduced \$92,405 to eliminate excessive Teale Data Center overhead.

A substantial number of positions at the Teale Center are not related directly to computer operations. Because Teale Center users pay for these positions through the rate structure, it is desirable to keep overhead positions to the minimum level necessary to operate the center and provide an adequate level of service. We believe that this can be accomplished with less personnel, and our review of center staffing levels leads us to recommend that 1.8 data processing manager II and two associate management analyst positions be deleted. (The partial data processing manager II position results from the fact that although the position is budgeted for a full year, current center plans will cause the position to become surplus in September, 1976).

Trim the Training Budget

We recommend that the amount budgeted for training be reduced \$25,000.

The \$109,644 requested for training in 1976-77 represents a 250 percent increase over the amount that will be spent for training in the current year. We support the requirement for an increased allocation for training due to the very technical nature of the Teale operation. However, our review of specific courses which are included in the budget proposal indicates that a large number of them are more desirable than necessary. Such courses can be eliminated without affecting service to users, which is the center's primary purpose. Departments that finance the cost of the center are facing restrictions in training budgets and they should not be required to subsidize a level of training at the Teale Center which is excessive.

Equipment Needs Overstated

We recommend that the amount budgeted for equipment be reduced \$8,000.

The proposed budget includes \$26,086 for expendable equipment such as desks, chairs and movable partitions. A reduction in this amount is possible because (1) the amount budgeted for partitions is double what it should be based on the availability of similar equipment through a Department of General Services master contract, and (2) much of the proposed new equipment would merely replace used equipment which is in good condition.

Eliminate One Printer

We recommend that one IBM Model 3211 printer be released for a savings of \$29,676.

The Teale Center currently maintains four high-speed computer output printers. An analysis of actual and projected printer workload indicates that the center has substantially more printing capacity now than is required. Further, as more user applications are converted to computer output microfilm (COM) in accordance with recent Department of Finance requirements, a corresponding reduction in computer printer use

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

will occur because the COM process is used in lieu of printed output. The release of one printer will still provide a comfortable margin of available capacity.

**Resources Agency
AIR RESOURCES BOARD**

Items 218-225 from the General
Fund and four special funds

Budget p. 533

Requested 1976-77	\$31,681,183
Estimated 1975-76.....	21,678,932
Actual 1974-75	16,566,937
Requested increase \$10,002,251 (46.1 percent)	
Total recommended reduction	\$462,368

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
218	Air Resources Board	General	\$2,127,319
219	Air Resources Board	Motor Vehicle Account	11,161,725
		State Transportation	
220	Air Resources Board	Automotive Repair	1,003,800
221	Air Resources Board	Environmental Protec- tion Program	2,200,000
222	Air Resources Board	Motor Vehicle Acct.	10,787,839
		State Transportation	
223	Air Resources Board	Air Pollution Control	62,500
224	Air Resources Board	General	2,300,000
225	Air Resources Board	Motor Vehicle Acct.	2,038,000
		State Transportation	
			\$31,681,183

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. **Mandatory Vehicle Inspection Program (Item 222).** Recommend legislation be enacted to transfer mandatory vehicle emission inspection program (Chapter 1154, Statutes of 1973) from the Bureau of Automotive Repair to the Air Resources Board. 389
2. **ARB and Local Air Pollution Control Districts. Reduce Item 218 by \$345,995.** Recommend deletion of funding for 14 positions in the enforcement component until board explains and justifies its objectives and policies for increasing board control over stationary source emissions and superseding certain responsibilities of air pollution control districts. 389
3. **Program Budget.** Recommend the ARB report to the Joint Legislative Budget Committee by July 1, 1976 on a plan to initiate a program budget for 1977-78. 391