

DEPARTMENT OF VETERANS AFFAIRS—Continued

from the educational assistance program.

The department plans to establish a training program that would result in county veteran service offices assisting veterans with discharge upgrades by conducting preliminary reviews and gathering supporting documentation necessary for presentation to the discharge review board. The department estimates that 56,339 to 70,365 veterans with "other-than-honorable" discharges reside in California. The Governor's Budget states that 70,000 California residents have received other-than-honorable discharges since 1956 and that the military has acknowledged that many of these were improper.

Presently, the department handles approximately 14 discharge reviews per month on a referral basis from the federal review board and veterans organizations. Although firm data are not available on the number of veterans who might use this program, the department estimates that it will service up to 1,265 per year and that, on this basis, the program could extend for as long as ten years. This suggests that a larger number of veterans may be eligible for discharge review than is indicated in the Governor's Budget.

Based on our preliminary analysis, we have several concerns about the program. Until some workload experience is developed, the level of activity required to sustain the eight positions is unclear. Moreover, there is no basis for evaluating the effectiveness of the program. Because of these concerns, we recommend that these positions be authorized for one year only and that the department detail the costs and benefits of the program for legislative review next year.

Business and Transportation Agency**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

Item 139 from the General
Fund

Budget p. 293

Requested 1977-78	\$10,562,967
Estimated 1976-77	10,290,628
Actual 1975-76	9,162,951
Requested increase \$272,339 (2.6 percent)	
Total recommended reduction	\$1,742,967

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. *Minimum Price Maintenance and Price Posting Law. Reduce by \$193,000.* Recommend deletion of funds for enforcement, and repeal, of the minimum price maintenance and price posting provisions of the Alcoholic Beverage Control Act. 208
2. *Departmental Funding. Reduce by \$1,549,967^a.* Recommend reduction in expenditures to level of General Fund fees received by the department. 209

^a Based on adoption of both recommendations 1 and 2.

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, is headed by a director who is appointed by the Governor with the consent of the Senate. Headquartered in Sacramento, the department maintains a northern division office in San Francisco, which supervises nine northern district offices and a southern division office in Downey, which supervises 10 southern district offices. Departmental staff is presently authorized at 438.3 positions.

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

Responsibilities of the agency are discharged under a single program entitled, "Administration of the Alcoholic Beverage Control Act" which consists of three elements: (1) licensing, (2) compliance, and (3) administration. Table 1 shows budget data for each of the elements.

Table 1
Budget Summary

	1976-77	1977-78	Change from 1976-77	
			Amount	Percent
Licensing	\$5,490,126	\$5,609,331	\$119,205	2.2%
Personnel-years	249.4	249.4	-	-
Compliance	\$3,546,149	\$3,629,441	\$83,292	2.3
Personnel-years	138.2	138.2	-	-
Administration	\$1,418,459	\$1,488,777	\$70,318	5.0
Personnel-years	50.7	52.7	2.0	3.9
Total Expenditures	\$10,454,734	\$10,727,549	\$272,815	2.6%
Reimbursements	164,106	164,582	476	0.3%
Net Expenditures	\$10,290,628	\$10,562,967	\$272,339	2.6%
Personnel-years	438.3	440.3	2.0	0.4

Licensing Element

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

If a license is denied or its issuance is protested, the matter may be brought before a hearing officer of the Office of Administrative Hearings in the Department of General Services. The hearing officer prepares a proposed decision which, if adopted by the director, becomes the depart-

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

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

Compliance Element

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

Administration Element

The administration element includes the department's executive staff and personnel responsible for license issuance and renewal and accounting, legal, price posting, training and personnel duties. This element also drafts and reviews proposed legislation affecting the liquor industry and responds to inquiries from members of the Legislature and the general public.

ANALYSIS AND RECOMMENDATIONS

The department proposes net General Fund expenditures of \$10,562,967, which is \$272,339 or 2.6 percent above the current-year estimate. The department also anticipates budget-year reimbursements of \$164,582, representing fees it charges for (1) fingerprinting applicants, (2) transcripts of hearings, and (3) copies of the Alcoholic Beverage Control Act.

The General Fund increase consists of \$64,345 for operating expenses and equipment (primarily reflecting price increases) and \$208,470 for salaries and staff benefit adjustments, including two personnel-years for a training officer and clerical support. Reimbursements are anticipated to increase by \$476, resulting in the net General Fund increase of \$272,339.

Minimum Price Maintenance and Price Posting Law

We recommend a reduction of \$193,000 to eliminate enforcement of the minimum price maintenance and price posting provisions of the Alcoholic Beverage Control Act.

We further recommend legislation to eliminate all such provisions of the act.

As discussed in previous analyses, we believe that the minimum price maintenance and price posting requirements of the Alcoholic Beverage Control Act serve primarily to protect the liquor industry from the effects of a "free market," thus denying the public the price advantages found in free and open competition and imposing a substantial public cost. The price posting provisions constitute, in effect, a subsidy to the alcoholic beverage industry because the state's police power is used to enforce a

minimum pricing structure established by the industry.

Our previous studies indicated that the magnitude of the subsidy provided to the alcoholic beverage industry by state enforcement of retail price maintenance and price posting was equivalent to 120 percent of the state's excise tax on distilled spirits. During 1977-78, that would be equivalent to \$133 million.

A recent development which supports our contention that fair trade or minimum price maintenance laws result in artificially higher prices occurred in December 1975, when Congress enacted the Consumer Goods Pricing Act of 1975 (Public Law 94-145). This act repealed prior exemptions to the Sherman Antitrust Act which permitted states to enact fair trade (i.e., price fixing) laws. The stated purpose of the 1975 act was to provide a business climate which would result in lower prices for consumers. The Alcoholic Beverage Control Appeals Board (a separate state agency) found on December 2, 1976, in the case of *Christine T. and Richard E. Corsetti*, that the retail price maintenance provisions of the Alcoholic Beverage Control Act are invalid on three grounds: (1) the 1975 amendments to the Sherman Antitrust Act revoked the authority of the states to enforce minimum price laws, (2) the severe economic conditions under which the price fixing statutes were enacted (i.e., the depression of the 1930's) no longer exist and (3) the statute results in the denial of equal protection of the law. The Department of Alcoholic Beverage Control, pending a final legislative or judicial decision on price posting, is continuing to enforce the existing state law.

Based on workload information supplied by the department, it is estimated that budget-year expenditures of \$193,000 will be incurred to enforce the minimum price maintenance and price posting requirements of the Alcoholic Beverage Control Act. For the reasons cited above, we recommend the deletion of such funding and repeal of the minimum price law.

Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund, but it is a revenue producing agency. It collects and distributes license fees under a schedule established by statute. Original license fees and license transfer fees, for example, are deposited directly into the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers in compromise" (i.e., penalties in lieu of license suspension) are deposited in the Alcoholic Beverage Control Fund. In April and October of each year, 90 percent of the money on deposit in the fund is divided among the state's 58 counties and more than 400 cities under a statutory formula, and the remaining 10 percent is then deposited in the General Fund. Table 2 details these revenue sources.

Eliminate Revenue Gap

We recommend a reduction of \$1,549,967^a plus any salary or benefit increase amount, to reduce General Fund expenditures to an amount equal to revenue generated from license fees and miscellaneous charges.

^a Based on adoption of both recommendations 1 and 2.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Table 2
License Fees and Miscellaneous Revenue
Department of Alcoholic Beverage Control
(General Fund)

	<i>Actual</i> 1975-76	<i>Estimated</i> 1976-77	<i>Estimated</i> 1977-78
Miscellaneous	\$1,839	-	-
Original license fees	1,925,850	\$2,200,000	\$2,250,000
Transfer fees	4,249,655	4,320,000	4,350,000
Special fees	108,693	325,000	325,000
Service charges	133,215	150,000	175,000
Penalties	19,350	20,000	20,000
General Fund portion of annual fees and offers in compromise	1,207,456	1,700,000	1,700,000
Total revenue	\$7,646,058	\$8,715,000	\$8,820,000

Historically, the department has generated enough license fee and miscellaneous revenue to cover its costs, but for the past three years operating expenses have exceeded revenues. As shown in Table 2, the department estimates that General Fund revenue for the budget year will amount to \$8,820,000, which is \$1,742,967 below its expected cost of operation. This gap will increase by the amount of any salary or staff benefit increases approved for the budget year.

Table 3 shows the history of the revenue gap since it first occurred in 1974-75.

Table 3
Department of Alcoholic Beverage Control
Comparison of General Fund Expenditures and Revenues
From License Fees and Miscellaneous Charges

	1974-75	1975-76	1976-77	1977-78
Expenditures	\$8,474,888	\$9,162,951	\$10,290,628	\$10,562,967 ^a
License fees and miscellaneous revenues	8,353,405	7,646,057	8,715,000	8,820,000
Revenue gap	\$121,483	\$1,516,894	\$1,575,628	\$1,742,967 ^a

^a Will increase by the amount of any salary or staff benefit increase allocation.

For the past two years, we have recommended legislation to increase license fees in order to eliminate the department's revenue deficiency. Some of these fees have not been revised in 40 years. For example, the beer and wine wholesalers' license has cost \$56 since 1930. Two bills, AB 2155 and AB 4068 were introduced to increase fees during the 1975-76 legislative session, but both failed passage.

Until fees are raised sufficiently to cover the department's costs, we believe that expenditures should be tailored to available revenues by reducing the level of service provided to the alcoholic beverage industry as distinguished from those activities serving the broader public interest. For example, the department has established a goal of processing an application for a license transfer within 30 days. Significant savings could be generated by lengthening this time period. Additionally, the department's enforcement function could be reorganized to reduce emphasis on those

activities which are primarily supportive of the industry.

**Business and Transportation Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD**

Item 140 from the General Fund	Budget p. 296
<hr/>	
Requested 1977-78	\$201,582
Estimated 1976-77	196,206
Actual 1975-76	171,242
Requested increase \$5,376 (2.7 percent)	
Total recommended reduction	None
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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 con-

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

sists of two attorneys and two senior legal stenographers. Approximately 25 percent of the possible appealable decisions rendered by the department over the years have actually been appealed to the board. The board is an independent agency and is not subject to departmental control.

The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal, which, upon petition, review board decisions. During 1975-76, 137 appeals were filed and 149 decisions issued. The appeals board reversed 24 departmental decisions. As of June 30, 1976, it had processed 4,470 cases since its creation.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes a budget-year expenditure of \$201,582, which is \$5,376 or 2.7 percent above the current-year estimate. This increase consists of \$2,052 for merit salary increases and \$3,324 for higher operating costs.

**Business and Transportation Agency
STATE BANKING DEPARTMENT**

Item 141 from the State Banking Fund

Budget p. 297

Requested 1977-78	\$4,130,342
Estimated 1976-77	3,869,415
Actual 1975-76	3,019,928
Requested increase \$260,927 (6.7 percent)	
Total recommended reductions	\$38,155

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Continuing Supervision of Existing Banking Facilities. Reduce by \$38,155.* Recommend deletion of two bank examiner III positions. 213
2. Departmental Regulations. Recommend language in Budget Act requiring the State Banking Department to promulgate regulations by June 30, 1978. 215

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 153 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 \$4,130,342 which is \$260,927 or 6.7 percent above estimated current year expenditures. The department anticipates that budget year reimbursements of \$120,298, 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 \$4,250,640.

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

New Positions in Research and Information Services

Two staff service analyst positions are requested for the budget year to assist in developing possible methods of improving economic development in California. The project is not limited to banks and will consider all types of debt and equity capital, consumption expenditures, and transfer payments. Both positions are totally reimbursable by a federal grant from the Department of Commerce.

Continuing Supervision of Existing Banking Facilities

We recommend the deletion of two proposed bank examiner III positions for a reduction of \$38,155.

From June 1975 to June 1976, the number of institutions requiring special regulatory attention by the State Banking Department has risen from 24 to 34. During the last calendar year, the department has closed one bank and one trust company. These were the first failures of a state chartered bank or trust company in over 15 years.

In an effort to (1) allow for closer supervision of problem institutions and (2) provide an early warning alert system to identify potential problems, the department has instituted an overseer program on a pilot basis. At present, the equivalent of two bank examiner positions is being used to staff the program.

The program in the budget year would have an overseer team, with two examiners per team, in Los Angeles, San Francisco, and Sacramento. The department is requesting three bank examiner III, three bank examiner IV, and two clerical positions to staff the program. We estimate the program's need at four rather than six examiners because the department should be able to allocate two existing examiners to the program. The loss resulting from the proposed reduction is approximately 2 percent of the total examiner hours available using 1976 estimates. This loss can easily be offset by increased efficiency because the overseer teams would be in a

Table 1
Cost and Staffing Data for Departmental Programs

Program	Element	Actual 1975-76		Estimated 1976-77		Estimated 1977-78	
		Personnel- Years	Cost	Personnel- Years	Cost	Personnel- Years	Cost
1. Licensing and supervision of banks and trust companies	Investigation of applications for new facilities	4.7	\$122,783	4.5	\$122,138	4.5	\$132,607
	Continuing supervision of existing banks.....	105.8	2,766,106	129.0	3,501,952	143.8	3,787,654
	Continuing supervision of existing trust companies	7.1	185,481	8.3	225,278	9.0	240,288
2. Regulation of transmitters of money abroad		0.8	20,899	1.3	35,284	1.3	38,116
3. Certification of securities		0.3	7,837	0.3	8,143	0.3	9,215
4. Administration of local agency security		0.9	19,035	1.4	20,500	1.4	22,500
5. Supervision of California business and industrial development corporations.....		—	—	0.7	18,999	0.7	20,260
6. Departmental administration (prorated to other departmental programs)	Executive and administrative services	.... (6.5)	(169,807)	(8.0)	(217,135)	(10.0)	(274,275)
	Legal and legislative services	.... (7.8)	(203,768)	(12.5)	(328,113)	(14.0)	(356,354)
	Information services	.... (4.0)	(104,496)	(6.0)	(162,851)	(9.0)	(279,066)
Total Programs		119.6	\$3,122,141	145.5	\$3,932,294	161.0	\$4,250,640
Reimbursements			— 102,213		— 62,879		— 120,298
Net Total Programs			\$3,019,928		\$3,869,415		\$4,130,342

position to assist with the annual examination by providing additional, in-depth information on the functioning of the institutions.

Continued Positions in Legal and Legislative Services

Two legal counsel and one clerk typist positions were administratively established in the current year. These were necessary because of the increased workload realized by this element. The department is requesting that these three positions be continued in the budget year together with an additional \$10,000 for anticipated Attorney General fees.

Contract Services

Currently, Executive and Administrative Services does not have a training or affirmative action officer. The department is requesting \$12,000 to contract with the State Personnel Board for these and other personnel services on a part-time basis.

Electronic Funds Transfer Systems

The department has budgeted \$40,000 as its share of the costs for an interagency task force on electronic funds transfer systems (EFTS). The Business and Transportation Agency and the Agriculture and Services Agency are coordinating the task force which currently includes the Departments of Corporations, Banking, Savings and Loan, and Consumer Affairs. We will follow the progress of this effort as it examines the problems, limitations, potentials, and possible regulations required for EFT systems.

Departmental Regulations

We recommend that language be placed in the Budget Act requiring the promulgation of regulations for the State Banking Department by June 30, 1978.

The Supplementary Report of the Committee on Conference (Budget Act of 1974) recommended that the department's rulings be reviewed and incorporated into regulations. The 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 the 1975-76 budget hearings that an additional installment would be forthcoming. During the 1976-77 budget hearings the department was requested to complete the remaining drafts and the comment and hearing stage by January 1, 1977. This request has not been met.

The department states two major reasons for the delay: (1) the superintendent and other staff have had to spend a great amount of time with "problem" banks in the state, and (2) the department prefers to draft the regulations in-house to maintain a consistent philosophy and minimize the need for revisions.

STATE BANKING DEPARTMENT—Continued

We believe the department has sufficient resources to complete the regulations and should be required to do so by the end of the budget year.

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

Item 142 from the General
Fund

Budget p. 302

Requested 1977-78	\$3,300,000
Estimated 1976-77	2,266,605
Actual 1975-76	660,843
Requested increase \$1,033,395 (45.6 percent)	
Total recommended reduction	\$1,775,200

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. New Program Activities. Defer recommendation pending opinion by Legislative Counsel. 217
2. Annual Report. Recommend legislation to require report to describe activities on fiscal year basis and be issued by December 15 of each year. 218
3. *Loan Guarantee Fund. Reduce by \$1,320,000.* Recommend elimination of additional General Fund transfers to the State Loan Guarantee Fund. 219
4. *Small Business Assistance. Reduce by \$405,200.* Recommend that small business assistance expenditures remain at current year levels. 222
5. *Increase Salary Savings. Reduce program expenditures by \$50,000.* Recommend increases in salary savings to reflect decreased program activities. 222

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 State Loan Guarantee 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 Board, composed of 19 members representing state government, financial institutions, business, labor, regional job corporations, persons in disadvantaged areas, and the Legislature. During the current year, 14 new members have been appointed to the Cal Job Board and a new Executive Director has been hired by the board.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of \$3.3 million which is \$1,033,395 or 45.6 percent above estimated current year expenditures of \$2,266,605. Table 1 shows expenditure data by program element. It indicates that the major changes in the proposed budget are in increased estimated expenditures for small business assistance and new contract services. These services account for \$1,682,952 or approximately 94.4 percent of anticipated operating expenses. Personal services are estimated to rise to \$197,773 or 20.7 percent above current year costs, primarily because no salary savings are reflected in the proposed budget. The remaining \$1,320,000 of proposed expenditures will be available for transfer to the Loan Guarantee Fund, a 10 percent increase over estimated transfers in the current year.

Table 1
Program Expenditures
1975-76 through 1977-78

	<i>Actual</i> <i>1975-76</i>	<i>Estimated</i> <i>1976-77</i>	<i>Percent</i> <i>change</i> <i>from</i> <i>previous</i> <i>year</i>	<i>Proposed</i> <i>1977-78</i>	<i>Percent</i> <i>change</i> <i>from</i> <i>previous</i> <i>year</i>
Cal Job					
Personal Services ^a	\$156,371	\$163,848	+4.8%	\$197,773	+20.7%
Operating expenses					
Contract services—new projects	—	423,240		877,752	
Small business assistance contracts	354,448	400,000		805,200	
Other operating expenses	150,024	79,517		99,275	
Total operating expenses	\$504,472	\$902,757	+79.0%	\$1,782,227	+97.4%
Loan Guarantee Fund transfers	—	1,200,000	—	1,320,000	+10.0%
Total Cal job	\$660,843	\$2,266,605	+243.0%	\$3,300,000	+45.6%
Office of Minority Business Enterprise (OMBE)	69,507	—		—	
Less federal reimbursement	(69,507)	—		—	
Net program expenditures	\$660,843	\$2,266,605	+243.0%	\$3,300,000	+45.6%

^a Nine personnel-years are authorized for the current year. This level is proposed for 1977-78.

New Contract Services

We defer recommendation on new activities proposed in the Cal Job program budget pending an opinion by the Legislative Counsel.

The budget proposes an expenditure of \$877,752 for four new programs in contract services as follows:

CALIFORNIA JOB CREATION PROGRAM—Continued

1. *Builder's Mutual Surety Company (\$160,000)*. The Cal Job board will assist in the establishment of a mutual surety company during the current year. Presently, a loan of \$500,000 (of which Cal Job will guarantee 75 percent) is expected to aid in capital formation. The company will underwrite bonds and provide management/technical assistance to small contractors. During the budget year, the Cal Job board plans to let a \$160,000 contract to the surety company for business assistance to small contractors.

2 and 3. *Small Business Buy-Outs and Federal Procurement (total of approximately \$138,000)*. The small business buyout program is designed to assist in the transfer of ownership of small businesses within economically disadvantaged areas. Activities will focus on businesses whose owners are willing to sell at or below net asset value. The regional corporation structure is anticipated to be the vehicle for providing transfer assistance.

The federal procurement project envisions the use of contracted services to represent small businesses in pursuit of obtaining federal contracts prior to placement on a bid basis. The Cal Job Board will contract with a firm which has representatives in Washington, D.C. and throughout California.

4. *Small Lender Assistance (\$400,000)*. The lender assistance activity will provide funds to underwrite potential losses to small lending institutions in their investment in high-risk, high-yield securities. Greater investment in securities with high returns will increase funds available for loans made by these institutions. A share of the risk factor in these investments will be funded from the State Loan Guarantee Fund. In return for this assistance, the lending institutions will increase loans to small businesses in the lender's area.

Although these four programs envision creative approaches to meeting the needs of small businesses, we are concerned that the applicable statutes do not provide authority for the Cal Job Board to undertake such activities. We therefore defer recommendations on these programs pending an opinion of the Legislative Counsel which we have requested.

Annual Report Not Timely

We recommend legislation to require the Cal Job annual report to be based on program activities occurring during the preceding fiscal year.

We also recommend that the report describe the number of jobs created through all loans or assistance provided by the Cal Job program and that the report be issued no later than December 15 of each reporting year.

Section 14027 of the Corporations Code requires the annual report of the Cal Job program to describe program activities which occurred during the preceding calendar year. In addition, the reporting of jobs created is required only of employment opportunities resulting from employment incentive loans.

We believe that the calendar year requirement complicates analysis of Cal Job activities. Under the current reporting structure, information presented in the budget and data in the annual report are not comparable. We therefore recommend that the annual report describe activities occur-

ring during the preceding fiscal year.

Cal Job programs for job creation extend beyond employment-incentive loans. Small business assistance loans and contract services also impact employment. For this reason, we recommend that information on the number of jobs created because of all Cal Job activities be provided in the report.

In the 1975-76 Analysis, we were concerned with the delay in issuance of the annual report. The document has not historically been released until late December or even early January. Because the report is based on a calendar year, the report has been issued up to 12 months after the close of the year.

We believe this lack of timeliness is unjustified. Consistent with our recommendation that the annual report be on a fiscal year basis, we believe it should be issued by December 15 following the close of the fiscal year to permit effective evaluation of the program.

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 to guarantee loans without regard to fiscal year.

Several changes are envisioned in the activity of the loan guarantee program for the budget year. First, establishment of a new regional corporation is currently being attempted, with formation of an additional regional corporation anticipated next fiscal year. Second, the San Diego Job Development Corporation will be dissolved because of inactivity and its unencumbered funds will be reallocated to other programs. Finally, a reduction in the guarantee rate is expected. Currently, the Cal Job loan program guarantees 100 percent of the debt issued by regional corporations to qualifying small businesses. The Cal Job Board is attempting to reduce this level to a 50 percent guarantee of debt capital loans made by regional corporations.

Loan Guarantee Program is Ineffective

We recommend the reduction of \$1,320,000 in the Cal Job program budget to eliminate additional General Fund transfers to the State Loan Guarantee Fund.

In our judgment, the Cal Job Loan Guarantee activities have not contributed significantly to either job creation or small business entrepreneurship. The elimination of additional fund transfers is recommended for four reasons. First, high default and loss rates continue despite recent attempts to rectify this problem. Second, current year activities were expected to show a departure from historical programs such as the loan guarantee function. Yet, only one new program has been established to date, and loan guarantee funds are being applied to it. Third, the loan guarantee activities reflect a "scatter-gun" approach to assisting qualified businesses, with little identifiable impact on employment relative to program expenditures. Finally, we believe that anticipated efforts by the Cal

CALIFORNIA JOB CREATION PROGRAM—Continued

Job Board in the budget year will not have a significant effect on improving the loan guarantee program.

Continuing High Default and Loss Rates

In recent years, the loan guarantee program has experienced high rates of default for assisted businesses and losses on guaranteed loans. Table 2 summarizes information on firms which have received loan guarantees from the regional corporations. Table 3 shows dollar values of loans guaranteed and loan losses because of default.

Table 2
Number of Firms Assisted and in Default

	1972	1973	1974	1975	1976
Firms assisted	8	13	16	20	19
Total firms (accumulative from 1969)	95	108	124	144	163
Firms in default	12	13	12	8 ^a	7
Total firms in default (accumulative from 1969)	23	36	48	56	63
Accumulative rate of default	24.3%	33.3%	38.7%	38.8%	38.7%

^aOne default due to the death of firm's owner, and one firm in default has developed repayment plan with Cal Job staff.

Table 3
Guaranteed Loans and Loan Losses

	1972	1973	1974	1975	1976
Loans by year	\$717,890	\$225,548	\$275,217	\$843,289 ^a	\$512,806
Loans (accumulative from 1969)	3,799,588	4,025,136	4,300,353	5,143,642	5,656,448
Losses by year	264,328	566,446	485,062	193,507	217,316
Losses (accumulative from 1969)	519,093	1,085,539	1,570,601	1,764,108	1,981,424
Accumulative loss rate	13.7%	27.0%	36.5%	34.3%	35.0%

^aDoes not include \$26,274 in loans with state exposure made in previous years.

The tables indicate that default and loan loss rates continue to be high at levels of 38.7 percent and 35 percent, respectively. As noted in our 1976-77 Analysis, attempts by Cal Job program staff in 1975 to reduce the loan default rate through increased management and technical assistance had no significant effect. During 1976, the default rate was 36.8 percent of firms assisted, slightly lower than the 1975 rate of 40 percent. On the other hand, the loan loss rate for 1976 was 42.4 percent of loans made during the year, a significant increase over the 1975 rate of 22.9 percent.

Firms in Default are Still Operating

Of greater concern is the evidence that some firms which received loans from the regional corporations have defaulted on repayment, but continue to operate. According to Cal Job program staff, payments have been made by the state to banks for defaults reported by 10 Cal Job assisted firms between 1969 and 1976, although these firms are currently operating. The 10 businesses correspond to approximately 15.9 percent of total firms in default since 1969, and the loans made to these firms and paid off by the state totaled \$525,105 or 26.5 percent of all loan losses accumulative from 1969.

This situation supports our belief that the loan guarantee program is essentially a no-risk venture for participating lending institutions because loans to Cal Job assisted firms are fully guaranteed by the state. If the member banks of the regional corporations assume part of the risk in the loans, greater efforts by lending institutions to prevent business defaults might occur.

Some collection and repayment attempts are being applied to three of the 10 businesses. Yet, the fact that 10 firms, accounting for over one-fourth of total loan losses experienced by the program since its inception, continue operations despite statements of default indicates a lack of concern by member banks and regional corporations for the viability of assisted firms.

Expected Program Redirection not Evident

In last year's Analysis, we noted that (according to program staff) no new funds would be transferred to the State Loan Guarantee Fund in the current year and that expenditures would instead be provided for several new programs. Included in the proposed activities were establishment of bonding assistance organizations, short-term capital loans, and increased procurement and technical assistance activities.

Of these new programs, only one, the development of a surety company for bonding assistance, indicates any attempt to redirect program functions. The minority business directory, which was an element in procurement activities, was initially contracted for in 1975-76. Some attempts to establish lines of credit for assisted firms have been indicated, although far below the level expected in the current year. Proposed programs such as short-term capital assistance have never been fully developed.

Instead, the Cal Job Board resolved to transfer \$1,200,000 of the approved budget to the loan guarantee fund, despite assurances that no new monies would be allocated. To some extent, the current board cannot be fully held accountable for this action because most of its members were recently appointed. However, we believe that continuation of the loan guarantee program in its historical form contradicts the understanding relayed to our office and the Legislature, during budget hearings last year, that current year efforts would signify a redirection in Cal Job activities.

Minimal Job Development Results from Uncoordinated Activities

Between 1969 and 1975, approximately \$6 million has been expended by the Cal Job program. According to program staff, approximately 430 personnel-years have been established, for a cost of approximately \$14,000 per year of created employment.

This expenditure level for job creation is high and the number of resulting employment opportunities quite low, particularly when considered over a seven-year period. Furthermore, Cal Job program efforts have not been coordinated with other state activities involved in employment and economic development programs. As a result, Cal Job programs are piecemeal and do not take advantage of multiplier effects resulting from multi-agency cooperation.

Under Item 258 of the Analysis (Employment Development Department), we recommend that a study be conducted to determine the most

CALIFORNIA JOB CREATION PROGRAM—Continued

effective method of coordinating state activities in economic and business development, resulting in a review of current state programs in this area. We believe that greater coordination between state activities should produce a more efficient use of available resources and greater total impact of the various programs. The "scatter-gun" approach evident in Cal Job's activities, particularly in the loan guarantee program, could thus be avoided.

Proposed Changes

New proposals to reduce the level of state guarantee on loans and to establish new regional corporations will not have a significant impact on problems associated with the loan guarantee program. With regard to reduction of the guarantee rate to 50 percent, it should be noted that loan losses, while high, have historically been below 50 percent of loans made. Thus, the state will probably still make payment on all defaulted loans. The fact that the guarantee rate reduction is proposed to increase the amount of loans made by regional corporations does not circumvent the fundamental problems with the program, as previously discussed.

The introduction of additional regional job creation corporations presents more complications than solutions. First, these anticipated corporations have not had experience with Cal Job activities, and therefore are in a difficult position. Second, the corporations are expected to be active in equity capital financing. However, authority permitting this form of financing has not been established for the Cal Job program.

B. SMALL BUSINESS ASSISTANCE PROGRAM**Increase in Assistance Contracts**

We recommend a reduction of \$405,200 for small business assistance contracts because increased business assistance activities are dependent on expansion of the loan guarantee program.

The proposed budget reflects the expenditure of \$805,200 for small business assistance contracts, an increase of approximately 101 percent over current year estimates.

The requested increase of \$405,200 in small business assistance contracts is related to intensification in loan packaging and post-loan monitoring and business assistance services, based on increased loan guarantee activities. Consistent with our recommendation to eliminate additional transfers of monies to the State Loan Guarantee Fund, we believe that higher expenditures for small business assistance services are unnecessary. Continuation of current year funding levels will enable Cal Job program staff to maintain efforts in monitoring and assisting businesses which have already received loans from regional corporations.

Salary Savings

We recommend a reduction of \$50,000 to reflect increased salary savings commensurate with our recommendations concerning the loan guarantee fund and the small business assistance programs.

The Cal Job program staff is budgeted for nine positions during 1977-78. Our recommendations related to the loan guarantee program and busi-

ness assistance activities will result in reduced program activity. In our judgment, vacancies occurring during the budget year should not be filled because of decreased workload. We therefore recommend that the Cal Job program budget reflect an increase in salary savings and a consequent reduction in expenditures of \$50,000.

**Business and Transportation Agency
DEPARTMENT OF CORPORATIONS**

Item 143 from the General

Fund

Budget p. 305

Requested 1977-78	\$6,689,544
Estimated 1976-77	6,194,833
Actual 1975-76	4,839,769
Requested increase \$494,711 (8.0 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 356. Cost and staffing data for the department's programs and supporting elements are depicted in Table 1.

DEPARTMENT OF CORPORATIONS—Continued

TABLE 1
Cost and Staffing Data
Department of Corporations Programs

Program	Element	Actual 1975-76		Estimate 1976-77		Proposed 1977-78	
		Personnel- Years	Cost	Personnel- Years	Cost	Personnel- Years	Cost
Investment	Qualifications	87.1	\$1,822,819	105.3	\$2,529,090	105.6	\$2,604,419
	Franchises	5.1	130,665	4.9	117,632	4.9	120,678
	Regulation and Enforcement	75.2	1,794,142	69.5	1,673,995	69.8	1,727,181
	Commodities	4.1	100,361	8.5	203,595	8.5	208,866
Lender-Fiduciary	Check Sellers and Cashers Law	2.3	53,983	1.	24,120	1.	24,745
	Credit Union Law	37.6	851,830	45.6	1,090,763	46.4	1,145,108
	Escrow Law	17.8	396,694	19.7	474,361	19.9	492,267
	Industrial Loan Law	18.6	453,103	19.5	469,001	19.8	496,247
	Personal Property Brokers Law and California Small Loan Law	27.4	639,702	25.1	603,002	25.3	630,904
	Retirement Systems Disclosure Law	0.6	13,429	.5	10,720	— ^a	—
	Trading Stamp Law	0.3	7,070	.3	8,040	.3	8,248
Health Care Service Plans	Licensing	1.2	31,571	10.2	240,926	13.1	329,646
	Financial Examinations	2.7	71,034	23.1	421,888	30.5	615,007
	Medical Survey	0.7	18,416	5.6	468,881	7.2	529,620
	Enforcement	1.3	34,201	17.2	445,177	15.7	390,123
Departmental Adminis- tration (costs prorated to other programs)	General Office	(8.3)	(197,262)	(8)	(192,504)	(8)	(197,488)
	Accounting and Personnel Office	(6)	(142,599)	(7)	(168,441)	(7)	(172,802)
Total Programs		282	\$6,419,020	356	\$8,781,191	368	\$9,323,059
Reimbursements			-1,579,251		-2,586,358		-2,633,515
Net Total Programs			\$4,839,769		\$6,194,833		\$6,689,544

^a This law has been repealed effective January 1, 1977 by Chapter 534 and Chapter 840 (SB 140 and AB 4114), Statutes of 1976.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The department's request of \$6,689,544 is \$494,711 or 8.0 percent above estimated expenditures for the current year. The department anticipates that budget year reimbursement of \$2,633,515, primarily fees for examining the financial records of licensees, will produce a total expenditure program of \$9,326,509.

New Position (Investment Program)

The department is requesting 0.6 attorney time to absorb the workload increases in this program.

New Position (Lender-Fiduciary Program)

An increasing number of licensees are utilizing computer accounting systems. The department is requesting one staff programmer/analyst to assist in the audits of licensees in this program.

New Positions (Health Care Service Plans Program)

The department is continuing the process of implementing Chapter 941, Statutes of 1975. Chapter 941 (Knox-Keene Health Care Service Plan Act) transferred the regulation of health care service plans from the Attorney General to the Department of Corporations. The department is requesting 2.4 attorney positions and one clerical position to handle workload increases and investigations required by this program. Currently, the department is in the process of completing a report to the Legislature and the Governor on the regulation of the Knox-Keene Act.

Continued Positions (Health Care Service Plans Program)

In the Budget Act of 1976, the department was authorized 61 new positions for this program. A total of 48 personnel years will be utilized during the current year. The department is requesting full year funding in the budget year for 13 positions (seven corporate examiner II, one staff counsel I, one special investigator, 0.5 actuary, 0.5 associate public health statistician, and three clerk typist II) to proceed with the implementation and maintenance of this program.

Electronic Funds Transfer Systems

The department has budgeted \$20,000 as its share of the costs for an interagency task force on electronic funds transfer systems (EFTS). The Business and Transportation Agency and the Agriculture and Services Agency are coordinating the task force which currently includes the Departments of Corporations, Banking, Savings and Loan, and Consumer Affairs. We will be following the progress of this group as it considers the problems, limitations, potentials, and possible regulations required for EFT systems.

**Business and Transportation Agency
DEPARTMENT OF CORPORATIONS**

Item 144 from the General
Fund

Budget p. 311

Requested 1977-78	\$3,450
Estimated 1976-77	11,300
Actual 1975-76	—
Requested decrease \$7,850 (69.5 percent)	
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 \$3,450 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**

Items 145 and 146 from the
General Fund

Budget p. 312

Requested 1977-78	\$4,838,396
Estimated 1976-77 ^a	\$4,973,457
Actual 1975-76	2,959,708
Requested reduction \$135,061 (-2.5 percent)	
Total recommended reduction	\$42,695

^a Excludes amount transferred to Housing Predevelopment Loan Fund

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
145	Department of Housing and Community Development	General	\$4,213,396
146	Department of Housing and Community Development	General	625,000
			<hr/> \$4,838,396

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. Inspection Fees. Recommend department submit proposal for revising fee structure. 229
2. *Commission Funding. Reduce by \$42,695.* Recommend deletion of one new position and reduction in other expense. 233

GENERAL PROGRAM STATEMENT

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

- (1) Protection of the public from inadequate construction, manufacture, repair or rehabilitation of buildings, particularly dwelling units, and from unsafe and unsanitary living conditions.
- (2) Promotion of decent housing and livable communities.
- (3) Definition of problems in housing and housing environments and formulation of appropriate solutions.

ANALYSIS AND RECOMMENDATIONS

General Fund expenditures proposed for the budget year are approximately 2.5 percent below the current year level. Total expenditures, however, show a substantial increase in the budget year, primarily as a result of an anticipated increase in federal funding for the economic development program, and new federal funding for a low-income rent subsidy program. The department's responsibilities are carried out through three divisions, (Codes and Standards, Community Affairs, Research and Policy Development) an administrative element, and the Commission of Housing and Community Development. The resources utilized by the department are summarized in Table 1.

Table 1
Summary of Housing and Community Development Programs
(Dollars in Thousands)

Programs	Personnel-Years			Expenditures ^a		
	Actual	Authorized	Proposed	Actual	Authorized	Proposed
	1975-76	1976-77	1977-78	1975-76	1976-77	1977-78
Codes and Standards	153.4	181.2	181.7	\$3,495	\$4,352	\$4,659
Community Affairs	27.2	44.6	44.3	2,067	5,937	8,393
Research and Policy Development..	12.5	28.1	26.0	311	761	707
Administration—distributed	(14.4)	(17.3)	(18.3)	(340)	(520)	(453)
Program totals	193.1	253.9	252.0	\$5,872	\$11,049	\$13,760
Reimbursements				-337	-306	-249
Net program totals				\$5,535	\$10,743	\$13,511
General Fund				2,960	5,473	4,838
Other funds				2,575	5,269	8,672

^a Numbers may not total due to rounding.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

I. CODES AND STANDARDS

The codes and standards program attempts 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 staffing and cost of which are detailed in Table 2.

Table 2
Codes and Standards Program Summary
(Dollars in Thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1975-76</i>	<i>Authorized 1976-77</i>	<i>Proposed 1977-78</i>	<i>Actual 1975-76</i>	<i>Authorized 1976-77</i>	<i>Proposed 1977-78</i>
State Housing Law and Earthquake Protection Law	7.3	10.5	7.7	\$165	\$249	\$206
Employee Housing Act	19.4	27.1	33.6	411	761	1,059
Mobilehomes Parks	56.6	70.1	66.9	1,313	1,642	1,628
Mobilehome Manufacturers	64.9	65.1	65.1	1,493	1,506	1,564
Factory Built Housing Law	3.5	4.9	4.9	79	118	126
Special Projects	1.7	3.5	3.5	33	76	76
Total	153.4	181.2	181.7	\$3,494	\$4,352	\$4,659
General Fund				\$1,963	\$2,672	\$2,747

Enforcement of the Employee Housing Act has been a major focus of the department under the current administration. The Employee Housing Act provides minimum standards of health and safety for housing provided by employers for their workers. Enforcement is carried on directly by the state in most counties. However, 15 counties have taken the option of enforcing the act in their counties. The enforcement efforts of these counties are subject to review by the state.

In the 1976-77 budget, the department received authorization for eight personnel-years of temporary help to search out unregistered farm employee housing camps. The department believed that unregistered camps might number from 250 to 1,400 in state enforcement areas. A five-month effort with 18 persons from July to December convinced the department that this effort was no longer needed. The effort resulted in 41 new registrations out of some 650 potential camps investigated. Approximately 370 of the camps investigated were clearly exempt, and seven camps were closed by the owner. The status of the remaining camps is unresolved. The termination of the program results in savings of \$39,360 in the current year and \$133,000 in the budget year.

New Effort in Employee Housing Program

We have previously expressed concern with the limitations of a code enforcement program in significantly improving the quality of employee housing. With a grant from the federal Department of Health, Education and Welfare, the department proposes to initiate a more positive program aimed at improving employee housing. The \$135,000 grant will be used to employ persons knowledgeable in health and construction matters to assist employers during the pre-harvest season in developing improvements

in their facilities. While the program will not provide any direct financial support, the staff will be able to suggest potential sources of financing, as well as provide technical assistance in improvement of facilities.

The department is expected to submit in 1977 a farmworker assistance plan to the Legislature as required by Section 41130 of the Health and Safety Code.

Positions for Training Proposed

The budget requests three new positions for training local government officials and the department's field staff. The codes and standards policies are constantly in flux and becoming increasingly complex. Currently, promulgation of new policies is accomplished by simply sending the verbatim regulations to the state and local field enforcement groups. There is evidence that differing interpretations of new regulations result in the imposition of requirements by field inspectors which are not mandated by the regulations. The department expects the new training programs to reduce the incidence of nonuniform enforcement of codes. The three new positions together with an administratively created training position would form a four-man training group which would be responsible for directly training field staff and for organizing training sessions through the community colleges.

Inspection Programs Fail to Meet Revenue Requirements

Statutes governing the administration of the code enforcement programs require the department to recover the direct costs of enforcement through fees for inspection services in certain programs. We noted last year that the department was faced with deficits in several program elements. The major deficits are occurring in the mobilehome parks and employee housing categories. In 1975-76, the combined deficit in these two program elements amounted to \$464,000, an increase of \$150,000 from the 1974-75 deficit. By the end of the budget year, the deficits are expected to reach \$870,000 for these two program elements, with an additional \$65,000 in the factory built housing element.

Inspection Fee Structure

We recommend that the department submit to the Joint Legislative Budget Committee by October 1, 1977 a proposal for revising the inspection fee structure.

The department defends the existence of deficits in the inspection programs on the grounds that in many circumstances fees tend to deter the achievement of the goals of the codes and standards programs. The department argues further that the fee structure sometimes creates excessive burdens for those least able to afford them.

We believe that it is appropriate that the department cover the direct inspection costs of all of its programs from fees. Through its inspection programs, the state provides a service to the resident of the structure. Construction inspections attempt to provide assurance to the ultimate user that the structure is safe and durable, while occupancy inspections are intended to assure residents that the premises are safe and sanitary.

The use of fees also forces the department to recognize how much its

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

activities cost the consumer, and provides an incentive for continuing evaluation of the effectiveness of inspection programs. Inspection fees also provide a source of revenue to local governments for inspection activity. Under the provisions of Chapter 1408, Statutes of 1972 (SB 90), the cost of any new inspection programs would require reimbursement from the General Fund if a revenue source such as fees is not provided.

We believe that a fee structure could be designed that would largely overcome the department's objections to the existing structure of user charges, and still meet the objective of recovering direct costs. We do not believe that existing statutory requirements relative to the level of fee revenues should be ignored. We propose, therefore, that the department examine the current fee schedules and submit a proposal for revising the fee requirements in a manner that would provide an optimum distribution of inspection costs among the beneficiaries of the inspection program, including manufacturers, park operators, consumers, and the general public. The proposal should also suggest a mechanism for systematically revising fees to compensate for increased inspection costs and changes in other conditions. We anticipate that our office would then make recommendations to the Legislature based on our evaluation of this proposal.

II. COMMUNITY AFFAIRS

The Division of Community Affairs carries on a variety of assistance activities aimed at providing Californians with decent and safe shelter in livable communities. Assistance activities include technical assistance to potential housing sponsors and local governments, and the distribution of loans, grants and housing subsidies funded primarily by the federal government. Table 3 shows the program elements of which the division's program is composed.

Table 3
Community Affairs Program Summary
(Dollars in Thousands)

	<i>Personnel-years</i>			<i>Expenditures</i>		
California Indian Assistance	4.0	5.0	4.0	\$201	\$360	\$222
Economic Development	5.0	10.0	5.7	1,332	2,668	3,270
Housing Assistance Payments	—	8.0	11.0	—	1,796	3,963
Rural Community Development	8.6	10.9	13.0	250	712	668
Urban Community Development	9.6	10.7	10.6	284	401	270
Totals	27.2	44.6	44.3	\$2,067	\$5,940	\$8,393
General Fund	—	—	—	\$754	\$2,111	\$1,954

Economic Development Activities to Expand

The budget requests two new positions for the economic development element and \$125,000 to be used as 20 percent matching funds to obtain an additional \$500,000 in federal funds for economic development loans and grants. This would result in a budget year total of \$3.125 million available for the fund of which \$625,000 represents the state's matching share. The two additional positions are requested to handle administration of the expanded program and to partially offset the loss of three federally

funded technical assistance positions.

The economic development program is intended to develop permanent private sector jobs by providing grants to local government and nonprofit organizations and by providing loans when financing is not available from private sources. The state General Fund provides administrative support with 3.5 personnel-years in the current year, and 5.5 personnel-years requested for the budget year.

The department has reported that through the end of 1976 it has reserved \$1.2 million of the amount budgeted for 1975-76 for eight projects. Grants were awarded to three local government and three nonprofit corporations in amounts totaling \$946,000. Loans were provided to two developers, (one nonprofit, one profit making) totaling \$244,750. In total, the department estimates that 1,371 jobs will have been created by the program.

We believe that the effectiveness of this program in creating jobs that are both *new* and permanent is subject to question, and needs to be carefully examined. In our analysis of the Department of Employment Development we are recommending that a study be conducted which would include a review of all state employment related economic and business development activities. The purpose of the study would be to (1) attempt to define the state's role in the general area of economic development, (2) formulate specific employment and economic development objectives, (3) evaluate current state activities in terms of their contribution to these objectives and (4) consider how to bring these activities together in a coordinated program. The basis for this recommendation is our belief that the various state efforts which are designed to have impact on unemployment in California are fragmented and uncoordinated and that at least some are of questionable effectiveness in actually stimulating new business activity or reducing unemployment. We anticipate that if such a study is approved it would include a review of the economic development activities within the Department of Housing and Community Development (HCD).

Department Becomes Federal Subsidy Agent

In November 1976, HCD received an award of federal funds to operate a program of rental housing assistance payments. Under the Section 8 Housing Assistance program, the federal government will pay the difference between the market rent on a housing unit and the amount a low-income family can afford, which ranges from 15 percent to 25 percent of adjusted gross income. Operated by the federal Department of Housing and Urban Development, the program is estimated to provide support for approximately 35,000 units statewide with 1975-76 appropriation. Most of the funds will be allocated by the federal government through local governments or nonprofit organizations. The Department of Housing and Community Development has received an allocation of 1,805 units to be used for (1) housing for a statewide program of assisting developmentally disabled, mentally disordered and physically disabled adults (1,500 units) and (2) housing in rural nonmetropolitan areas (305 units). Under the federal grant, HCD will receive funds to subsidize 1,805 units for five years

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

plus funds for administrative expenses. Federal funds budgeted for this program for the current and budget years are shown in Table 4.

Table 4
Housing Assistance Program
(Dollars in Thousands)

	<i>Federal Funds</i>	
	<i>1976-77</i>	<i>1977-78</i>
Assistance payments	\$1,565	\$3,655
Administrative expenses.....	231	308
Total	\$1,796	\$3,963

The department anticipates receiving additional allocations in future years. No General Fund support is required for this program.

New State Loan Program Begins Operation

Chapter 1335 of 1976, (AB 3623) created the Housing Predevelopment Loan Fund to be administered by the Director of Housing and Community Development. This measure appropriated \$500,000 to be used to make predevelopment loans to local governmental agencies or nonprofit corporations for assisted housing for low income persons in rural areas, and appropriated \$35,000 for administration. The department requests 1.5 personnel-years (one community development representative, and .5 clerical) to administer the fund.

The activities which may be supported by predevelopment loans include land options and purchase, professional services to prepare the land for development, permit and application fees, bonding site preparation, and water and sewer development. The 1.5 personnel-years requested is necessary for the substantial efforts needed to get the program started. However, the amount available for loans, legal restrictions on the use of the funds, and the realistic minimum necessary for predevelopment loans suggests that the volume of loans will be small, and we expect that administration expenses would be reduced in subsequent years.

III. RESEARCH AND POLICY DEVELOPMENT

The Research and Policy Development program aims to identify housing and community development problems and needs, and to evaluate and recommend solutions. The Governor appointed a new division chief in 1976, and the division was reorganized in October. Table 5 depicts the resources for the three program elements.

Table 5
Research and Policy Development Program Summary
(Dollars in Thousands)

<i>Elements</i>	<i>Personnel-Years</i>			<i>Expenditures*</i>		
	<i>Actual</i>	<i>Authorized</i>	<i>Proposed</i>	<i>Actual</i>	<i>Authorized</i>	<i>Proposed</i>
	<i>1975-76</i>	<i>1976-77</i>	<i>1977-78</i>	<i>1975-76</i>	<i>1976-77</i>	<i>1977-78</i>
Policy and program development	5.9	12.2	13.5	\$147	\$311	\$361
Research and statistics.....	3.4	8.2	5.3	85	277	180
Planning coordination and review	3.2	7.7	7.2	79	172	167
Program totals	12.5	28.1	26.0	\$311	\$760	\$707
General Fund.....				\$242	\$690	\$637

* Numbers may not total due to rounding.

Policy and Program Development. The department expects to submit the California Statewide Housing Plan and the Farmworkers' Assistance Plan to the Legislature in 1977. First requested in 1970, this California Statewide Housing Plan has been the major activity of this division since its reorganization in September 1975. In the budget year and thereafter it is the division's intention that these resources be utilized for special studies, the annual updates of the plan, and analysis of legislation.

The department is requesting 1.5 personnel-years to carry out a two-year study of housing costs and submit a report to the Legislature by July 1, 1979. The report will recommend state actions to reduce housing costs where feasible.

Planning Coordination and Review. This element develops guidelines for certain local government activities, develops regulations for certain California Housing Finance Agency activities and reviews and comments on a variety of planning documents and grant applications.

Research and Statistics. This element is responsible for identifying information sources and gathering relevant information on housing and community development. In particular, this element is working to develop the specifications for the structure, functions and organization of a housing and community development "information system" as required by Chapter 1, First Extraordinary Session, Statute of 1975. That statute authorizes the development of a prototype system if moneys are available for such purposes.

IV. ADMINISTRATION

The administrative element gives direction to the department's programs, determines operating policies, and provides support in the legal, accounting, personnel and budgeting functions. Expenses of the Commission on Housing and Community Development are included in this element.

The commission's responsibilities are two-fold: (1) providing "policy guidance" to the department, (2) adopting rules and regulations regarding building codes and housing standards. The statutory language "providing policy guidance" reflects a substantial reduction by the Legislature in 1975 of the commission's responsibility. Prior to that year, the law defined the role as "setting policy for the department".

In the area of codes and standards, the commission's role is stronger. Because it can adopt rules and regulations regarding codes and standards, it can effectively set policy in this area. Last year's Analysis recommended that such rulemaking authority be put in the hands of the director, as is the case with other regulatory departments within the Business and Transportation Agency. Such a change would clarify the role of the commission.

This past year, the commission has focused on representing consumer and public interests. In the budget year, in addition to representing these interests, the commission proposes to (1) review and comment on pending legislation relative to housing and (2) hold hearings around the state

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

“to learn about housing problems” and to “let citizens know what might be done about them”.

Requested Funding for the Commission

We recommend deletion of requested additional funding for the commission for a reduction of \$42,695.

A requested increase is in the administrative element, and is composed of one special assistant to the commission (\$24,695) and increased travel and other expense (\$18,000).

We do not believe that these activities justify increased funding because they clearly fall within the scope of existing activities in the Research and Policy Development program. We do not believe that the commission has the statutory responsibility which would require it to carry on research and policy development activities independent of the department's own efforts. If the director believes that the commission can provide useful assistance in developing such information, we believe the budget of the Research and Development program is more than adequate to fund these efforts.

Business and Transportation Agency**DEPARTMENT OF INSURANCE**

Item 147 from the General
Fund

Budget p. 322

Requested 1977-78	\$7,029,787
Estimated 1976-77	6,601,207
Actual 1975-76	5,672,724
Requested increase \$428,580 (6.5 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Programmable Calculator. Recommend feasibility study prior to the expenditure of \$25,000. 237

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 are located 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 personnel-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

We recommend approval.

The department's budget request of \$7,029,787 is \$428,580 or 6.5 percent above estimated expenditures for the current year. Budget year reimbursements are anticipated to be \$2,878,729, primarily from fees for examining insurance companies, resulting in a total proposed expenditure program of \$9,908,516.

New Positions (General Regulation Element)

The department is requesting one accountant I to work on the automation of financial analysis of casualty insurers. Additionally, one conservation and liquidation officer and two insurance examiner III positions are requested as a result of the increase in the number of companies operating under questionable circumstances and the increased need to examine the cash reserves of casualty companies. The examiner positions are 50 percent reimbursable.

New Positions (Administration)

The department is requesting one associate personnel analyst for both the current and budget year. The cost of this position will be absorbed within existing resources.

Continued Positions (Producer Licensing)

In an effort to improve its automated licensing system the department requests that one data processing manager position, administratively established through reclassification in the current year, be continued in the budget year.

Deleted Positions (Producer Compliance)

In 1975-76 thirteen positions were administratively established as reimbursable positions. Seven of these positions were converted to General Fund support because (1) the department was unable to collect reimbursements from the insurance companies as anticipated and (2) the individuals were functioning primarily in a consumer protection capacity. This element currently has six vacant positions in addition to the remain-

DEPARTMENT OF INSURANCE—Continued

Department of Insurance
Table 1
Expenditure and Staffing Data by Program

<i>Program</i>	<i>Element</i>	<i>Actual 1975-76</i>		<i>Est. 1976-77</i>		<i>Proposed 1977-78</i>	
		<i>Personnel- Years</i>	<i>Cost</i>	<i>Personnel- Years</i>	<i>Cost</i>	<i>Personnel- Years</i>	<i>Cost</i>
Regulation of Insurance Companies	Company consumer services	57.2	\$1,408,324	64.3	\$1,630,107	64.3	\$1,780,621
	Tax collection	8.5	194,203	9.7	244,636	9.7	252,267
	General regulation	146.3	3,572,516	167.1	4,213,307	171.1	4,524,206
Regulation of Insurance Producers	Producer licensing	67.6	1,667,755	70.6	1,989,942	70.6	2,052,360
	Producer compliance	46.2	1,136,783	60.8	1,345,652	54.8	1,299,062
Administration (Costs prorated to other programs)		(43.1)	(1,111,834)	(53.9)	(1,371,985)	(55.9)	(1,520,191)
Total Programs		325.8	\$7,979,581	372.5	\$9,423,644	370.5	\$9,908,516
Reimbursements		-	-2,306,857	-	-2,822,437	-	-2,878,729
Net Total Programs		-	\$5,672,724	-	\$6,601,201	-	\$7,029,787

ing six nonreimbursable positions. In view of this, the deletion of six positions from this element is requested for the budget year.

Consumer Brochure

In response to concerns over the general public's lack of knowledge of the auto insurance market, as discussed at the budget hearings last year, the department is requesting \$100,000 for a consumer brochure. A major portion of the developmental costs will be absorbed by the department. The requested funds would be applied to the remainder of developmental costs and printing costs. The brochures will be distributed with the Department of Motor Vehicle automobile registration renewals and will be designed so as not to increase the cost of postage.

Programmable Calculator

We recommend that the department not expend \$25,000 for a programmable calculator until it has completed a feasibility study of the requirements and alternatives. This study should be forwarded to the fiscal committees and the Joint Legislative Budget Committee at least 30 days prior to any purchase commitment.

In 1973 the department purchased one programmable calculator to (1) automate financial analysis summaries and (2) utilize model evaluation techniques to machine analyze such items as solvency and accuracy. The capacity of the existing machine is limited to life companies. A second programmable calculator is requested to extend this capability to casualty companies.

Considering the magnitude of the proposed expenditure and indications that increased capacity may be required for other types of analyses, we recommend that the department conduct a feasibility study. This study should examine the department's analysis requirement and various alternatives to the purchase of another programmable calculator. The study should be forwarded to the fiscal committees and the Joint Legislative Budget Committee at least 30 days prior to any purchase commitment.

Business and Transportation Agency
RIOT AND CIVIL DISORDERS INSURANCE

Item 148 from the General

Fund

Budget p. 326

Requested 1977-78	\$200,000
Estimated 1976-77	200,000
Actual 1975-76	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.

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	1,239,300,000	61,965,000	200,000
1977-78 (est.)	1,388,000,000	69,400,000	200,000

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 remaining 75 percent of accumulated premiums to the General Fund. The current year refund of \$634,142 was received on January 1, 1977. The budget year refund is anticipated to be \$537,313 making the net program cost \$-337,313.

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 1977-78.

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 1977-78.

Table 2
Illustration of Operation of Riot and Civil Disorders
Insurance Program
(1977-78 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 \$1.4 billion)	21,000,000
Loss balance	54,000,000
Apply reinsurance premium deposits held by HUD	6,000,000
Loss balance representing the state's liability which is covered by insurance.....	48,000,000

The state's \$69.4 million liability limit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of \$21.4 million. Losses exceeding the state's \$69.4 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 149 from the Real Estate
Fund

Budget p. 326

Requested 1977-78	\$8,441,163
Estimated 1976-77	7,421,894
Actual 1975-76	6,277,017
Requested increase \$1,019,269 (13.7 percent)	
Total recommended reduction	\$379,433

DEPARTMENT OF REAL ESTATE—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. Minimum Education Requirements. Recommend review by commissioner to determine need for establishing minimum requirements for licensure of real estate salesmen.	242
2. Antidiscrimination Program. Withhold recommendation on six requested positions pending submission of program plan to fiscal committees hearing this item.	244
3. <i>Subdivisions Element. Reduce \$130,733.</i> Recommend deletion of eight proposed positions because request is not substantiated.	246
4. <i>Education Programs. Reduce by \$155,500.</i> Recommend limitations on department's involvement in educational programs.	248
5. Research Grants. Recommend department approval of study area prior to allocation of research funds.	249
6. <i>Consumer Education Brochures. Reduce by \$93,200.</i> Recommend reduction because adequate consumer-oriented real estate publications are presently available.	249

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 271 positions. Department offices are maintained in Los Angeles, San Francisco, San Diego, and Fresno, with headquarters located in Sacramento.

Program Funding

Prior to January 1, 1977, two funds supported department activities. The Real Estate Fund, composed of license fees and other resources, was used for department operations. The Real Estate Education, Research, and Recovery Fund supported the education and research programs and a recovery program in which claims are paid to aggrieved parties under specified circumstances. The latter fund received 25 percent of license fees collected by the department as well as income from investment of surplus fund balances.

In last year's Analysis, we recommended that the two funds be combined. Chapter 271, Statutes of 1976, abolished the Real Estate Education, Research, and Recovery Fund and transferred its fund balance into the Real Estate Fund as of January 1, 1977. Reserves for education and recovery activities were established at 20 percent and 5 percent of license fee revenues, respectively.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of \$8,441,163, or 13.7 percent above estimated current year expenditures. Revenues are estimated at \$15,091,065 for the budget year, resulting in anticipated surplus funds of \$6,649,902 by June 30, 1978.

Table 1 illustrates the condition of funds supporting the department's programs.

Table 1
Combined Fund Condition

	<i>Actual</i> <i>1975-76</i>	<i>Estimated</i> <i>1976-77</i>	<i>Percent</i> <i>Change over</i> <i>Previous</i> <i>Year</i>	<i>Proposed</i> <i>1977-78</i>	<i>Percent</i> <i>Change over</i> <i>Previous</i> <i>Year</i>
Accumulated surplus, July 1.....	\$7,952,960	\$7,849,282		\$7,426,265	
Revenues.....	6,316,053	6,999,100		7,664,800	
Total Resources.....	\$14,269,013	\$14,848,382	4.1%	\$15,091,065	1.6%
Expenditures:					
Real Estate Fund	\$5,792,033	\$7,240,235		\$8,441,163	
Real Estate Education, Research and Recovery Fund ^a	627,698	181,822		-	
Total Expenditures	\$6,419,731	\$7,422,117	-15.6%	\$8,441,163	13.7%
Accumulated Surplus, June 30..	7,849,282	7,426,265	(5.4)	6,649,902	(10.5)
Department of Real Estate Reserve for Education, Research and Recovery..	(\$4,483,766)	(\$3,566,749)		(\$2,187,386)	
	(\$3,365,516)	(\$3,859,516)		(\$4,462,516)	

^a Fund abolished by Chapter 271, Statutes of 1976, and remaining balance transferred into Real Estate Fund, effective January 1, 1977.

The table indicates that revenues are expected to increase slightly while department expenditures are proposed to rise by almost 14 percent. As a result, the accumulated surplus balance expected by the end of the budget year will approximate \$6.6 million, a decrease of over 10 percent from the estimated surplus level for June 30, 1977.

While the decline in the forecasted fund surplus does not warrant immediate concern, the level of surplus balances diverted to the education and recovery reserves may be excessive. For the current and the budget year, special items of expense for a real estate education and research and for recovery claims are estimated to be \$728,000. However, the reserve designated for these purposes is proposed to exceed \$4.4 million in the budget year.

Legislation currently requires the department to allocate license fees for education and research purposes in accordance with the schedule previously noted. We believe that the department should review projected needs for these activities to determine the level of required funding and to seek new legislation if reserve allocations appear excessive.

A discussion of the department's four operating programs follows.

DEPARTMENT OF REAL ESTATE—Continued

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.

Second, 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 to pay the judgment amount, the injured party may then file a claim against the recovery reserve. If the department finds the claim valid, it is paid out of this reserve 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, 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

	Actual 1975-76	Estimated 1976-77	Percent Change over Previous Year	Proposed 1977-78	Percent Change over Previous Year
Expenditures by element					
Licensing.....	\$1,543,264	\$1,782,277	15.5%	\$1,841,047	3.3%
Regulatory and recovery	2,721,074	2,984,858	9.7	3,582,935	20.0
Total program expenditures.....	\$4,264,338	\$4,767,135	11.8%	\$5,423,982	13.8%
Personnel years by element					
Licensing.....	94.8	105.3	11.1%	108.0	2.6%
Regulatory and recovery	104.7	107.2	2.4	132.9	24.0
Total program personnel years	199.5	212.5	6.5%	240.9	13.4%

Educational Requirements Needed for Sales Personnel

We recommend that the department determine the need to establish minimum education standards for real estate salesmen and report on its analysis to the Joint Legislative Budget Committee by November 1, 1977.

Increased activities designed to make the real estate industry more "professional" is one of the department's stated objectives. For example, the department is considering the development of an ethics course as an educational requirement for real estate brokers. These efforts should be applied to real estate sales personnel as well. Current legislation requires a potential salesman licensee to be at least 18 years of age and to pass the department's salesman's examination. In our judgment, minimum education standards or the equivalent thereof should be established for salesman similarly to requirements for real estate brokers.

We believe that the introduction of education standards may be required for three reasons. First, real estate salesmen are the individuals most directly in contact with the general public in real estate transactions. Second, real estate activity is not a full-time occupation for many salesmen. However, acquaintance with basic real estate law and techniques is necessary whether a salesman works part-time or full-time. Finally, a salesman with two years experience may become a real estate broker without meeting the basic education requirements established for a broker's license.

In our judgment, the commissioner should review the need to establish education standards, insuring that equivalency allowances are available to potential salesmen licensees. Among the alternatives that should be analyzed are (1) establishment of initial education requirements for issuance of an original license, (2) continuing education standards, and (3) tougher examinations for salesmen. Results of this review should be presented to the Joint Legislative Budget Committee.

Increases in Licensing Activities

According to department data, license processing for salesmen and brokers have risen significantly in the current year. The department estimates a 35 percent increase in workload since 1975-76 and believes that growth may continue in the budget year.

Through deficiency authorization, 7.5 additional positions were administratively authorized in the current year. Funding for these positions, as well as two additional clerical positions, is proposed in the department's budget. In our judgment, the proposed positions are justified by increased workload, and we recommend approval.

Automated Licensing Study

Approximately eight 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. Recognizing the potential for reducing costs through application of modern data processing technology, we recommended and the department received a \$35,000 augmentation to its 1976-77 budget to contract for a feasibility study of alternatives to the present process.

At the time we made our recommendation, 42 clerical positions were employed to maintain extensive cardex, linedex and folder files at an annual cost of \$346,956. This maintenance cost has now grown to the extent that estimated budget-year requirements are 47 positions and \$448,000.

DEPARTMENT OF REAL ESTATE—Continued

Although funds for the feasibility study were available on July 1, 1976, an interagency agreement with the Department of General Services for systems analysis support was not entered into until January 3, 1977. The agreement is for a maximum amount of \$24,995 and anticipates study completion by September 30, 1977. A review group has been formed to monitor progress of the study and our office will participate with this group on an observer basis.

Illegal Real Estate Activities

The recently appointed Real Estate Commissioner has publicly stated his desires to increase department enforcement of illegal real estate transaction activities. In the regulatory budget, the addition of 26 positions is requested. Of this total, five positions are related to expected workload increases from anticipated growth in complaints received from the public. The remaining 21 positions are requested for three other programs (1) nine positions for regulation of illegal subdivision activities, (2) six positions for implementing department antidiscrimination regulations, and (3) six positions for a demonstration project designed to increase monitoring of broker trust fund accounts. This program is a result of the department's concern towards possible commingling of funds held in trust by brokers.

Data furnished by the department indicate that regulatory workload has increased similarly to the growth in real estate licensees. Illegal subdivision activity, as noted in last year's Analysis, has been rising, particularly in rural areas of the state. Therefore increased regulation in our judgment is warranted.

The demonstration project for broker trust account monitoring is actually an expansion of a pilot program which began in August 1975. Since that time, approximately six to eight personnel-years have been devoted to examination of approximately one percent of broker trust accounts. The department indicates that over 130 desist and refrain orders have been issued as a result of these audits, and that the six requested positions will approximately double the regulatory activities in this area.

Antidiscrimination Program

We withhold recommendation on six positions proposed for implementing the department's antidiscrimination regulations pending submission of a program plan to the fiscal committees hearing this item.

The department is currently developing antidiscrimination regulations applicable to real estate licensees. Six positions are requested for implementing the regulations because the department believes that diversion of presently authorized personnel to this activity would constrain its programs in other regulatory areas.

Currently, the Fair Employment Practice Commission (FEPC) has authority to file claims against parties involved in discriminatory activities. However, commission staff has indicated that involvement in real estate is generally limited to rental transactions. Furthermore, the only legal action available to the FEPC is recovery of claimed damages. Conversely,

the Department of Real Estate has authority to suspend or revoke licenses and initiate civil or criminal action against real estate agents for illegal activities.

We withhold recommendation on the requested positions because a detailed plan for implementing antidiscrimination regulations has not been submitted to date. The regulations have been drafted but have not been approved in final form. We believe that, upon final approval, a program plan should be developed and provided to the fiscal committees to establish the need for additional personnel.

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 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> <i>1975-76</i>	<i>Estimated</i> <i>1976-77</i>	<i>Percent</i> <i>Change over</i> <i>Previous</i> <i>Year</i>	<i>Proposed</i> <i>1977-78</i>	<i>Percent</i> <i>Change over</i> <i>Previous</i> <i>Year</i>
Expenditures by element:					
Subdivisions.....	\$1,171,506	\$1,460,804	24.7%	\$1,699,027	16.3%
Real property securities.....	95,828	119,493	24.7	122,815	2.8
Syndicate securities.....	80,464	100,334	24.7	103,123	2.8
Total program expenditures.....	\$1,347,798	\$1,680,631	24.7%	\$1,924,965	14.5%
Personnel years by element					
Subdivisions.....	48.5	59.4	22.4%	68	14.5%
Real property securities.....	2.3	2.3	—	2.3	—
Syndicate securities.....	2.9	2.9	—	2.9	—
Total program personnel-years	53.7	64.6	20.3%	73.2	13.3%

DEPARTMENT OF REAL ESTATE—Continued

Additional Personnel Premature

We recommend a reduction of \$130,733 to delete eight proposed positions in the subdivisions element because the request for additional personnel is not substantiated.

The department, in anticipation of workload increases related to the notices of intent filed by subdividers, is requesting the addition of eight positions in the subdivision element. Estimated growth in subdivision filings led to a deficiency authorization for 12 new positions during the current year. Thus, 20 additional positions are proposed by the department over a two-year period.

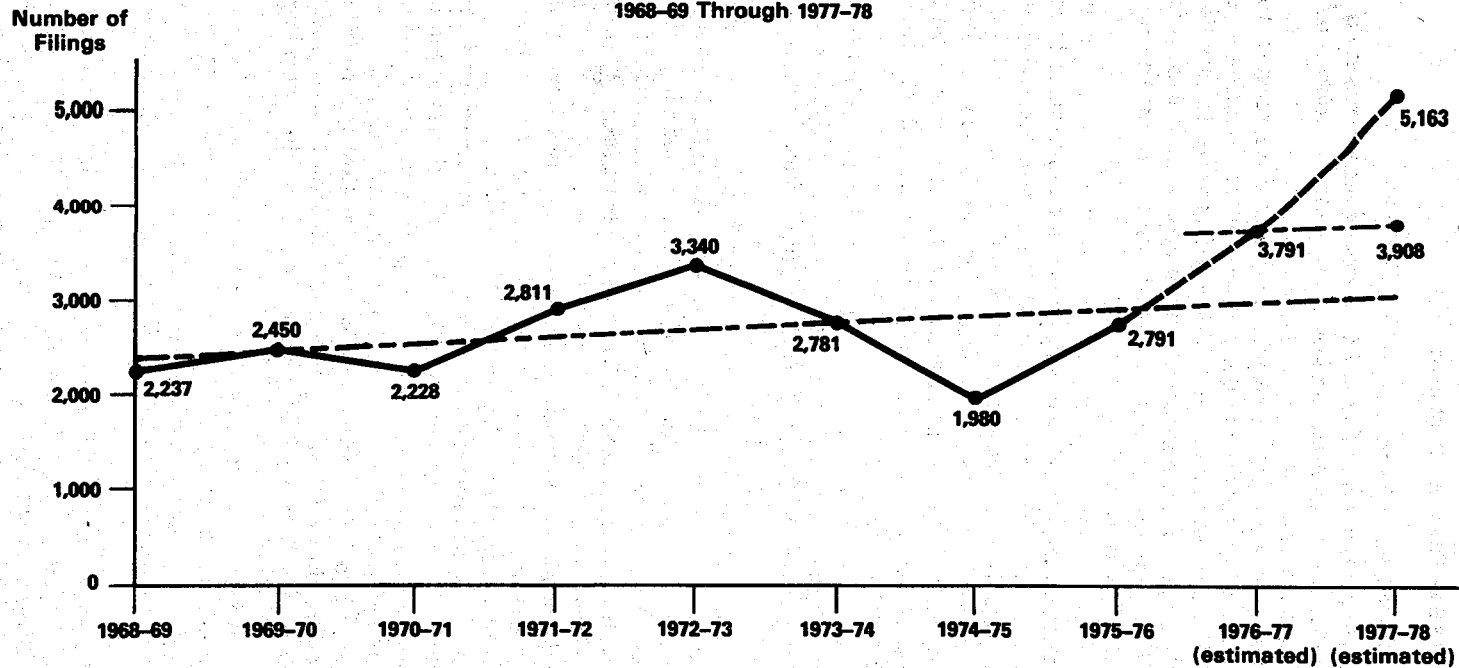
Despite increases in new housing starts and related improvements in the economy in the current year, we believe that the department request for new positions in 1977-78 is not substantiated for two reasons. First, the department is projecting increases in subdivision filings for both the current and budget years on actual data from the first quarter of 1976-77. Department estimates for a 24-month period are therefore based on three months experience. We do not believe that this method of extrapolation is either correct or realistic.

Second, as shown in Chart 1, annual subdivision filings do not increase on a straight-line basis. Rather, the data show that such filings appear to follow a cyclical pattern. In fact, the trend in subdivision filings over the past seven years reflects only a slight increase.

We have applied the trend line to current year estimates of filings to project the budget year level. The chart shows that slightly more than 3,900 filings might be expected for 1977-78, an increase of approximately 100 notices over the current year. We believe that, with continuation of the increased staffing authorized in 1976-77, the department can meet our estimate of workload requirements in the subdivision element for 1977-78. If information for the entire current year reveals that another significant increase in subdivision activities may be expected for the budget year, deficiency authorization should be sought at that time.

The department is also requesting an additional position for its homeowner association program. Since July 1975, this activity has aided homeowner associations after issuance of a public report by the subdivider. The department states that program efforts have recovered \$1,320,000 for homeowner associations in overdue assessments and through the completion of promised facilities. In our judgment, the program has demonstrated effectiveness, and we recommend approval of the department's request.

Chart 1
ANNUAL SUBDIVISION FILINGS
1968-69 Through 1977-78



LEGEND

- Actual Filings
- Department estimates for 1976-77 and 1977-78
- . - . - . Trend line for estimate of Legislative Analyst's projection.

DEPARTMENT OF REAL ESTATE—Continued

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 funds in the education and research reserve 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 4 presents staffing and cost data for this program.

Table 4
Education and Research Program

	Actual 1975-76	Estimated 1976-77	Percent change over previous year	Proposed 1977-78	Percent change over previous year
Expenditures by element					
Education and research	\$643,448	\$839,317	30.4%	\$855,734	2.0%
Publications	252,844	329,811	30.4	431,482	30.8
Total program expenditures	\$896,292	\$1,169,128	30.4%	\$1,287,216	10.1%
Personnel-years by element					
Education and research	3.5	3.5	—	3.5	—
Publications	2.9	2.9	—	2.9	—
Total program personnel-years ..	6.4	6.4	—	6.4	—

Educational Support Questioned

We recommend reductions totaling \$155,500 to limit the involvement of the Department of Real Estate in educational programs.

Of the \$855,734 budgeted for education and research activities, the department has stated that approximately \$512,000 is related to educational support and research grants provided to academic institutions. The nonresearch activities include funding of real estate centers at the University of California, instructor/trainee seminars, syllabus development, teaching aids, and community college grants for library purchases and counseling support.

The department is unique among state offices in its contributions to educational institutions for purposes other than research. According to its staff, the education program has been developed to insure uniformity in course material, aid in real estate instruction, and encourage expansion of

scholastic resources through library purchases and course guidelines.

We question the department's involvement in supporting incidental activities related to real estate education such as syllabus development and library purchases. Scholastic demand and instructor choice, rather than state support, should determine the material and content available in real estate courses.

Following are recommendations related to limiting the department's participation in education programs.

1. Contracts for syllabus development should be eliminated for a savings of \$20,000. Instructors should design course outlines for real estate offerings similarly to preparation of all other courses.
2. Overhead transparency packaging and duplication should be eliminated for a reduction of \$35,500. The department furnishes slide presentation packages for six real estate courses. The development of these educational aids should be the responsibility of the instructor and should be funded by the institution.
3. Grants to community colleges for library purchases and counseling should be eliminated, for savings of \$100,000. The department provides grants approximating \$1,000 to 100 community colleges. The benefit of this activity to individual colleges is minimal, and funding should be a function of student demands, not department support.

Recommended reductions thus total \$155,500.

Department Approval for Research

We recommend that research grants should not be allocated unless the department approves the specified area of study.

The department supports research performed by the University of California through grants totaling \$122,000. Of this amount, \$72,000 is contracted by the department for specific research areas. However, the remaining \$50,000 is used for research deemed appropriate by the University.

We believe that all research for the department should specify the study area in accordance with department requests. In our judgment, the allocation of \$50,000 for independent research by the University should not be allocated unless the topic of study is approved by the department.

Consumer Education Brochures

We recommend a reduction of \$93,200 for the publication and distribution of consumer education booklets because adequate real estate consumer-oriented publications are presently available.

Included in the department's publication budget is an augmentation of \$93,200 for materials and distribution costs of a consumer-oriented brochure designed to inform real estate purchasers of basic transactions information. The program envisions the distribution of 300 pamphlets to about 3,300 brokers throughout the state.

We are in support of the department's objectives for effective consumer education. However, we believe that this request is unnecessary for two reasons. First, the Department of Consumer Affairs, in its consumer catalog, has already provided an excellent discussion of real estate transactions affecting both buyer and seller. The catalog also provides information on

DEPARTMENT OF REAL ESTATE—Continued

obtaining a layman's guide to real estate transactions from the Department of Real Estate.

Second, the department intends to seek legislation which would allow expansion of its activity in consumer education and funding should be included in the proposal for a more comprehensive approach.

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 5.

Table 5
Administration Program
Staffing and Expenditures

	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Percent change over previous year</i>	<i>Proposed 1977-78</i>	<i>Percent change over previous year</i>
Expenditures	\$485,529	\$529,318	9.0%	\$606,879	14.7%
Personnel-years	19.7	21	6.6%	21	—

New Positions

The budget reflects the addition of two positions to meet reorganization and workload requirements of this program. Department workload has increased in the current year, and several adjustments to department organization are being made. We therefore recommend approval of this request.

Business and Transportation Agency
DEPARTMENT OF SAVINGS AND LOAN

Item 150 from the Savings and
 Loan Inspection Fund

Budget p. 333

Requested 1977-78	\$5,542,942
Estimated 1976-77	5,180,748
Actual 1975-76	4,115,318
Requested increase \$362,194 (7.0 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Fair Lending Program. We withhold recommendation on \$60,192 for two examiner positions, one associate appraiser position, and one clerical position pending review of additional data prior to budget hearings. 253
2. Anti-Redlining Activities. We request the department to present to the fiscal committees, the current and ongoing cost and effectiveness of anti-redlining regulations. 254

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 176 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 by the Commissioner at a level to cover the department's annual operating costs.

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.

DEPARTMENT OF SAVINGS AND LOAN—Continued

Table 1
Department of Savings and Loan Cost and Staffing Data

<i>Program and Elements</i>	<i>Actual 1975-76</i>		<i>Estimated 1976-77</i>		<i>Proposed 1977-78</i>	
	<i>Personnel- Years</i>	<i>Cost</i>	<i>Personnel- Years</i>	<i>Cost</i>	<i>Personnel- Years</i>	<i>Cost</i>
Supervision and regulation						
Examination.....	67.7	\$1,682,699	75	\$2,100,409	77	\$2,230,191
Appraisal.....	33.5	930,386	34	984,989	35	1,038,449
Facilities licensing and legal assistance	5.3	202,806	7	291,571	7	300,242
Economic and Financial Information	12.2	423,398	16	755,264	16	878,931
Boards of inquiry	—	—	4	170,942	4	182,581
Administration	35.9	878,691	40	902,573	41	927,548
Total Programs	154.6	\$4,117,980	176	\$5,205,748	180	\$5,567,942
Reimbursements.....		-2,662		-25,000		-25,000
Net Total Program		\$4,115,318		\$5,180,748		\$5,542,942

The boards of inquiry hear complaints from the public regarding alleged discriminatory practices of associations.

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of \$5,542,942 which is a net increase of \$362,194 or 7 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 \$5,567,942.

Table 1 shows personnel-years and costs devoted to the department's supervision and regulation program and supporting elements.

Fair Lending Program

Using the guidelines of the Rumford Fair Housing Act (Health and Safety Code 35720), the Unruh Civil Rights Act (Civil Code Section 51 and 53), and Chapter 999, Statutes of 1973, credit transactions regarding women (Civil Code Section 1812.30) the department established fair lending regulations. The purpose of the regulations is to prevent discrimination in lending because of race, color, religion, sex, age, marital status, national origin, or ancestry. By requiring that specific information be made available to the department and the public, such as the associations' loan criteria, and by providing a mechanism for filing and resolving complaints, the department is attempting to eliminate discrimination in lending.

New Positions (Fair Lending Program)

We withhold recommendation on \$60,192 for two examiner positions, one associate appraiser position and one clerical position pending review of additional data prior to budget hearings.

The department is requesting one associate appraiser for the budget year. Fair Lending regulations require that a complaint must be resolved within 21 days of receipt. Complaints are therefore given first priority and the appraisal element has been required to reschedule personnel and assignments. The additional position is proposed in order to maintain both the fair lending and association appraisal schedules.

To assure full enforcement of the Fair Lending regulations, new examination activities are being added, such as the Affirmative Marketing Policies and Programs. The department is requesting two examiner III positions to absorb the workload increase resulting from the additional fair lending examinations. One clerk typist position is proposed to support the requested additional professional staff.

Table 2 displays the complaints received by the department which relate to alleged unfair lending practices for the last five months of 1976 (the table includes complaints related to red-lining based upon neighborhood or geographic factors). The information in Table 2 does not appear to support the request for additional positions. Prior to the budget hearings we will review other workload data and make recommendations on staffing needs.

DEPARTMENT OF SAVINGS AND LOAN—Continued

We request the department to present to the fiscal committees, the current and on-going cost and effectiveness of the anti-redlining regulations.

The Savings and Loan Commissioner has issued departmental regulations, effective August 1, 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 such as 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, and the number and amount of foreclosures by census tract. Two boards of Inquiry have been established (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. Each of the boards is appointed by the commissioner and is 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.

Table 2
Alleged Unfair Lending Practices Complaints
Department of Savings and Loan
August 1, 1976 to December 31, 1976

Type	1976					Total
	Aug.	Sept.	Oct.	Nov.	Dec.	
Neighborhood or geographic factors	5	8	3	5	-	21
Discrimination on bases of race, color, sex, etc.	7	1	-	-	-	8
Discriminatory marketing or underwriting	1	-	-	-	1	2
Appraisal value disputed	-	-	1	-	-	1
Other unfair lending practices	2	5	7	1	3	18
Total	15	14	11	6	4	50

Resolution of Complaints

Total number pending	1	11	7	4	3	3
Total number completed	14	4	15	7	7	47
Loan committed	3	1	2	4	-	(10)
Loan not made	2	1	4	1	5	(13)
Referred to Board of Inquiry	-	-	3	-	1	(4)
Other	9	2	9	2	2	(24)

The anti-redlining regulations are included in the Fair Lending program. Table 3 displays the cost and staffing for this program. The table shows the total program and the effect of the anti-redlining regulations. When compared to the total Fair Lending program, the anti-redlining

Table 3
Costs and Staffing for Fair Lending Program

Program Element	Fair Lending Regulations (Including Anti-Redlining Regulations)						Anti-Redlining Regulations			
	Actual 1975-76		Estimated 1976-77		Proposed 1977-78		Estimated 1976-77		Proposed 1977-78	
	Personnel- years	Cost	Personnel- years	Cost	Personnel- years	Cost	Personnel- years	Cost	Personnel- years	Cost
Appraisal .....	.1	\$4,750	1.4	\$43,000	2.0	\$59,600	1.3	\$38,013	1.8	\$54,363
Examination .....	.3	6,516	11.0	291,114	12.0	298,180	10.7	284,272	11.5	290,996
Economic and financial information	1.5	29,990	2.8	214,981	4.2	203,240	1.1	183,492	2.4	170,176
Facilities licensing .....	.3	1,000	.8	32,032	1.1	43,538	.5	30,982	.8	42,436
Administration .....	.4	7,746	3.1	56,482	3.4	60,199	2.7	48,349	2.9	51,659
Boards of inquiry	-	-	4.0	170,942	4.0	182,581	1.6	68,377	1.6	73,032
Total	2.7	\$50,002	23.1	\$808,551	26.7	\$847,338	17.9	\$653,485	21.0	\$682,662

DEPARTMENT OF SAVINGS AND LOAN—Continued

regulations account for approximately 77 percent of the estimated staff and 81 percent of the estimated costs for the current year and approximately the same percentage for the budget year.

Although no legislation has been enacted which deals specifically with redlining, the Savings and Loan Commissioner promulgated the regulations because a major portion of the home loan market is held by savings and loan associations. Other regulatory entities such as the State Banking Department and the Department of Real Estate have yet to establish anti-redlining regulations. We believe the department should present data showing the results from anti-redlining activities to justify proposed expenditures.

Electronic Funds Transfer Systems

The department has budgeted \$40,000 as its share of the costs for an interagency task force on electronic funds transfer systems (EFTS). The Business and Transportation Agency and the Agriculture and Services Agency are coordinating the task force which currently includes the Departments of Corporations, Banking, Savings and Loan, and Consumer Affairs. We will be following the progress of this group as it deals with the problems, limitations, potentials, and possible regulations required for EFT systems.

System Upgrade (Economic and Financial Information Element)

The department is requesting \$60,000 to modify and upgrade the management information system. The system was installed in 1964 and revised in 1968. The purpose of the system is (1) to assist the examiners and provide an early warning system by evaluating the economic stability, solvency, liquidity, etc. of state associations, and (2) to monitor the condition of associations between examinations.

No expenditure will be made until the department has conducted and obtained approval from the Department of Finance for a feasibility study. We will review the system feasibility concurrently with the Department of Finance and provide our comments to the State Data Processing Management Office.

Research Request (Economic and Financial Information Element)

The department is requesting \$50,000 for four research projects: (1) the kinds and volume of loans by savings and loan associations to nonresident owners in inner-city areas, (2) the need for and level of capital adequacy in associations, (3) the extent and effects of savings industry concentration, and (4) the need and effectiveness of loan limitations as a regulatory tool. The department will use the information from the studies for policy, regulation, legislative, and program changes.

**Business and Transportation Agency
STATE TRANSPORTATION BOARD**

Item 151 from the Transportation Planning and Research Account.

Budget p. 337

Requested 1977-78	\$317,761
Estimated 1976-77	368,293
Actual 1975-76	264,338
Requested decrease \$50,532 (13.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Unify Authority and Responsibility. Recommend legislation to abolish California Highway Commission, Toll Bridge Authority and Aeronautics Board and transfer duties to the State Transportation Board.

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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 and one member from the Public Utilities Commission. 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 disagreements between regional transportation plans and the state transportation inputs, and (3) reviewing annual budgets of the Department of Transportation.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of \$317,761 which is \$50,532 or 13.7 percent less than the estimated current year amount of \$368,293. The budget includes funding for seven positions (four professional and three clerical) which is one below the staffing level in the current year. The primary reason for the reduced expenditure in the proposed budget is a reduction of \$50,000 in consultant services included in the current year.

Legislation Needed to Unify Authority and Responsibility

We recommend legislation to abolish the California Highway Commission, Toll Bridge Authority and Aeronautics Board and transfer the duties to the State Transportation Board.

Currently, four separate bodies are responsible for various aspects of the

STATE TRANSPORTATION BOARD—Continued

state transportation program. The California Highway Commission, the Toll Bridge Authority, the Aeronautics Board and the State Transportation Board all purpose solutions to transportation problems. With the exception of the State Transportation Board, these bodies approach transportation problems on the basis of a single mode of transportation.

The Legislature has required the State Transportation Board to adopt a multimodal state transportation plan which is now one year overdue and far from completion. In our view, a large part of the delay results from a lack of consensus by the board relative to the content of a plan. The board is currently developing a statement of transportation goals and policies which will identify problems and solutions in only a generalized manner.

Realistic solutions for transportation problems will be possible only if the body responsible for determining transportation policy is also responsible for the financing and implementation of such policy. Presently, the board has neither implementation or funding responsibilities. Control over implementation and financial resources is vested in the other three bodies and each proposes expenditures for transportation on a piecemeal and uncoordinated basis.

The continued existence of the California Highway Commission, the Toll Bridge Authority and the Aeronautics Board is contrary to the manner in which multimodal solutions should be planned, governmental entities organized, and the required sources of capital identified and used to maximize public services. We believe the three bodies should be abolished and their collective authorities and duties transferred to the State Transportation Board. Abolishing the three existing bodies would save approximately \$200,000 per year. A small staffing increase in the board would provide adequate capability to assume the functions of the three separate bodies and result in a net savings to the state.

**Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION**

Items 152-159 from various
funds

Budget p. 339

Requested 1977-78	\$38,389,265
Estimated 1976-77	36,649,294
Actual 1975-76	21,225,843
Requested increase \$1,739,971 (4.7 percent)	
Total recommended reduction	\$2,186,050

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Systems Planning. Reduce Item 154 by \$1,714,200. Recommend reduction in transportation and related planning.* 265
2. *Transit Research. Reduce Items 154 and 157 in the total amount of \$388,150. Recommend reduction in transit research.* 267

3. *Financial Programs. Reduce Items 154 and 157 in the total amount of \$83,700.* Recommend reduction in administration of state and federal financial assistance program. 270
4. Aeronautics Budget. Withhold recommendation on budget indentified as for "display purposes only". 271

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. Regional plans have been adopted. However, as of this date, a state plan has not been approved.

Although the total departmental budget is approximately \$1.1 billion, the legislative appropriation for support of the department and subventions to local planning entities is only \$17,181,509 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 \$38,389,265 which is subject to review and approval by the Legislature.

Table 1 displays the Department of Transportation appropriation 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 planning entities, and a portion of the general cost of departmental administration. The proposed expenditures are reflected in Table 2 together with revenue sources.

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 \$38,389,265 is \$1,739,971 or 4.7 percent above the estimated current year expenditure of \$36,649,294. The proposed budget provides funding for 521 personnel-years versus 489 personnel-years in the current year.

DEPARTMENT OF TRANSPORTATION—Continued

Table 1

Department of Transportation Appropriations and Carry-Over Funds

<i>Item No.</i>	<i>Description</i>	<i>Amount</i>	<i>Fund</i>
152	Support Department of Transportation.....	\$869,793	Aeronautics
	(a) Aeronautics Program.....	\$743,720	
	(b) General Support Program	126,073	
153	Transfer Funds to Transportation Planning and Research Account	(30,000)	Aeronautics
154	Support of Department of Transportation	8,388,036	Transportation Planning and Research Account
	(a) Transportation Planning.....	6,764,100	
	(b) Mass Transportation	1,967,750	
	(c) General Support	595,337	
	(d) Reimbursements (Mass Transportation)	-268,151	
	(e) Reimbursements (Transportation Planning)	-671,000	
155	Schedule of Expenditures	—	State Highway Account
156	Transfer Funds to Transportation Planning and Research Account	(12,415,000)	State Highway Account
	(a) State Funds	6,500,000	
	(b) Federal Funds.....	5,915,000	
157	Local Assistance—Department of Transportation.....	3,010,800	Transportation Planning and Research Account
	(a) Transportation Planning.....	2,460,000	
	(b) Mass Transportation	550,800	
158	Local Assistance—Department of Transportation.....	4,415,000	Federal
159	Local Assistance—Department of Transportation.....	497,880	Aeronautics
	Total, Budget Act Appropriation	\$17,181,509	
Add:	Reimbursements.....	\$1,290,151	Reimbursements
	(a) Mass Transportation (Item 154)	\$268,151	
	(b) Mass Transportation (non-Budget Act)	351,000	
	(c) Transportation Planning (Item 154)	671,000	
	Aeronautics Account Continuous Appropriation	3,200,000	Aeronautics
	Chapter 1130, Statutes of 1975	7,893,605	
	(a) Mass Transportation	4,978,916	Transportation Planning and Research Account
	(b) Highway Transportation	2,414,689	Transportation Planning and Research Account
	(c) Mass Transportation	500,000	Abandoned R.R. Acct.
	Chapter 954, Statutes of 1976	20,000	Aeronautics
	Chapter 1349, Statutes of 1976	3,995,000	Transportation Planning and Research Account
	Article XIX (Guideways)	4,809,000	State Highway Account
	Total Funds Available	\$38,389,265	

Table 2
Funding by Program and Source

<i>Program</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>
1. Transportation Planning	\$14,244,176	\$13,639,100
2. Mass Transportation	14,281,935	17,152,466
3. Aeronautics	4,419,316	4,461,600
4. Highway Transportation	3,349,768	2,414,689
5. General Support	354,099	721,410
Total Programs	<u>\$36,649,294</u>	<u>\$38,389,265</u>
Resources		
State Highway Account ^a	\$10,389,454	\$11,309,000
Aeronautics Account ^a	4,456,016	4,617,673
Transportation Planning and Research Account	13,236,281	16,257,441
Abandoned Railroad Account	3,000,000	500,000
Federal Funds	4,389,772	4,415,000
Reimbursements	<u>1,177,771</u>	<u>1,290,151</u>
Total Resources	<u>\$36,649,294</u>	<u>\$38,389,265</u>

^a. Resources are shown *prior* to Budget Act transfers.

I. 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 \$13,639,100 or 4.2 percent less than the \$14,244,176 estimated expenditures for the current year. The proposed budget provides funding for 382 personnel-years which is 17.2 above the current year staffing level of 364.8 personnel-years.

Failure of State Plan

The California Transportation Plan, required by Chapter 1253, Statutes of 1972, has evolved from a somewhat inadequate July 1975 draft plan to a wholly unrealistic December 1976 version. The 1976 version, referred to as the State Plan Policy Element, has been criticized by the administration, the Legislature, and the public for its: (1) orientation toward impractical concepts, (2) failure to address important transportation issues adequately, and (3) failure to satisfy statutory requirements.

Administration Responsibilities. Much of the responsibility for the failure of the 1976 Policy Element must be placed upon the administration and the department. The task force that prepared the Policy Element was under the direction of the State Transportation Board, but the concept for it originated within the administration. Rather than improving the July 1975 draft, which was at least oriented toward satisfying the statutes, the task force effort has drifted further away from a practical consideration of California's transportation problems. Administration guidance has been inadequate.

Other Factors. Other factors have also contributed to the failure of the state plan. Under Chapter 1253, the department was required to submit

DEPARTMENT OF TRANSPORTATION—Continued

a progress report on the plan. The Legislature was then to pass an act constituting a legislative declaration of statewide transportation goals, objectives, and policies, which would provide guidelines for the preparation of the State Plan. This has not occurred. Consequently, adequate legislative direction has not been available for preparation of the plan.

Further complicating the process, aspects of the original requirements are infeasible or impractical to accomplish. Unfortunately, there is often a lack of data or techniques necessary to carry out the full evaluation of transportation impacts required by Chapter 1253.

Our Recommendations. In our judgment, the failure of the plan suggests a need for major revisions to the state effort in transportation planning. In particular, modification requires (1) considerably more direction of planning efforts, and (2) a greater orientation toward practical solutions of our transportation problems. Statutory and institutional changes may be necessary to develop a successful state planning process.

Consequently, until these deficiencies are redressed it is our judgment that only minimal support should be provided to the state planning effort.

The Transportation Planning Process

Since the passage of Chapter 1253, the major emphasis within the transportation planning program has been the preparation of the State Transportation Plan mandated by the legislation. However, this plan is the product of a larger planning effort, and the process must be addressed on two levels: (1) the state plan and (2) regional plans.

As discussed above, drafts of the state plan prepared in the last two years have been inadequate in satisfying statutory requirements and properly addressing state transportation problems. While the regional planning efforts have demonstrated more progress in this regard, considerably more remains to be accomplished. We describe both levels of the process below, and indicate changes which in our judgment are necessary to improve transportation planning in California. Elements of the 1977-78 transportation planning budget are then reviewed.

The State Transportation Plan

As discussed in our 1976-77 Analysis, the State Transportation Board rejected a July 1975 draft of the state plan prepared by the department because it failed to meet statutory requirements and was inadequate for formulating and implementing transportation decisions. A 10-man task force was formed within the Business and Transportation Agency to modify and revise the plan during the current fiscal year.

In our judgment, the task force effort has not been successful in redressing the deficiencies of the July 1975 draft. In fact, the widely criticized State Plan Policy Element prepared by the task force is more removed from a realistic approach to transportation problems than the July 1975 draft. It is currently undergoing revision, but there is little reason to expect that the resulting document will actually be useful in addressing California's transportation problems.

Fundamental Problems. We have already discussed the failure of the administration to provide adequate guidance to the planning process. This

lack of direction has been the most critical problem with the plan. The fact that the Legislature has not adopted statewide goals, objectives, and policies is also a factor in this lack of direction.

Consequently, instead of focusing on critical problems and issues the task force has spent excessive amounts of time on impractical concepts such as "full social accounting" (valuing transportation impacts and charging "appropriate" prices, for example through smog taxes or congestion pricing) and deregulation of the transportation industry. This unrealistic focus is partly attributable to the isolation of the State Transportation Board and the task force from management and implementation decisions regarding the transportation system. Institutional changes which provide a stronger linkage between planning and implementation decisions are clearly needed, in addition to improved direction.

Statutory Requirements. Another fundamental problem concerns requirements specified in Chapter 1253. This chapter requires that the plan include the following: (1) inventories; (2) statutory requirements affecting transportation services; (3) financial resources; (4) state plans affecting transportation; (5) advanced concepts for transportation systems; (6) alternative plans; and (7) an evaluation of alternative plans. In the evaluation of alternatives the following criteria are among those to be used: (1) economic, (2) land use, (3) taxation, (4) environmental, (5) social, and (6) system performance and level of service.

The goal of comprehensive analysis specified in Chapter 1253 is laudable. However, it is not realistically possible to perform an analysis as extensive as that suggested by the statute. First, it is not feasible to obtain some of the information specified. For example, few techniques and almost no data are available to permit a determination of the land use impact of a transportation improvement. Too many other factors such as the economic climate and local zoning decisions influence land use. Second, some information may have significant costs associated with it. For example, the extent of a travel and transportation inventory will depend upon how much is spent to collect additional information beyond that already available. At some point, the value of the information in the decisionmaking process will not be sufficient to justify additional expenditures. Chapter 1253 does not adequately recognize the availability or cost of information as factors in the analytical process. In that sense, the statute creates unrealistic expectations for what the transportation plan should accomplish.

Change in Emphasis. From the above it becomes apparent that a major reorientation of the state planning process is required. We believe it should be reoriented toward (1) enhanced management of our existing transportation system and available financial resources, and (2) determination of transportation deficiencies and associated funding requirements. This short-term focus for the planning process should be clarified through specification of detailed guidelines by the Legislature and better ongoing direction by the administration.

Associated institutional changes are also necessary. More effective integration of the planning effort with management and implementation decisions is essential, and needs to be developed. A realistic and desirable orientation for the planning process also requires a clear definition of

DEPARTMENT OF TRANSPORTATION—Continued

responsibilities, and improvements could be made in this regard. Clarification of state responsibilities in highway construction and maintenance, and better definitions of state responsibilities in mass transportation, aeronautics, goods movement, energy conservation, and air quality are desirable.

Regional Planning

Originally, the California Transportation Plan was to involve: (1) preparation of regional plans, and (2) preparation of the state plan using the regional plans as input. This sequence was followed in constructing the July 1975 draft.

As we indicated in last year's Analysis, although the July 1975 draft was inadequate in satisfying statutory requirements, it did represent a realistic first attempt at a state plan. The impacts of several broadly defined alternatives were assessed in this 1975 draft, although policy options available to decisionmakers were not adequately clarified.

The capability to begin assessing alternatives statewide was a result of the information base derived from regional planning efforts. The quality of these efforts has varied considerably, but several regions have made significant strides toward satisfying the intent of Chapter 1253. The regional agencies, in cooperation with the department's local districts, have generally taken a more realistic perspective in preparing the regional plans than is reflected in the 1976 Policy Element.

Results of Regional Planning. Transportation planning is perhaps the most technically oriented of the planning fields. Using sophisticated computer models, several regions have simulated travel patterns under a variety of alternative possible future conditions. The results of these simulations in turn can provide decision-makers with some perspective on the impacts of alternative policies. The Comprehensive Planning Organization (CPO) of San Diego and the Sacramento Regional Planning Commission (SRAPC) have both explored potential impacts resulting from land use changes, major improvements in public transit, and development of new highways. Regional impacts assessed included air quality, energy consumption, congestion, noise, and other considerations. Similar work has been accomplished covering portions of the Los Angeles region by the Southern California Area Governments (SCAG), and portions of the San Francisco Bay Area region by the Metropolitan Transportation Commission (MTC).

The regional plans can be criticized because the scope of their analysis is typically restricted to the movement of people in urban areas. Detailed assessment of other travel needs is generally lacking. The assessment of alternatives is also generally not as comprehensive as required by the statute. However, both of these deficiencies are a result of inadequate information and limited theory. For example, almost no theory and very little data exist to analyze commodity-related transportation demands. Similar conditions exist relative to other requirements contained in Chapter 1253.

Future Orientation. A major reason for successes achieved by the re-

gional planning efforts is the strong link between these efforts and actual implementation of projects. Under federal law, projects must be consistent with the regional plan in order to be eligible for federal funding. This generates pressures for the regional plans to focus upon desired projects and services. At the same time, there is a constituency of local officials and citizens concerned with what is contained in the plan. The state plan has generally lacked this concerned constituency during its development.

However, the regional planning efforts require more specific direction if they are to address current problems properly. The plans need to establish realistic priorities (1) for operations and management of the existing system, and (2) for new projects. Establishment of these priorities should be based on sound technical analysis of (1) transportation needs and deficiencies, (2) the impact of alternative proposals in meeting these needs, and (3) the other impacts of the alternatives. The priorities should also be developed within the context of a realistic financial program.

The Transportation Planning Budget

It is our judgment that major institutional and statutory revisions are required regarding the transportation planning process. We are supportive of the regional portion of the process, though some changes are needed. However, until major revisions have been specified we believe that only limited support should be given to state planning efforts. Without better direction, state planning will only continue to drift unproductively.

Statewide Systems Planning and State Studies

We recommend a reduction of \$1,714,200 (49.6 personnel-years) in the transportation planning program in the Transportation Planning and Research Account (Item 154).

As we have indicated, state planning efforts lack direction. In addition, many of the requested programs are repetitive of efforts already conducted at the regional level, and do not really offer a high probability of producing valuable new information. Funding for these programs is derived from the Transportation Planning and Research (TP&R) Account, and could have alternate applications to fund public transportation or highway improvements. Consequently, we recommend elimination of many of these programs on the grounds that they will not generate sufficiently useful information, and the funds have more desirable alternative applications.

Energy, Transportation/Land Use, and Air Quality. These efforts are the best examples of redundant effort at the state level. While the goals of these elements are laudable, little new information can be expected from them. We have already discussed regional research being conducted on these topics. In addition, the federal government, especially the Environmental Protection Agency (EPA), has conducted or financed numerous detailed studies related to transportation in these subject areas. A wealth of technical information is available; what is lacking are motivation and desire to implement travel reduction strategies or land use controls at the state, regional, or local levels. Consequently, we recommend elimination of these elements for a savings of \$816,300 and 24.5 personnel-years.

DEPARTMENT OF TRANSPORTATION—Continued

Availability of Capital. This study is unnecessary. Capital availability is assessed as a matter of course in the planning of any capital project, and is the responsibility of the financial management of the program. We recommend elimination of this study for a savings of \$31,500 and 0.5 personnel-years.

Full Cost Accounting. This study is impractical and unnecessary. As a matter of course, regional planning should assess both the costs and benefits of any new projects. Precise specification of dollar values for the impacts of a particular program are not always possible, however, because different decision-makers will place different values upon particular impacts. We recommend elimination of this study for a savings of \$119,000 and 2.3 personnel-years.

Air Transportation. The purpose of this element is to implement methods to make airports of state significance more compatible with the surrounding community. Compatibility is a function of zoning laws which is a local function. In our judgment, the state capability to actually accomplish this goal is limited. We recommend deferral of this element until more state authority is available, for a corresponding savings of \$7,000 and 0.2 personnel-years.

Freight Transportation. The areas identified as "user cost" and "regulation" show little potential for producing useful decision-oriented information. Studying "user costs" of smog, noise, and congestion is subject to the same problems as studying "full cost accounting." Studies of the complex regulatory pricing environment are unlikely to have much impact. Such studies can only be expected to induce change when clear legislative and administrative direction specifies the need for such changes. Consequently, we recommend elimination of both elements for a total savings of \$85,200 and 3.3 personnel-years.

Update of the California Transportation Plan. In light of the past history of the plan, an update is undesirable until better direction is provided. Therefore we recommend elimination of this element for a savings of \$164,500 and 5.0 personnel-years.

Environmental Planning and Impact. Consistent with our recommendation to eliminate the plan element, the related preparation of an Environmental Impact Report is unnecessary. We recommend deletion of this report for a savings of \$46,400 and 0.8 personnel-years.

Input to CALTRANS Program Direction. This element is designed to translate the Policy Element for other governmental agencies and the private sector, and support implementation. Failure of the plan makes this program element unnecessary. We recommend deletion of this element for a savings of \$132,000 and 4.0 personnel-years.

Economic Analysis—Financial Planning. The purpose of this element is to provide accurate economic and financial information to the local and regional planners. We believe this function should be the job of financial management within the department and the districts. Thus, incorporation within the state planning process is redundant. We therefore recommend deletion of this element for a savings of \$115,500 and 3.5 personnel-years.

Public Participation. This element for public participation in the state

planning process is unnecessary if our recommendation to eliminate the plan is followed. Consequently, we recommend elimination of this element for a savings of \$196,800 and 5.5 personnel-years.

2. MASS TRANSPORTATION

The budget proposes an expenditure for the program of \$17,152,466 which is \$2,870,531 or 20.1 percent above the estimated current year expenditure of \$14,281,935. Funding for 99.7 personnel-years is included which is an increase of 15.1 above the 84.6 personnel-years authorized in the current year.

The substantial increase in proposed funding is primarily a result of including appropriations authorized by Chapter 1130, Statutes of 1975, and Chapter 1349, Statutes of 1976. The legislation appropriated \$18.9 million over a four-year period and \$7.2 million without regard to fiscal year from the Transportation Planning and Research Account. Funds will be utilized by the department for various transportation purposes including construction of public transportation passenger facilities, the purchase of railroad right-of-way and increased rail passenger services. The division budget includes \$9,473,916 of the funding provided by the previous legislation which is \$2,353,078 above the \$7,120,838 provided in the current year.

State Role Undefined

The stated purpose of the Mass Transportation Program is to increase the use of public transportation facilities. The department seeks to accomplish its stated purpose through programs described as (a) technical programs, (b) financial programs and (c) program administration. However, in practice the division's program consists of two elements, i.e., local assistance and interregional public transportation services. In reality, because the state has not defined its role in providing public transportation services, the programs administered by the department are, in many instances, vague and do not represent endeavors which reflect any real degree of measurable benefits in promoting the use of public transportation facilities.

In "local assistance" matters the division coordinates, provides technical assistance, performs data gathering and research, etc. However, the division does not have any real leverage with local entities because of its inability to provide financial assistance in any meaningful way. Thus, the day-to-day operations of public transportation systems are basically a federal-local relationship.

The program to develop "interregional" transportation facilities is a result of previous legislation which has provided funds for transportation services and facilities. However, these activities are demonstration projects rather than continuing programs.

The total program represents a conglomeration of numerous activities which do not have a central focus.

Technical Programs

We recommend the deletion of \$388,150 (11.6 personnel-years) from the Transportation Planning and Research Account proposed for transit research and related activities (Items 154 and 157).

DEPARTMENT OF TRANSPORTATION—Continued

Reductions are recommended for research and related elements of the program that are (a) unnecessary, (b) the level of funding not justified or (c) represent a duplication of effort. Individual recommendations follow.

Training and Management Development. The objective of this element is to develop transit training programs to meet the needs of agencies and operators involved in public transportation.

This element represents a marginal effort which can be performed by transit operators from existing federal, state and local funds. In addition Chapter 1130, Statutes of 1975, appropriated \$200,000 to the Institute of Transportation Studies to develop training and management programs. Additional funds are provided in at least three other elements of the division's program to support similar endeavors. We recommend deletion of \$35,650 and 1.15 personnel-year.

Labor Relations and Studies. The objective of this element is the collection of data relating to public transportation labor relations and develop state policy which would allow operations to provide maximum service. However, little justification exists to develop such data at the state level. The operations function has ready access to such information and related trends from the American Public Transit Association. The department does not influence management-labor contract negotiations. In addition, \$10,850 was expended by the department through an Urban Mass Transportation Administration grant during the current year which documents trends in labor contracts. We recommend deletion of \$6,200 and 0.2 personnel-year.

Transit Equipment and Facilities Research. This element contains funds for the evaluation of bus bids. The objective of the element is to provide operators of small and medium buses with performance histories of transit equipment so that it may be considered in the evaluation of bids for the purchase of new buses. This represents a new division study in an area where the federal government has performed detailed studies and established bus standards in the past. The performance of buses, which are largely of standard design, is more of a function of maintenance effort on the part of operators than a function of design standards. We recommend deletion of \$9,300 and 0.3 personnel years.

Transit Service Research. The objective of this element is "to develop planning, design, level of service and evaluation criteria" for various types of public transportation services. The first activity (identified as Reference No. 15 in the division budget) represents a research effort described in a very generalized manner which would include unspecified research activity that may develop during the budget year. This activity has been supported in the past by federal research grant monies. However, the division has chosen to direct the federal funds to other research activities and support this element using all state funding. We recommend deletion of \$68,000 and 2 personnel-years.

The seventh activity (identified as Reference No. 16 in the division budget) represents the continuation of an effort which is no longer supported by federal funds in the budget year. The activity was to develop

planning methods for small communities in order to facilitate the development of transit systems. During the current year the division will have completed and printed a "Planning Method Guidebook". The division is now proposing the development of a self-instructional program to be administered for the benefit of district staff. In our view, the division should distribute the already prepared guidebook and not prolong an activity that will have questionable value. Other elements in the program support the development of public transportation in small communities. We recommend the deletion of \$88,000 and 2.6 personnel-years.

Research Needs Identification and Monitoring. The objective of the element is to develop a research and demonstration program for the division through contacts with universities, the transit industry, and governmental agencies. While data gathering is perhaps a useful ongoing function, we see no necessity to more than double the element in the budget year from \$34,000 to \$75,000. We recommend a reduction of \$41,500 and 0.85 personnel-years which would continue the program at the current level.

System Design Assistance. This element attempts to "assist communities to determine transit service alternatives which would meet their public transportation needs and perform feasibility studies based on the alternatives." Transportation alternatives are now determined as part of regional transportation plans adopted by local entities pursuant to existing law. Funds are provided in other elements of the program to perform feasibility studies. This element represents a duplication of effort. We recommend deletion of \$34,100 and 1.1 personnel-years.

Transit Needs and Forecasting. The objective of this element is to develop educational material for schools. The element was initiated during the 1975-76 fiscal year under an UMTA Technical Studies grant. Instruction manuals have been developed and the material has been distributed to school districts. The division proposes to continue the element utilizing only state funds. This would represent a marginal effort and constitutes an unnecessary continuation of a function that has already been accomplished. We recommend deletion of \$15,500 and 0.5 personnel-years.

Low Mobility Group Needs and Program Development. The stated objective of this element is to encourage effective utilization of transit services by low mobility groups. There are extensive studies and regulations by both the Federal Highway Administration and UMTA relating to requirements for services to the elderly and handicapped and other low mobility groups. In addition, funds are provided in the Division of Transportation Planning to fund a demonstration project to study the basic needs of the financially disadvantaged. An expenditure of funds in this element would represent a duplication of effort. We recommend deletion of \$27,900 and 0.9 personnel-years.

Feasibility Studies. The objective of this new element is to "develop a plan to facilitate the development of adequate and coordinated state-wide intercity transportation systems". An expenditure of funds during the budget year is premature. The element would seek to integrate and coordinate elements of the California Transportation Plan and regional

DEPARTMENT OF TRANSPORTATION—Continued

plans. Although existing statutes mandated a state plan by January 1, 1976, no plan has been adopted to date. Thus, to expend funds to facilitate the implementation of the plan is premature. We recommend deletion of \$62,000 and 2.0 personnel-years.

Financial Programs

We recommend the deletion of \$83,700 (2.7 personnel-years) from the Transportation Planning and Research Account proposed for the administration of state and federal transit financial assistance program and related activities (Items 154 and 157).

Financial Assistance to Low Population Areas. Section 4(c) of the National Mass Transportation Assistance Act of 1974 provides capital assistance to areas with a population of 50,000 or less. There are 10 such areas in the state. Approximately \$3.6 million will be available for these areas in the budget year. Funds are used primarily to assist local areas in the purchase of buses and related equipment. The division assists in the preparation and processing of funding applications.

The department is requesting \$108,500 to support 3.5 personnel-years to administer the program. However, the budget was prepared on the basis that Congress would approve legislation to extend the provisions of Section 4(c) to operating subsidies as well as capital expenses. The legislation failed passage late in the 1976 calendar year. By not extending the provision to include operating expenses, the division can anticipate fewer and less complicated applications.

We recommend a reduction of \$46,500 and 1.5 personnel-years of the amount requested.

Federal Aid Urban Program. Recent versions of the Federal Aid Highway Act have provided approximately \$90 million per year to urban areas for improvements to state and local road systems. The act also allows such funds to be expended for public transportation facilities at the option of local government. However, very little funding has been used for public transit because the decision making process between the state and local entities is dominated by highway and road elements of the respective jurisdictions. The division is expending \$9,300 and 0.30 personnel-years in the current year to monitor the program. The division proposes to augment the program to \$46,500 and 1.5 personnel-years to perform a higher effort in public transit advocacy. While this effort may be laudible, little change will be accomplished in the decision making process by communicating to districts within the department and local transit operations the fact that a transit improvement option exists. This is well known. At present, virtual control over the decision making process is exercised by the Local Assistance Unit of the Division of Highways and public works engineers at the local level. Thus, the division cannot realistically expect any degree of change by virtue of increasing an advocacy role. We recommend a reduction of \$37,200 and 1.2 personnel-years which would fund the program at the current year level.

3. AERONAUTICS**Budget Pending Departmental Review**

We withhold recommendation on Items 152 and 159 pending receipt of Division of Aeronautics budget identified for "display purposes only".

The current year Budget Act required the department to evaluate the effectiveness of the Aeronautics Program and report specific findings to the Legislature. The department recently completed its report.

The budget document contains a proposed budget of \$4,461,600 for "display purposes only". The department intends to review its findings and subsequently submit a budget for the program. We withhold recommendation on Items 152 and 159 pending receipt of a revised budget.

**Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ACT OF 1976**

Item 160 from the federal funds
deposited in State Highway
Account.

Budget p. 349

Requested 1977-78	\$105,400,000
Estimated 1976-77	103,660,000
Actual 1975-76	107,392,432
Requested increase \$1,740,000 (1.7 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 \$105,400,000 in federal funds for the following purposes:

Highway Safety Improvements:

- (a) Local roads and highways (\$7,400,000)
- (b) Grade crossing protection works (\$8,000,000) \$15,400,000

Federal Urban Systems:

- (c) Local roads and highways 90,000,000
- Total Appropriation \$105,400,000

The Federal Urban System Program represents approximately 21 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

**DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ACT OF 1976—Continued**

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 THE CALIFORNIA HIGHWAY PATROL

Item 161 from the Motor Vehicle Account, State Transportation Fund

Budget p. 374

Requested 1977-78	\$207,616,054
Estimated 1976-77	202,501,455
Actual 1975-76	183,334,833
Requested increase \$5,114,599 (2.5 percent)	
Total recommended reduction	\$1,304,519

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Helicopter Replacement. Reduce by \$406,973.* Recommend reduction of \$114,973 to reconcile budgetary errors. Also recommend deletion of request for replacing one helicopter for a reduction of \$292,000. 277
2. *Additional Overtime. Reduce by \$150,000.* Recommend reduction for increases in overtime because additional workload can be met with budgeted staffing. 278
3. *Reimbursements. Reduce by \$155,190.* Recommend reduction because reimbursements for field operations services are underestimated. 278
4. *Increased Salary Savings. Reduce by \$111,672.* Recommend budgeted salary savings be increased to reflect higher attrition rate in cadet training. Withhold additional recommendations on salary savings pending determination of approved training schedule. 279
5. *Maintenance Worker Position. Reduce by \$12,131.* Recommend requested position be deleted because departmental justification is not substantiated. 282
6. *Academy Video Equipment. Reduce by \$68,020.* Recommend denial of new video equipment because requested expenditure is not a high priority item. 283
7. *Building Maintenance Services. Reduce by \$116,671.* Recommend reduction because specified expenditures are unnecessary or overstated. 283

8. *Communications Maintenance. Reduce by \$107,674.* Recommend reduction because contracted charges from Department of General Services related to new communications equipment will not be realized. 284
9. *Leasing of Patrol Facilities. Reduce by \$133,388.* Recommend reduction for overbudgeted lease payments. Also recommend that funds for increments in future leasing payments be held in reserve until new lease terms are established and that unexpended funds be reverted to the Motor Vehicle Account, State Transportation Fund. 285
10. *Minor Capital Projects. Reduce by \$42,800.* Recommend reduction because proposed repairs and alterations have not been correctly budgeted. 286

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 among the activities 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 division commands and 95 area offices by a sophisticated communications network.

ANALYSIS AND RECOMMENDATIONS

The budget reflects an increase of \$5,114,599, or 2.5 percent, in support from the Motor Vehicle Account, State Transportation Fund. Authorized positions are proposed to increase by 13.2 positions.

Significant program changes included in the budget are (1) a pilot study to analyze the effect of mobile radar units on traffic speed enforcement, (2) expansion of the schoolbus inspection program as provided by Chapter 945, Statutes of 1976, (SB 2199) and (3) personnel for maintaining police protective equipment for uniformed patrol officers. Reduced activity in the abandoned vehicle abatement program is envisioned for the budget year because of limited revenues in the Abandoned Vehicle Trust Fund.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued**Impact of the Patrol Expenditures on Motor Vehicle Account**

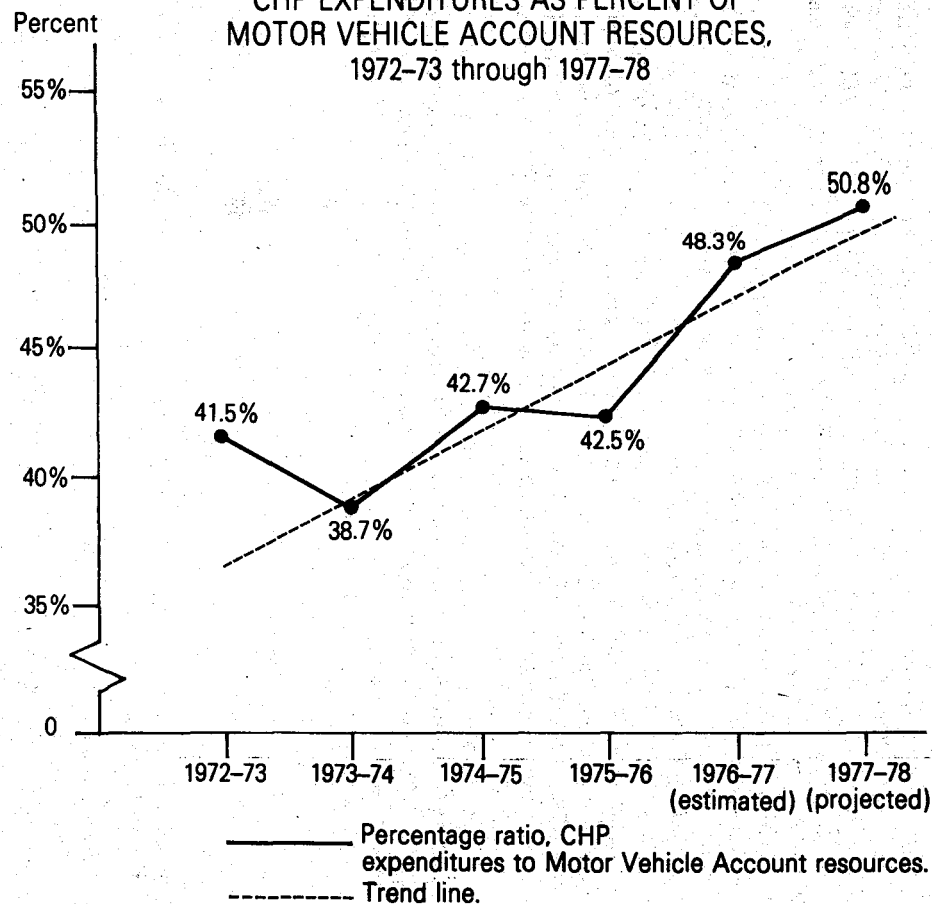
The Motor Vehicle Account of the State Transportation Fund will provide over 99 percent of the revenues supporting the department's budget. The account's resources also fund activities of the Departments of Motor Vehicles and Justice, the Air Resources Board and other programs. Unallocated revenues are annually transferred to the State Highway Account for expenditures of the Department of Transportation (CALTRANS). Department of Finance projections for the budget year indicate that funds will not be available for transfer to the State Highway Account in 1977-78.

The California Highway Patrol absorbs the greatest proportion of monies in the Motor Vehicle Account among departments supported by the account. Chart 1 shows that over one-half of the account's resources will be applied to department expenditures in 1977-78. The chart also illustrates that CHP's share of available monies has increased by nearly 10 percent since 1972-73. Continuation of this contribution rate of Motor Vehicle Account funds to patrol operations will intensify the already critical condition of the account. Support for CALTRANS in 1977-78 and for other departments in subsequent years will be sharply reduced or eliminated if the patrol's share of available monies is not reduced or at least maintained at a constant proportion.

The department's budget is divided into four programs: Traffic Management; Regulation and Inspection; Vehicle Ownership Security; and Administrative Services. Administrative costs are prorated over the other three programs.

CHART 1

CHP EXPENDITURES AS PERCENT OF
MOTOR VEHICLE ACCOUNT RESOURCES,
1972-73 through 1977-78



DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

I. TRAFFIC MANAGEMENT

Traffic management is the largest highway patrol program, accounting for \$190,070,798 or 91.5 percent of the proposed budget. Approximately 89.7 percent of the uniformed personnel and 41.8 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.

In its flight operations component, the department currently deploys two helicopters which operate out of Los Angeles and San Francisco and four fixed-wing aircraft which patrol roadways in the areas of Sacramento, Barstow, Coalinga, and El Centro.

Program staffing and cost data are presented in Table 1.

Table 1
Traffic Management Staffing and Expenditure Data

	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Percent change over previous year</i>	<i>Proposed 1977-78</i>	<i>Percent change over previous year</i>
Program expenditures	\$169,512,010	\$185,552,390	9.5%	\$190,070,798	2.4%
Personnel-years					
Uniformed	4,979.7	4,770.5	(4.2%)	4,881.3	2.3%
Nonuniformed	957.1	958.2	—	945.5	(1.3%)
Total program personnel years.....	5,936.8	5,728.7	(3.5%)	5,826.8	1.7%

Radar Pilot Study

Last year, the department's proposal to install 200 mobile radar units as a demonstration project was not approved by the Legislature. A scaled-down experiment is proposed in the 1977-78 budget, with the purchase of 27 radar units for a total cost of \$62,100. The department indicates that the pilot project will take place in either San Diego or San Jose, to determine the impact of radar on speed enforcement within a specific area.

According to the department, the application of radar offers several advantages. A traffic officer can be alerted almost instantaneously of approaching speed violators. Operation of the units will have minimal interference upon an officer's handling of the patrol car. The proposed

equipment has the ability to measure vehicles approaching from either direction, with tracking ranges of up to 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. We will monitor the program to determine the effectiveness of radar use and the impact on manpower requirements.

Helicopter Replacement.

We recommend a reduction of \$114,973 in operating expenses for the department's helicopter program to reconcile budgetary errors.

We also recommend a reduction of \$292,000 designated for replacement of one helicopter in the Los Angeles area because greater multiagency utilization of helicopters in this region will eliminate the need for two CHP aircraft.

In its original budget requests, the patrol proposed to replace three helicopters, including one helicopter which crashed in June 1975. Approval was granted for replacement of two helicopters. However, only one-third of the operating expenses for the third aircraft was deleted in final budget figures. In a memorandum to our office, the department states that the remaining operating expenses intended for the third helicopter should be eliminated if the budget is to be correctly adjusted. Accordingly, we recommend a reduction of \$69,973 to delete the incorrectly budgeted amount.

The department also states that salvage values of the two helicopters to be replaced are not deducted from the budget request. Because we believe that replacement of one of the two helicopters is not necessary, we recommend that the budget reflect the salvage value of one helicopter for a reduction in expenditures of \$45,000.

Need for Coordinated Activities. The replacement program for CHP helicopters includes two helicopters currently operated by the patrol. During the current year, a third helicopter which crashed enroute to Los Angeles from Sacramento will also be replaced. In addition, the department is seeking a federal grant to purchase a fourth helicopter to be operated in the Sacramento area on a demonstration basis. This helicopter will be utilized for general law enforcement by coordinating patrol activities with needs of local law enforcement agencies. The effectiveness of this multi-agency, multi-purpose utilization of a helicopter will be analyzed by the patrol as part of the experiment.

In our report entitled *Utilization of Helicopters by Publicly Funded Agencies in California*, issued in January 1977 and required by Supplementary Report Language, we suggested that economic and effective use of helicopters requires agency and utilization coordination. We believe that the department's plans to deploy the federally-funded helicopter on an interagency and multiple purpose basis in the Sacramento area should result in greater benefits to the general public.

Departmental plans to operate two helicopters in the Los Angeles area are not warranted in our judgment. Two factors contribute to this conclusion. First, the Los Angeles region contains the greatest number of helicopters in the state. Within this area, we found that 72 helicopters, or over

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

75 percent of the statewide total, are currently deployed by nonmilitary agencies with full year operations. Inclusion of military aircraft increases the total to 130 helicopters operating in and around Los Angeles. Rather than operating two helicopters in this region, we believe the patrol should coordinate with agencies currently operating helicopters in the region.

Second, the agency has operated only one helicopter in Los Angeles for most of the current year. During 1975-76, the patrol transferred one of the two Los Angeles helicopters to Sacramento for a two-month experiment. In last year's Analysis, we stated that if the department was able to remove one of the Los Angeles-based aircraft, the need for deployment of two helicopters in the region was questionable. The fact that the department has apparently maintained adequate patrol support using only one helicopter in Los Angeles during the current year indicates that an additional helicopter is not required.

We recommend that the patrol work closely with other agencies in the Los Angeles region to develop a coordination plan supplementing CHP helicopter activities. With increased multi-agency, multi-purpose utilization, deployment of two helicopters by the patrol in Los Angeles is not warranted.

Proposal for Additional Overtime

We recommend a reduction of \$150,000 for increases in overtime because additional workload can be met with budgeted staffing.

In its budget, the department is requesting funding for 7.2 personnel-years of overtime for its traffic officers. The additional overtime is associated with traffic enforcement for special events and certain climatic conditions.

Currently, the patrol has authority for 240 personnel-years of overtime for its uniformed officers. The majority of budgeted overtime is needed for time required beyond the end of a shift and for court appearances. In addition, the department has received federal funds in recent years for increased enforcement during holiday periods and for drunk driving control.

We do not believe that this request for additional budgeted overtime represents a priority item considering the state of the Motor Vehicle Account. The patrol has been capable of satisfying extraordinary demands for its enforcement personnel in the past, and the need for an increase in budgeted overtime has not been established in our judgment. We therefore recommend a reduction of \$150,000.

Reimbursements Understated

We recommend a reduction of \$155,190 in operating expenses because reimbursements for contracts, document sales, rentals, and other services are underestimated.

In its field operations, the patrol receives reimbursements from various sources, including county repayment of salaries for patrolmen serving as school crossing guards, sale of documents, and funds recovered from manufacturers for warranty work. Table 2 presents a comparison of actual and estimated reimbursements for the past three years.

Table 2

Actual and Estimated Reimbursements to Field Operations

1973-74 through 1975-76

	1973-74	1974-75	1975-76
Actual reimbursements	\$1,657,945	\$1,392,050	\$1,820,501
Estimated reimbursements	1,592,000	1,567,000	1,622,700
Percent, actual above estimated	4.1%	8.0%	12.2%

In its line item budget, the department is projecting \$1,939,872 in field operation reimbursements. Given the trend exhibited in the table, we believe that actual reimbursements will be at least 8 percent above this figure, or \$2,095,062. Because increased reimbursements may be expected, we recommend that expenditures be reduced by \$155,190, which is equal to the difference between our estimated reimbursement level and the amount budgeted by the department.

Increased Salary Savings

We recommend a reduction of \$111,672 because of expected increases in salary savings reflecting a higher attrition rate in cadet training. We withhold further recommendation on projected salary savings pending determination of the cadet training schedule at the new academy.

Computation of projected salary savings for uniformed positions during the budget year is based on the filling of vacant positions by academy cadets. The department estimates that an attrition rate of 14 uniformed positions per month will be experienced during 1977-78. Training classes of 100 persons each will begin in July and November of 1977 and June 1978, thereby filling existing vacancies.

In our judgment, salary savings for uniformed personnel has been understated for two reasons. First, the attrition rate experienced during calendar 1976, when no cadets were trained at the academy, was 15.6 positions per month. Second, the rate used by the department does not incorporate the higher degree of attrition for cadets. Patrol projections estimate an 11 percent cadet separation rate, equal to 2.8 positions per month. Inclusion of these adjustments to the expected attrition rate is presented in Table 3.

Table 3

Effect of Attrition Rate Adjustments to Salary Savings Projection

Calendar 1976 monthly attrition rate (No cadets trained)	15.6 positions
Department projections for monthly cadet separation rate, 1977-78	2.8 positions
Total expected attrition per month	18.4 positions
Less department estimate for monthly attrition rate, 1977-78	-14.0 positions
Difference in estimated positions vacated per month	4.4 positions
Times average monthly salary per uniformed position	× \$2,115
Monthly salary savings for additional vacant positions	\$9,306
	× 12
Estimated increase in annual salary savings, 1977-78	\$111,672

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

The table indicates that an increased attrition rate of 4.4 positions per month during 1977-78 will result in higher salary savings of \$111,672 during the budget year. We therefore recommend a reduction in operating expenses by this amount.

As previously noted, the department believes that the first cadet class will begin in July 1977. A final training schedule has not been approved as yet, and any slippage in the estimated schedule may also affect salary savings. Accordingly, we withhold recommendation on further adjustments to salary saving projections pending submission of a final cadet training schedule.

II. REGULATION AND INSPECTION

The regulation and inspection program includes nine different elements with net total expenditures in 1977-78 of \$13,255,283 from the Motor Vehicle Account. The largest portion of proposed expenditures supports the commercial vehicle inspection and enforcement program, with a budget request of \$8,312,629 or 62.7 percent of total program costs. The school pupil transportation safety element, which includes contracted crossing guard services at school zones, school bus driver certification, and school bus inspection, has the largest number of personnel. Proposed staffing for this element in 1977-78 contains 461.4 positions, of which 31.2 positions are uniformed and 430.2 nonuniformed.

Other program components include vehicle noise-reduction teams, abandoned vehicle abatement, regulation of special purpose vehicles, and other inspection and certification requirements. Table 4 shows staffing and cost data for the program.

Table 4
Regulation and Inspection Program Staffing and Expenditure Data

	<i>Actual</i> 1975-76	<i>Estimated</i> 1976-77	<i>Percent change</i> over previous year	<i>Proposed</i> 1977-78	<i>Percent change</i> over previous year
Program expenditures	\$10,867,486	\$12,805,367	17.8%	\$13,255,283	3.5%
Personnel-years					
Uniformed	232.5	220.3	(5.2%)	227.8	3.4%
Nonuniformed	603.5	643.1	6.5	644.2	—
Total program personnel-years	836.0	863.4	3.3%	872.0	1.0%

Additional Positions (School Bus Inspection)

In the School Pupil Transportation Safety element, 6 positions are requested for expanded workload in school bus inspection. Chapter 945, Statutes of 1976, (SB 2199) requires that buses operated by common carriers, such as Greyhound Lines and Continental Trailways, be inspected by the department if the vehicles are used for school pupil transport. The bill appropriates \$143,510 to fund 6 positions during 1976-77.

The department's budget reflects continuation of this mandated program through establishment of the 6 positions in 1977-78. Total cost for personnel and other operating expenses is estimated at \$122,095.

Abandoned Vehicle Trust Fund

The abandoned vehicle abatement program is designed to remove abandoned vehicles from public and private property, excluding streets and highways. The program is supported by the Abandoned Vehicle Trust Fund, which was established by Chapter 49, Statutes of 1973 through a one-time levy of \$1.00 on vehicle registration fees. Additional revenues have been generated by the investment of surplus funds. As of June 30, 1976, the fund's balance was \$11,414,933.

During 1976, two legislative actions significantly reduced the fund balance. First, Section 19.3 of the Budget Act of 1976 transferred \$550,000 to the General Fund for development of a recreational trail by the Department of Parks and Recreation. Second, Chapter 1229, Statutes of 1976, (AB 1923) transferred \$7,800,000 to the State Highway Account, State Transportation Fund to partially fund highway construction and state matching of federal highway monies. Investments of unexpended balances are estimated to contribute \$293,061 in the current year.

The department estimates that expenditures of \$2,066,651 will be offset by fund resources in the current year, leaving a balance of \$1,291,343 for the budget year. With approximately \$78,771 projected as revenue from fund investments in 1977-78, the forecasted available funds in the budget year equal \$1,370,114. Because the total fund balance will be less than the level of support needed for continuation of current year activities, the department indicates that abandoned vehicle abatement activity will be reduced in the budget year.

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 numbers have been removed. The Highway Patrol had 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 expired June 30, 1976 and current year appropriations reflect state funding for continuation of project activities within the vehicle theft program.

Cost and staffing data for the program are presented in Table 5.

Table 5
Vehicle Ownership Security Program
Staffing and Expenditure Data

	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Percent change over previous year</i>	<i>Proposed 1977-78</i>	<i>Percent change over previous year</i>
Program expenditures	\$2,955,337	\$4,143,698	40.2%	\$4,289,973	3.5%
Personnel-years					
Uniformed	111.2	105.3	(5.3%)	108.1	2.7%
Nonuniformed	23.2	23.8	2.6	23.5	(1.3%)
Total program personnel-years	134.4	129.1	(3.9%)	131.6	1.9%

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

IV. ADMINISTRATIVE SUPPORT

Proposed expenditures for administrative support functions are estimated at \$24,841,646, an increase of 3.7 percent over current year estimates. Of the six program elements, administrative services proposes the greatest expenditure level with a budget request of \$11,305,608 or 45.5 percent of the program total. Other program components are management and command, budget and fiscal management, operational planning and analysis, training, and the Statewide Integrated Traffic Records System.

Administration costs are prorated over the department's other three operating programs. Expenditure and staffing information for administrative support is presented in Table 6.

Table 6
Administrative Support Program
Staffing and Expenditure Data

	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Percent change over previous year</i>	<i>Proposed 1977-78</i>	<i>Percent change over previous year</i>
Program expenditures	\$21,014,904	\$23,952,411	14.0%	\$24,841,646	3.7%
Personnel-years					
Uniformed	221.6	218.2	(1.5%)	223.7	2.5%
Nonuniformed	628.6	652.8	3.8	646.3	(1.0%)
Total program personnel-years....	850.2	871.0	2.4%	870.0	—

Additional Positions (Administrative Services)

Under court order the department must issue and maintain police protective equipment which was not previously provided to uniformed members. Chapter 939, Statutes of 1976, (AB 4329) appropriates \$762,000 from the Motor Vehicle Account for purchase of mandated equipment in the current year. Equipment includes revolvers and revolver holsters, handcuffs, and climate protection outfits such as rain gear, insulated boots, and foul weather caps.

The patrol is requesting the addition of a warehouse worker and a gunsmith to its administrative services staff to support workload for issuing and maintaining equipment. Expenses associated with these positions total \$33,808.

Maintenance Worker Not Required

We recommend deletion of \$12,131 for a maintenance worker position proposed for academy services because departmental justification is not substantiated.

A request for a maintenance worker at the new academy is proposed in the training budget. The department indicates that the position is for automotive servicing requirements and observation duties at the academy's high speed track.

We do not believe this position is justified for several reasons. First, final plans for construction of an observation tower at the test track have not been approved. Even if the tower is constructed, department staff has

indicated that observation duties could be performed by academy trainees, instructors, or other personnel.

The department, in its argument for this position, states that certain automotive work performed by outside firms would be avoided with the job's establishment. Personnel costs would be offset by savings in not using these outside vendors, according to the patrol. However, the new academy includes modern automotive facilities such as a car wash rack, hoists, and lubrication and tire-changing equipment. We believe that the four existing positions related to automotive servicing at the academy can conduct basic servicing work as well as other duties. We therefore recommend that this position be deleted for a reduction of \$12,131 because the department's justification on the basis of observation duties and automotive servicing requirements is not substantiated.

Video Equipment

We recommend a reduction of \$68,020 requested for new video equipment because this expenditure is not a high priority item.

As part of its training program, the patrol uses film, slides, video presentations, and other visual aids. Equipment currently available at the academy includes television monitors, rear projection screens, playback machines, video camera, and a taping studio.

In requesting new equipment for video presentations, the department indicates that its present equipment is obsolete or difficult to handle. Other items were not included in the construction contract. For some of the requested items, justification is based on the department's statement that surveyed institutions with videotaping facilities could not provide services to the patrol on a daily basis.

In our judgment, new video equipment at the academy is not required at this time. First, we do not believe that the patrol requires daily use of videotaping facilities. Arrangements can be developed with educational institutions or other agencies with video equipment on an as-needed basis.

Second, the need for video reception, taping, and additional playback equipment can be avoided with the rental or leasing of tapes and other material. Furthermore, with the installation of large rear-projection screens in the four largest classrooms, greater utilization of filmed material would appear more effective in course presentation.

Finally, we believe that the equipment currently available can serve training needs adequately. It is our judgment that this request is a low priority item, particularly when the limited resources of the Motor Vehicle Account are considered. It is therefore recommended that the request for new video equipment be denied.

Land and Buildings Maintenance Services

We recommend a reduction of \$116,671 in maintenance operating expenses because specified expenditures are unnecessary or overstated.

In the department's line item budget for land and buildings maintenance services, expenditures totaling \$765,617 are proposed for contractual janitorial services, grounds maintenance, and painting and general building maintenance. We believe that increases in janitorial and ground maintenance expenses are overstated in relation to estimated cost in-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

creases shown in the Department of General Services' Price Book. Table 7 presents the patrol's estimates for these costs as compared to expenditures based on General Services' expected increases.

Table 7
Comparison of Maintenance Costs, Patrol Estimates
Versus Price Book Projections

	<i>Estimated 1976-77</i>	<i>Percent increase, CHP budget</i>	<i>Proposed 1977-78</i>	<i>Percent increase Price Book estimate</i>	<i>Projected 1977-78</i>	<i>Difference, CHP estimates less Price Book projection</i>
1. Contractual janitorial services	\$419,547	18.0%	\$494,856	6.5%	\$446,818	\$48,038
2. Grounds maintenance	149,695	17.9	<u>176,561</u>	5.5	<u>157,928</u>	<u>18,633</u>
Total			\$671,417		\$604,746	\$66,671

Application of Price Book cost estimates to current year expenditures illustrates that the department's budget for these services is apparently overstated by \$66,671. Accordingly, we recommend a reduction in this amount.

The patrol has indicated that approximately \$50,000 is proposed in its painting budget for repainting the interior of the department's headquarters building. We find this expense to be unnecessary at this time, particularly because the building's interior does not exhibit significant wear or deterioration. In our judgment, delay of this request will not seriously affect the building's condition and we recommend deletion of this expenditure. With the inclusion of overstated amounts in janitorial and groundskeeping services, our recommendations for reductions in the land and buildings maintenance budget total \$116,671.

Communications Maintenance

We recommend a reduction of \$107,674 in communications maintenance expenses because contracted charges from Department of General Services related to new communications equipment will not be realized.

Expenditures for maintenance performed by the Department of General Services on the patrol's mobile, portable, personal and other radio equipment is projected to increase by \$383,985, or 28.5 percent above current year costs. Approximately \$150,000 of this increase is based on maintenance of Citizen Band radios and specified network equipment. The remaining increase results from an estimated 20 percent growth in servicing costs, of which 12 percent reflects salary increases with the remaining 8 percent attributable to expected equipment and activity growth.

In its projections furnished to General Services last year for computation of 1977-78 contractual charges, the department indicated that equipment growth would occur because 200 radar units and an additional 100 mobile radio units would need maintenance services. However, expenditures for radar units were not approved by the Legislature in 1976-77. Furthermore, discussions with the department staff indicate that no addi-

tional mobile radio equipment is included in current year expenditures.

We believe that contracted communications maintenance should reflect the lack of projected equipment additions. It is therefore recommended that the 8 percent growth factor be eliminated for a reduction of \$107,674.

Leasing of Patrol Facilities

We recommend reductions totaling \$133,388 for overbudgeted leasing.

In addition, we recommend that future funds for increases in leasing expenses be held in reserve until new lease terms are established and expenditures are authorized.

The patrol leases land, offices and other facilities at 80 locations. Monthly lease charges and lease expiration dates are presented in the department's line item budget. During the current year, lease arrangements for nine facilities either have or will expire. In discussions with personnel in the Division of Space Management, Department of General Services, we find that stated CHP lease terms for six facilities have been overestimated in the line item budget. The discrepancies are reviewed by facility below, along with recommended reductions.

1. Buellton. Present lease terms, which expired on October 1976, require monthly payments of \$700. The department in 1977-78 has budgeted for a monthly rate of \$3,200. Space Management personnel state that projected plans for build-to-suit construction at this site will probably not be approved, although the lessor may raise charges to \$800 per month. We recommend a reduction of \$2,400 in monthly charges, for an annual decrease of \$28,800 in 1977-78.

2. Coalinga. The department projects that new lease terms, upon expiration of current terms in June 1977, will increase from the present monthly rate of \$300 to \$3,500 in 1977-78. Staff at General Services has indicated that rent in 1977-78 for this office will probably not exceed \$1,500 monthly, despite a potential build-to-suit arrangement with the lessor. To reflect the apparent overbudgeting of \$2,000 per month, we recommend a reduction of \$24,000 in this facility's rental fees for the budget year.

3. Chico. A new lease, which begins in August 1977, has been made for this office. Budgeted monthly rates for 1977-78 equal \$3,500. However, the terms provide for lease charges of \$2,742 per month. Because one month's rental will continue at the present rate of \$1,150 for July 1977, total lease costs for this facility in 1977-78 will be \$31,312, as compared to the patrol's budgeted level of \$42,000. A reduction of \$10,688 is recommended to reconcile the overbudgeted amount.

4. Mojave. Although the lease for this office will continue through December 1977 at \$550 per month, the department has budgeted lease costs for all of 1977-78 at a higher monthly rate of \$3,500. Thus, lease terms have been overbudgeted for the first six months of the budget year. We therefore recommend a reduction of \$17,700 to account for continuation of present lease costs for half of 1977-78.

5. Santa Cruz. Lease terms for this area office will expire on June 30, 1977, and the patrol has budgeted for a monthly rate of \$4,000 for rent

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

charges in 1977-78. Space Management staff states that its best estimate for future charges at the Santa Cruz office will be \$2,500 per month. Because the department has apparently overestimated rental of this office by \$1,500 per month in 1977-78, we recommend a reduction of \$18,000.

6. Trinity River. A new lease, with monthly charges of \$150, will start as of May 1977. The department estimated in its budget monthly rent of \$3,000. Lease terms for this office have seemingly been overstated by \$2,850 per month, and it is recommended that the budget be reduced by \$34,200 to account for this discrepancy.

Recommended reductions thus total \$133,388.

Future Leasing Arrangements. The rental budget for CHP offices includes five facilities for which lease arrangements will expire during 1977-78. The department has anticipated increased monthly charges for these leases, although final terms have not been approved. We recommend that funding for increments in leases expiring during the budget year, which total \$27,518, be held in reserve. If department costs for the affected facilities do not increase, unexpended monies in this reserve should revert to the Motor Vehicle Account, State Transportation Fund, rather than be available for other department expenditures.

Table 8 illustrates adjustments to the leasing schedule for CHP offices for overbudgeting and establishment of a future lease reserve.

Table 8
Adjustments to CHP Rental Schedule—Buildings

<i>Facility</i>	<i>Current Annual Expenditure</i>	<i>Reserve for Projected Increases</i>	<i>Overbudgeted Amounts</i>
Blythe.....	\$4,200	\$2,750	—
Bridgeport.....	3,996	1,503	—
Buellton.....	8,400	—	\$28,800
Chico.....	13,800	—	10,688
Coalinga.....	3,600	—	24,000
Indio.....	10,800	1,000	—
Mojave.....	6,600	17,700	17,700
Santa Cruz.....	7,584	—	18,000
Trinity River.....	1,550	—	34,200
Ukiah.....	9,420	4,565	—
Total.....	\$69,950	\$27,518	\$133,388
Proposed CHP leasing expenditures.....			\$1,756,422
Recommended reduction.....			— 133,388
Recommended held-in reserve.....			(27,518)
Adjusted line item total.....			\$1,623,034

Minor Capital Projects

We recommend a reduction of \$42,800 for proposed repairs and alterations because requested items have not been correctly budgeted.

Funds for various repairs and alterations to CHP field offices total \$112,310. Of this amount, \$12,000 is budgeted for unforeseen repairs and alterations. The department requests this funding because certain unexpected alterations may require immediate repair.

We do not believe that the patrol should fund for repair projects without substantiation. Unanticipated alteration needs can be supported through various budgeting mechanisms, including appropriation from Item 162 or augmentations as authorized by Section 28 of the Budget Act. We therefore recommend a reduction of \$12,000 budgeted for unanticipated repairs and alterations.

Shift of Projects to Minor Capital Outlay. Based on guidelines in the State Administrative Manual, we believe several of the requested repair and alteration projects should be reviewed as minor capital outlay requests. We recommend that projects proposed for the following CHP offices be shifted to Item 393 where their priority can be reviewed in relation to other department proposals for minor capital outlay: Gold Run—enlargement of storage area (\$2,500); Sacramento—paving additional parking area (\$7,200); South Los Angeles—construction of motorcycle shed (\$12,000); East Los Angeles—construction for additional storage (\$5,000); Torrance Motor Transportation Facility—construction of chain link fencing and installation of cover for car wash rack (\$4,100). With transfer of these projects to Item 393 for appropriate review, we recommend a reduction in expenditures of \$30,800.

Department of the California Highway Patrol DEFICIENCY PAYMENT

Item 162 from the Motor Vehicle Account, State Transportation Fund

Budget p. 386

Requested 1977-78	\$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 163 from the Motor Vehicle Account, State Transportation Fund

Budget p. 386

Requested 1977-78	\$2,500,000
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 1977-78 for vehicles to be delivered in 1978-79. 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 164-171 from various funds

Budget p. 389

Requested 1977-78	\$138,688,255
Estimated 1976-77	130,973,413
Actual 1975-76	114,032,533
Requested increase \$7,714,842 (5.9 percent)	
Total recommended reduction	\$4,969,045

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
164	Anatomical Donor Designation and Petit Jury Selection	General	\$135,266	301
165	Driver Licensing and Vehicle Registration	State Transportation Fund, Motor Vehicle Account	116,890,961	300 and 301
166	For Payment of Deficiencies for Appropriations	State Transportation Fund, Motor Vehicle Account	(500,000)	311
167	Collection of Vehicle In-Lieu Taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	17,779,312	300
168	Environmental License Plate Issuance	California Environmental Protection Program Fund	1,233,259	306

169	Bicycle License Tags Issuance	State Bicycle License and Registration Fund	34,365	306
170	Undocumented Vessels Registration	Harbors and Watercraft Revolving Fund	(1,115,092)	306
171	Unpaid Parking Violations	State Transportation Fund, Motor Vehicle Account	1,500,000	307 and 308
			<hr/> \$138,688,255	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. **Motor Vehicle Account Support of CLETS.** Recommend department discuss justification of funding formula for California Law Enforcement Telecommunications System (CLETS). Also recommend department justify maintenance of Soundex system services for General Fund and local law enforcement agencies. 295
2. **Utilities.** *Reduce Item 165 by \$163,434.* Recommend reduction of amount overbudgeted for utilities in field office operations. 297
3. **License Plates and Stickers.** *Reduce Item 165 by \$323,619.* Recommend reduction of amount overbudgeted for purchase of license plates and registration stickers. 297
4. **Salary Savings.** *Reduce Item 165 by \$466,198.* Recommend increase in estimated salary savings, allowing reduction in department support appropriation. 297
5. **State Vehicles.** *Reduce Item 165 by \$25,741.* Recommend reduction of amount overbudgeted for costs of operating state vehicles. 298
6. **Back Seat Drivers Program.** *Reduce Item 165 by \$151,528.* Recommend deletion of support for department's Back Seat Drivers/Public Panels Program. 298
7. **Information Fees.** *Reduce Item 165 by \$391,000.* Recommend increase in reimbursements from sale of vehicle and driver's license information based on updated fees, allowing reduction in department support appropriation. 302
8. **New Motor Vehicle Board.** Withhold recommendation on support for New Motor Vehicle Board pending further inquiry. 304
9. **Compulsory Financial Responsibility Law.** *Reduce Item 165 by \$3,085,083.* Recommend termination of department's compulsory financial responsibility program. 305
10. **Computer Projects.** Withhold recommendation on four department computer projects until department has finished reassessment of proposals. 308
11. **Computer Issuance Study.** *Reduce Item 165 by \$126,046.* Recommend reduction in department request for additional personnel to study computer issuance of driver licenses and vehicle registrations. 308
12. **Minor Equipment.** *Reduce Item 165 by \$93,031.* Recom- 309

DEPARTMENT OF MOTOR VEHICLES—Continued

- mend deletion of several minor equipment requests not required by department.
13. *Leasing Expenses. Reduce Item 165 by \$47,000. Recommend deletion of amount overbudgeted by department for field office leasing expenses.* 309
 14. *Repairs and Alterations. Reduce Item 165 by \$81,365. Recommend reduction in expenses for minor repairs and alterations to eliminate unnecessary projects.* 310
 15. *New Field Office. Reduce Item 165 by \$15,000. Recommend deletion of request to establish new field office in Vacaville.* 311

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) 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 is 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 compensation 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 148 field offices in 14 districts throughout California and a central headquarters facility in Sacramento. The workload associated with these facilities is projected at 7,593.5 personnel years in 1977-78 as compared to 7,563.5 estimated in 1976-77, an increase of 0.4 percent.

The department estimates it will process a total of 17,219,500 vehicle registrations in the coming fiscal year and issue approximately 4,899,000 drivers' licenses. The department will also maintain records on 14,668,000 outstanding drivers' licenses, issue 446,460 identification cards, and process 628,900 undocumented vessel registrations. These major workload in-

dicators reflect a growth of less than 1 percent in vehicle registrations, 3.2 percent in drivers' license issuance, 29.1 percent in identification card issuance, and 6.3 percent in undocumented vessel registration.

ANALYSIS AND RECOMMENDATIONS

The Department of Motor Vehicles' proposed expenditures for 1977-78 will increase \$7,714,842 (5.9 percent) over the current year for a total of \$138,688,255. These figures do not include the additional expenditure of \$169,200 in federal funds or reimbursements of \$7,808,460 for services the department will provide to other agencies and the public.

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

Table 1
Department of Motor Vehicles
Program Expenditure Summary

	<i>Actual 1973-76</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Change from 1976-77</i>	<i>Percent Change</i>
1. Vehicle Licensing and Titling....	\$57,979,906	\$66,130,862	\$69,274,452	\$3,143,590	4.8%
2. Driver Licensing and Control....	48,547,978	55,171,333	57,571,325	2,399,992	4.3
3. Occupational Licensing and Regulation.....	6,880,199	8,237,849	8,247,901	10,052	0.1
4. Compulsory Financial Responsi- bility Law	2,870,672	3,071,639	3,132,123	60,484	2.0
5. Department of Motor Vehicles Associated Services.....	5,798,604	6,399,708	6,940,114	540,406	8.4
6. Administration—Distributed to Programs.....	(10,699,820)	(12,747,693)	(12,658,762)	(88,931)	0.7
Chapter 53/73, Fire Damage— Undistributed	232,352	—	—	—	—
Chapter 1179/75, Unpaid Park- ing Violations—Undis- tributed.....	—	—	1,500,000	1,500,000	—
Totals, Programs	\$122,312,711	\$139,011,391	\$146,665,915	\$7,654,524	5.5%
Less Reimbursements.....	-7,675,195	-7,584,549	-7,808,460	-223,911	—
Less Federal Funds.....	-604,983	-453,429	-169,200	284,229	—
Net Totals, Programs	\$114,032,533	\$130,973,413	\$138,688,255	\$7,714,842	5.9%

Table 2
Summary of Budget Expenditure Changes from Current Year

		<i>Personnel Years</i>	<i>Amount</i>	<i>Changes over Current Year</i>		
				<i>Personnel Years</i>	<i>Amount</i>	<i>Percent</i>
1. Personal Services Adjust- ments for Authorized Positions:						
a. Merit Salary Adjustment..	Revised ^a	7,732.1	\$88,447,640			
	Proposed	7,732.1	\$89,850,433	—	\$1,402,793	1.01
b. Salary Savings	Revised	—	-1,127,933			
	Proposed	—	-1,165,496	—	-37,563	-0.03
c. Staff Benefits (Rate In-						

DEPARTMENT OF MOTOR VEHICLES—Continued

crease & Increase for Merit Salary Adjust- ment)	Revised	—	19,079,357			
	Proposed	—	20,672,459	—	1,593,102	1.15
Sub-Total	Revised	7,732.1	\$106,399,064			
	Proposed	7,732.1	\$109,357,396	—	(\$2,958,332)	(2.13)
2. Workload Adjustment:						
a. Costs Related to Changes in Authorized Posi- tions	Revised	-189.2	-1,988,431			
	Proposed	-189.2	-2,375,335	—	-386,904	-0.28
b. Changes to Operating Ex- penses & Equipment not Related to Changes in Author- ized Positions	Revised	—	34,387,314			
	Proposed	—	37,464,462	—	3,077,148 ^b	2.21
(1) Workload					(1,020,745)	(0.73)
(2) Price					(2,056,403)	(1.48)
3. Minor Capital Outlay	Revised	—	109,450			
	Proposed	—	—	—	-109,450	-0.08
4. Administrative Adjudication Project	Revised	(1.7)	(300,000)			
	Proposed	2	50,000	2	50,000	0.04
5. Unpaid Parking Violations....	Revised	—	—			
	Proposed	—	1,500,000	—	1,500,000	1.08
6. Trailer Coach Decals.....	Revised	—	-2,399			
	Proposed	—	-21,852	—	-19,453	-0.01
7. New DMV Facility in Vaca- ville	Revised	—	—			
	Proposed	0.3	15,000	0.3	15,000	0.01
8. Computer Issuance Project ..	Revised	—	—			
	Proposed	11.7	220,520	11.7	220,520	0.16
9. Computer Replacement Project	Revised	—	—			
	Proposed	1	158,306	1	158,306	0.11
10. EDP Hardware Monitor.....	Revised	—	—			
	Proposed	1	94,815	1	94,815	0.07
11. EDP Video Replacement.....	Revised	—	—			
	Proposed	—	-56,103	—	-56,103	-0.04
12. New Statutes:						
a. Chap 63/76 (AB 164) Mobilehomes: Sale.....	Revised	—	—			
	Proposed	2	33,520	2	33,520	0.02
b. Chap 231/76 (AB 1582) Air Pollution: Oxides of Nitrogen Emission Devices: Exemptions	Revised	—	—			
	Proposed	0.9	9,803	0.9	9,803	0.01
c. Chap 373/76 (AB 2852) Vehicle Dealers: Mobilehomes	Revised	—	—			
	Proposed	1	19,859	1	19,859	0.01
d. Chap 931/76 (AB 3391) County Highways: Fi- nancial Aid	Revised	-2.1	-21,054			
	Proposed	-5.9	-72,337	-3.8	-51,283	-0.04

e. Chap 619/76 (AB 3552)						
Vehicles: Licenses:						
Compromise Penalties.....	Revised	-0.5	-15,954			
	Proposed	-0.9	-30,794	-0.4	-14,840	-0.01
f. Chap 902/76 (AB 4086)						
Vehicles: Salvage Certificates	Revised	11.1	126,000			
	Proposed	20.9	252,000	9.8	126,000	0.09
g. Chap 1206/76 (AB 4093)						
Air Pollution: Motor Vehicles	Revised	—	—			
	Proposed	1.8	21,116	1.8	21,116	0.02
h. Chap 1284/76 (AB 4248)						
Vehicle Leasing.....	Revised	4.3	60,000			
	Proposed	5.3	72,000	1	12,000	0.01
i. Chap 691/76 (SB 570) Part-Time Employment	Revised	2.1	37,600			
	Proposed	2	32,336	-0.1	-5,264	—
j. Chap 1097/76 (SB 1585)						
Vehicles: Unlimited Parking: Disabled Persons.....	Revised	—	—			
	Proposed	2.1	27,996	2.1	27,996	0.02
k. Chap 764/76 (SB 2033)						
Drivers' Licenses: Appropriation to DMV for Study	Revised	0.2	12,000			
	Proposed	—	—	-0.2	-12,000	-0.01
l. Chap 945/76 (SB 2199)						
Schoolbuses	Revised	1.6	40,000			
	Proposed	1	20,000	-0.6	-20,000	-0.01
13. Zip Code Discount Process ..	Revised	3.9	-132,199			
	Proposed	4.4	-126,793	0.5	5,406	—
TOTAL, GROSS EXPENDITURES	Revised	7,563.5	\$139,011,391			
	Proposed	7,593.5	\$146,665,915	30	\$7,654,524	5.51
Reimbursements	Revised	—	-7,584,549			
	Proposed	—	-7,808,460	—	-223,911	—
Federal Funds	Revised	—	-453,429			
	Proposed	—	-169,200	—	284,229	—
Total, Net Expenditures	Revised	7,563.5	\$130,973,413			
	Proposed	7,593.5	\$138,688,255	30	\$7,714,842	5.9%

^a Revised—1976-77 Expenditures
Proposed—1977-78 Budgeted

^b Includes Pro Rata General Fiscal Administration Charges and workload increase of \$955,906 and price increase of \$204,653 for a total increase of \$1,160,559.

Department Work Force Stabilizes

The Department of Motor Vehicles' budget request for 1977-78 reflects an increase of 30 personnel years over revised 1976-77 figures. This increase (0.4 percent) is the smallest in recent years for the department. Total personnel-years grew from 6,055.9 in 1970-71 to an estimated 7,563.5 in 1976-77, a six-year increase of 25 percent. This growth was the subject of considerable discussion during hearings on the 1976-77 Budget Bill.

DEPARTMENT OF MOTOR VEHICLES—Continued

In a supplemental analysis prepared for hearings on the department's 1976-77 budget we recommended the reduction of 136 personnel-years for a savings of \$1,460,000. This recommendation was based on the fact that the Management and Reporting Control System (MARC) which the department used to estimate its work force requirements had not been maintained. In failing to update production time standards to reflect improved work processes, a serious question arose as to whether previous department personnel requests had been inflated. Our review concluded that the department was overstaffed and in need of improved efficiency. The Legislature accepted our recommendation and reduced DMV's budget request by 136 personnel years.

Department Requests Adjustment. Early in the 1976-77 fiscal year, the department requested a net reduction in its staff of 168.6 personnel years below the level authorized in the Budget Act of 1976. No personnel increase is requested for 1977-78 other than for legislation enacted in 1976. The department took this position in view of continuing problems with the MARC system and its decision to increase efforts at streamlining operations.

According to department management, DMV is attempting to level workload and update MARC so that reliable estimates of support requirements might be produced. DMV has solicited the help of state and private consultants in pursuing these objectives. The department also reports a review has begun of every department work process in an effort to eliminate duplication of functions and personnel.

We believe it premature to comment on the department's efforts until they have been implemented and tested. A continuing need exists to resolve problems within the department, especially in the areas of limiting work force requirements and improving methods of handling growing paperwork. Also, there is a requirement for greater coordination among department management to insure that all parts of the department pursue the same basic goals and long-term objectives.

Motor Vehicle Account

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. As discussed in the 1976-77 Analysis, appropriations to DMV from the two funds have grown faster than the resources in the funds. Chart 1 shows that the department's share of Motor Vehicle Account resources has grown considerably over the past six years. The same situation exists with regard to Highway Patrol support from this account as discussed under Item 161. The result has been a precipitous decline in the amount of surplus revenue available for transfer to the Department of Transportation as shown in Chart 1. For these reasons we recommended in last year's Analysis that DMV study (1) its outdated fee structure, and (2) ways to improve its program planning, budgeting, and control functions. We expect completion of these studies on April 1, 1977.

Justification of Motor Vehicle Account Support

We recommend that the department justify the current Motor Vehicle Account support of CLETS and the Soundex file.

Cost of CLETS. The California Law Enforcement Telecommunications System (CLETS) is a computer-based data network which links local law enforcement agencies to certain Department of Justice and Department of Motor Vehicles data files. In another discussion (Item 41) we note that the costs of CLETS message traffic attributable to DMV files and the stolen vehicle file are charged to the Motor Vehicle Account. These charges have grown from \$3.8 million in 1975-76 to an estimated \$5.2 million in 1977-78. This growth and the deteriorating status of the Motor Vehicle Account raise questions concerning the justification for this support of CLETS. We asked the Department of Motor Vehicles and the Department of Justice in December 1976 to provide justification for this support arrangement. Thus far we have not received satisfactory answers.

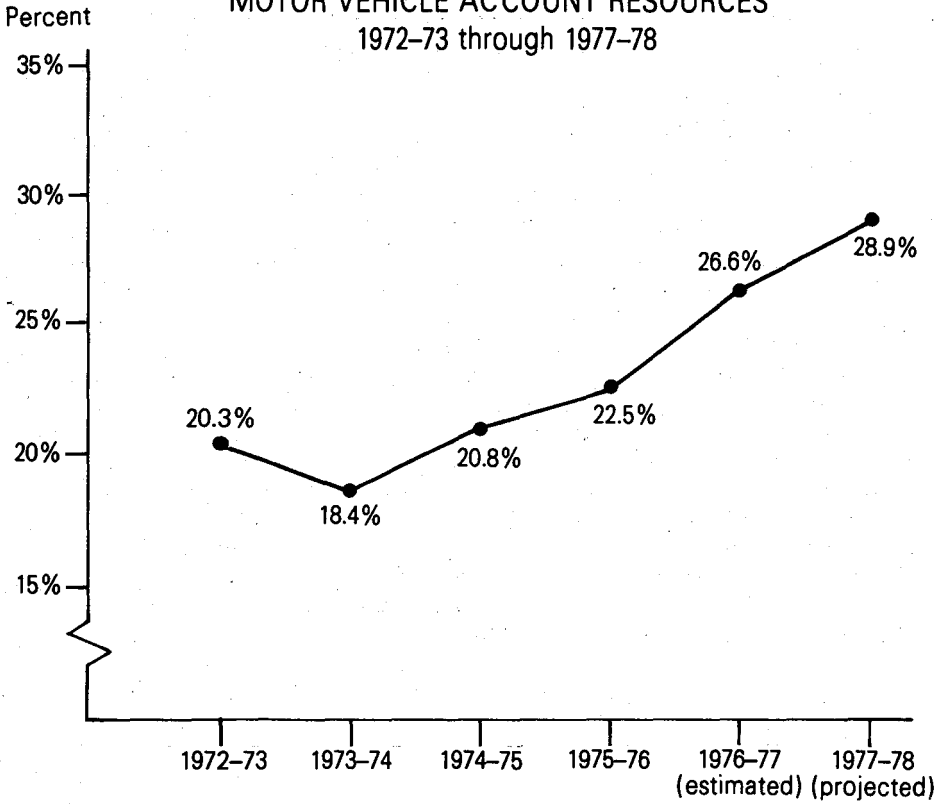
Soundex Operation. Another questionable use of Motor Vehicle Account funds is the support of DMV's Soundex file. This is a manual hard copy file based on driver's names and a sound coding system which theoretically contains drivers license information identical to that stored in department computers. Information supplied by the department indicates that only 5 percent of inquiries to the file are attributable to DMV. Another 15 percent are attributable to various state agencies with the remaining 80 percent attributable to Department of Justice and local law enforcement requests for "mug shots." It is not known whether these latter requests are motor vehicle related.

We believe the department should be prepared to discuss continued Motor Vehicle Account support of this service and the question of General Fund support of these activities in the upcoming budget hearings.

DEPARTMENT OF MOTOR VEHICLES—Continued

Chart 1

DMV SUPPORT EXPENDITURES AS PERCENT OF
MOTOR VEHICLE ACCOUNT RESOURCES
1972-73 through 1977-78



Reduction in Utilities for Facilities Operations

We recommend that Item 165 be reduced by \$163,434 in the amount budgeted for increased utilities costs.

In projecting its expenditures for electrical and heating charges the department significantly overstated the support which will be required in the coming year. Our examination of department needs revealed discrepancies in budgeting for increased utility expenses. Unit costs for electrical charges fluctuated significantly from one location to another. We reported these discrepancies to DMV which agrees its proposal can be revised downward by \$145,432.

In addition, we believe another \$18,002 should be deleted from the amount budgeted for increased electrical rates. The department calculated its increase at 38 percent above actual 1975-76 expenditures while the Department of Finance's price letter estimated only a 35 percent increase in 1977-78 over actual 1975-76 figures. We have allowed for a 36 percent increase in electricity costs over actual 1975-76 figures and recommend the difference of \$18,002 be deleted.

Revised Cost of License Plates and Stickers

We recommend a reduction of \$323,619 in Item 165 for the purchase of license plates, tabs, and stickers.

A major component of the department's materials cost in any fiscal year is the amount it must pay for license plates, stickers, and tabs. These materials are purchased by DMV from correctional industries which determine the prices for production and delivery. In preparing its budget for 1977-78, DMV obtained cost estimates for these items from California Correctional Industries at a time when material costs were relatively unstable and difficult to project. These estimates indicated costs might rise by 20 percent in the coming year and DMV budgeted accordingly.

Revised Estimates. Our inquiry to California Correctional Industries showed that the rate of increase in materials costs has slowed noticeably. Instead of a 20 percent increase, revised estimates now predict a maximum increase of 10 percent in the cost of plates, tabs, and stickers. Therefore, we have recalculated the department's need based on the new prices and find that a reduction of \$323,619 is possible in this category.

Salary Savings Can Be Increased

We recommend a reduction of \$466,198 in Item 165 to reflect increased salary savings in the department's budget.

In preparing a budget for each fiscal year all departments must include a figure for proposed salary savings. Such savings are expected to accrue due to vacant positions, leaves of absence, turnover, delays in filling positions, and the refilling of positions at the minimum salary range. The State Administrative Manual (SAM) requires that the amount of such savings be estimated according to past experience in filling vacancies and expected turnover and employment conditions in the coming year. Consequently, the rate and amount of salary savings varies among departments and agencies, reflecting the conditions peculiar to each.

DMV Experience. In recent years, the Department of Motor Vehicles has estimated salary savings at approximately 1.1 to 1.3 percent of total

DEPARTMENT OF MOTOR VEHICLES—Continued

salaries. This has produced an estimated savings figure slightly in excess of \$1 million for the current and budget years. An examination of department salary savings for the years 1970-71 to 1975-76 indicates that actual savings greatly exceeded department forecasts each year.

Table 3 compares personal services savings with the salary savings figures which have been proposed in the department's budgets. For the years surveyed, actual savings exceeded estimated savings by margins of 43 percent to 485 percent, averaging 167.1 percent for the six years. In dollar amounts, actual savings exceeded estimated savings by a total of \$10,466,471.

New Salary Savings Estimate. Based on the historical data in Table 3 and the department's high employee turnover rate, we believe the estimated salary savings can be increased by at least \$466,198 (40 percent). Therefore, we recommend that department salary savings be increased to a total of \$1,631,694, allowing a reduction in Motor Vehicle Account support of \$466,198.

Cost of Operating State Vehicles

We recommend a reduction of \$25,741 in Item 165 for the cost of operating state vehicles.

In performing its work and assigned responsibilities the department uses state-owned automobiles and trucks. In calculating the operating costs of these vehicles the department used estimates from the Department of General Services on the price of fuel, leasing, and maintenance services. Our review of these price estimates suggested that they were too high. New estimates from the Department of Finance and Department of General Services produced lower figures for fuel cost calculations which we passed on to the DMV. Revised calculations by the department can result in a reduction of \$25,741 in the amount budgeted.

Back Seat Drivers/Public Panels Program

We recommend that \$151,528 be deleted from Item 165 to eliminate funding for the department's Back Seat Drivers/Public Panels Program.

During the current year the department inaugurated a Back Seat Drivers Program through the recruitment and formation of public panels around the state. The program was initiated to involve the public in formulating DMV policies and procedures and to extend the department's role in the communities in which its facilities are located.

Department representatives sent to panel meetings were to act as community "goodwill ambassadors" and gather suggestions from the 80 "grass roots" organizations. This information was to be passed on to program headquarters in Sacramento for review and possible action by the department director. Approved suggestions and/or policy changes would then be implemented in DMV field offices where appropriate.

Program Operations. Approximately 89 panels currently exist throughout the state. They vary in size from 6 to 15 members. Panels meet monthly for two hours with three DMV employees in attendance, usually the office manager, a driver improvement analyst, and an investigator.

Table 3
Savings in Personal Services, Department of Motor Vehicles

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	Totals
Proposed Salary Savings	\$2,778,000	\$519,000	\$572,000	\$669,500	\$739,965	\$971,000	\$6,249,465
Personal Services * Savings Reverted to Motor Vehicle Account	3,989,266	2,173,265	1,186,528	1,161,746	4,335,233	3,849,898	16,695,936
Additional Amount Reverted.....	1,211,266	1,654,265	614,528	492,246	3,595,268	2,878,898	10,466,471
Additional Reversion As Percent of Proposed Salary Savings....	+43.6%	+318.7%	+107.4%	+73.5%	+485.8%	+296.4%	+167.1%

* Includes salaries, wages, and benefits.

DEPARTMENT OF MOTOR VEHICLES—Continued

Department employees are paid for their time either through compensating time off (CTO) or an equivalent reduction in regular work hours. Public members volunteer their time.

While the program is designed to elicit community concerns regarding DMV operations and policies, it appears that panel agendas are largely shaped in the Sacramento headquarters. Printed materials, suggested issues, and meeting outlines are sent to panel coordinators from Sacramento. Panel members vote on topics provided by the department but are permitted to control the "local agenda" portion of the meetings.

Panel members represent a cross-section of their community although original participants were recruited and selected by the department.

Program Effectiveness. Each panel determines its objectives and methods for evaluating progress. Discussions with department employees suggest that some of the panel proposals actually reduce productivity while increasing demands for services.

No Legislative Review. The Back Seat Drivers Program was established administratively and has not been reviewed by the Legislature. The program does not appear in the department's budget because the DMV proposes to use existing positions and resources to operate and fund it. In our opinion a program of this size and orientation should have been presented to the Legislature for review.

Because the program is not displayed in budget materials, its operating costs are not readily available. However, based on our analysis, it appears that direct costs for the program's headquarters unit are approximately \$40,000 annually. Additional CTO charged to the program is projected at nearly 14,000 hours annually. Because this CTO accrues to relatively high-salaried department employees, we estimate its value at approximately \$111,500 over an entire year. Together, these charges total over \$151,000 a year.

Program Should be Discontinued. We believe the department's effort in this program to enhance its public image and improve its services by developing community group input exceeds its responsibilities. Alternatives exist which could accomplish the program's goals without additional expenditure of public funds. The 7,500 department employees offer a far superior reservoir of "good will ambassadors" and channels for input. Suggestion boxes placed in field offices may provide the same recommendations now provided through the local agenda portion of panel meetings. Also, the state Merit Award Board already pays cash bonuses to employees who improve operations.

We recommend the department's budget be reduced by the amount spent on this program.

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 2,118,000 origi-

nal and 14,839,000 renewal registrations in 1977-78 while collecting approximately \$803 million in revenues. Support for this program is budgeted at \$69,274,452, an increase of \$3,143,590 (4.7 percent) over 1976-77 totals. (Items 165 and 167.)

Program elements and activities are summarized in Tables 4 and 5, respectively.

Table 4
Vehicle Licensing, Program Inputs

<i>Program Elements</i>	<i>Personnel years</i>			<i>Program Costs</i>		
	<i>1976-77</i>	<i>1977-78</i>	<i>Change</i>	<i>1976-77</i>	<i>1977-78</i>	<i>Change</i>
Vehicle Licensing	1,767.1	1,811.6	2.5%	\$30,851,576	\$32,869,358	6.5%
Vehicle fee collection	1,048.9	1,055.2	0.6	20,785,906	21,726,130	4.5
Vehicle record maintenance ..	358.0	347.2	-1.3	5,803,571	5,855,091	0.9
Vehicle information	186.7	185.3	-0.7	2,851,618	2,931,926	2.8
Administration distribution	307.2	293.3	-4.5	5,838,191	5,861,947	0.4
Totals	3,667.9	3,692.6	0.7%	\$66,130,862	\$69,274,452	4.7%

Table 5
Vehicle Licensing, Program Outputs

<i>Program Activities</i>	<i>1976-77</i>	<i>1977-78</i>	<i>Change</i>
Vehicle registration	17,171,500	17,219,500	0.3%
Fees, Motor Vehicle Account	\$351,757,000	\$359,721,600	2.3
Fees, Motor Vehicle License Fee Account	\$423,000,000	\$444,000,000	5.0
Fee requests—item count	976,000	1,029,000	5.4
Fee requests—income	\$761,000	\$804,000	5.6
Records produced for private companies	12,782,000	13,097,000	2.5
Records for private companies—income	\$320,000	\$327,000	2.2

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. Operations 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 1977-78 budget year this program is expected to process 4,134,000 original and renewal driver's licenses while maintaining records on 14,668,000 outstanding licenses. An estimated 446,460 identification cards will also be issued through the program. The department's support request is \$57,571,325, an increase of 4.3 percent over the current year. (Items 164 and 165.)

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

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 6
Driver Licensing, Program Inputs

Program Elements	Personnel Years			Program Costs		
	1976-77	1977-78	Change	1976-77	1977-78	Change
Driver's license issuance	1,591.8	1,619.6	1.7%	\$30,683,403	\$32,394,227	5.6%
Post licensing control ..	767.8	767	-0.1	13,794,366	14,329,146	3.9
Certificate issuance	13.9	12.9	-7.2	317,465	308,699	-2.8
Information services	292.5	294.7	0.9	5,091,102	5,383,342	5.7
Administration distribution	274.1	252.2	-8.0	5,284,997	5,155,911	-2.4
Totals.....	2,940.1	2,946.4	0.2%	\$55,171,333	\$57,571,325	4.3%

Table 7
Driver Licensing, Program Outputs

Program Activities	1976-77	1977-78	Change
Driver's licenses issued	4,786,000	4,899,000	2.4%
Driver's license fees.....	\$15,250,000	\$15,900,000	4.3
Post licensing control			
Warning letters sent	116,500	119,900	2.9
Persons called to group meetings	50,000	52,000	4.0
Reexaminations and hearings	87,900	90,700	3.2
Licenses suspended or revoked	186,350	192,100	4.6
Licenses reinstated.....	143,000	147,000	2.7
Special operators certificates issued	19,100	17,400	-8.9
Information requests	7,981,000	8,214,000	2.9
Information fees	\$4,358,000	\$4,485,000	2.9

Information Fees

We recommend (1) the department increase by 20 percent its fees for vehicle and driver's license information and (2) a reduction of \$391,000 in Item 165 to offset the fee increase.

Sections 1808 and 1810 of the Vehicle Code provide that the department may sell certain information from its records at a charge sufficient to recover the cost incurred in providing it. The charge for this information is determined administratively and is the responsibility of the department's director.

Rates Need Adjustment. The department last adjusted its information charges in early 1975, when they were increased approximately 20 percent. Rates have remained static but operational and materials costs have continued to rise. In order to keep pace with these inflationary trends, charges for vehicle and driver's license information should be increased approximately 20 percent in 1977-78. This increase would mean that information requests which now cost \$.50 would rise to \$.60 while \$.75 charges would increase to approximately \$.90. The adjustment of rates to their proper level should generate an additional \$391,000 in information fees. This amount would represent increased reimbursements to the department and permit an equal reduction in its support from the Motor Vehicle Account.

In our calculations we have allowed for a possible reduction in the number of requests due to the rate increase. However, because nearly all such requests are made by insurance and other bonded companies, we believe demand for these services will remain relatively stable.

Post Licensing Control Reporting and Evaluation System

The purpose of the post-licensing control program is to promote highway safety through identification of drivers whose qualifications for retention of their drivers license are questionable and determination of the extent of the potential hazard associated with allowing the driver to retain the driving privilege. The program also effects corrective actions to alleviate the condition which creates the hazard such as limiting the driving privilege, or eliminating the hazard by removing the "problem" driver from the road.

Given the substantial efforts devoted by the department to the post-licensing control program, our office and the department agreed that a system of reporting and evaluating the program's effectiveness was essential. To this end, the department has conducted a series of studies and has been engaged in the design of an automated reporting system during the last four years. Much of this effort has been funded with a grant obtained under a provision of the federal Highway Safety Act of 1966.

A report on the implementation of this system was submitted to the Legislature in June 1976. It contained preliminary findings on the effectiveness of the negligent operator portion of the post-licensing control program. These findings indicate some program effectiveness in reducing accidents and traffic violations. However, the effects appear relatively small and short-lived. For example, the report estimates that post-licensing control saved up to 1,500 accidents in 1975. This reduction is small when compared to the annual total of 500,000 accidents statewide. Also, positive effects from program treatments appear to dissipate after several months.

Although these findings were based on preliminary data and are subject to refinement as the reporting system is fine-tuned, questions exist as to the value of both certain treatments and the entire program. We will continue to monitor the program and make appropriate recommendations in the 1978-79 Analysis of the Budget Bill.

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 \$8,247,901 for 1977-78, an increase of \$10,052 (0.1 percent) over the current year. Workload will decrease 11.5 personnel years in the budget year (Item 165).

Program inputs and outputs are presented in Tables 8 and 9, respectively.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 8
Occupational Licensing, Program Inputs

Program Elements	Personnel Years			Program Costs		
	1976-77	1977-78	Change	1976-77	1977-78	Change
Occupational licensing.....	115.1	99.8	-13.3%	\$2,237,256	\$2,029,407	-9.3%
Occupational regulation	218.4	223.5	2.3	5,160,827	5,365,715	4.0
Administration distribution.....	46.2	44.9	-2.8	839,766	852,779	1.5
Totals	379.7	368.2	-3.0%	\$8,237,849	\$8,247,901	0.1%

Table 9
Occupational Licensing, Program Outputs

Program Activities	1976-77	1977-78	Change
Business licenses issued.....	19,840	20,680	4.2%
Business license fees	\$1,041,000	\$1,093,000	5.0
Salesperson licenses issued.....	31,860	26,840	-15.8
Salesperson license fees	\$760,000	\$651,200	-14.3
Driving instructor licenses issued.....	1,595	1,730	8.5
Driving school and instructor license fees.....	\$45,000	\$56,000	24.4
Complaints against licensees	16,800	20,200	20.2
Administrative reviews and actions.....	3,140	3,010	-4.1
Administrative service fees	\$1,887,000	\$1,887,000	—
New Motor Vehicle Board fees.....	\$250,000	\$250,000	—

New Motor Vehicle Board

We withhold recommendation on support for the New Motor Vehicle Board pending further examination of the board's operations and 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. The board's workload 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.

In last year's Analysis, we reported on a dispute between the Department of Motor Vehicles and the New Motor Vehicle Board regarding the board's role and the amount of its budget. At that time we recommended special legislative review to resolve the controversy. Although funding for the board was approved, the dispute over its responsibilities was not resolved.

Recently, questions have arisen over several of these same issues and others as well. We have not completed our review of these issues and therefore, are withholding recommendation on the board's budget. We will submit our findings to the fiscal committees during hearings on the department's budget.

IV. COMPULSORY FINANCIAL RESPONSIBILITY LAW

The purpose of this program is to administer and enforce provisions of the Compulsory Financial Responsibility Law. This law requires drivers to report any accident in which property damage exceeds \$250 or death or

personal injury results. Drivers are required to show proof of financial responsibility and to maintain responsibility for three years after an accident in order to compensate persons injured or whose property has been damaged.

The department request for this program in 1977-78 is \$3,132,123, an increase of \$60,484 (2.0 percent). There will be a reduction of 3.1 personnel years from 1976-77. (Item 165.)

Program elements and activities are summarized in Tables 10 and 11, respectively.

Table 10
Compulsory Financial Responsibility Law, Program Inputs

Program Elements	Personnel Years			Program Costs		
	1976-77	1977-78	Change	1976-77	1977-78	Change
Driving privilege control.....	168.3	167.8	-0.3%	\$2,625,712	\$2,713,833	3.6%
Information services	6.2	6.0	-3.3	126,812	129,348	2.0
Administration distribution	17.3	14.9	-13.8	319,115	288,942	-8.7
	191.8	188.7	-1.6%	\$3,071,639	\$3,132,123	2.0%

Table 11
Compulsory Financial Responsibility Law, Program Outputs

Program Activities	1976-77	1977-78	Change
Accident reports processed.....	574,000	574,000	—
Commercial information requests.....	37,160	33,480	-9.9%
Commercial requests—income.....	\$49,000	\$47,000	-4.1

Compulsory Financial Responsibility Law Ineffective

We recommend that Item 165 be reduced by \$3,085,083 to abolish the department's compulsory financial responsibility program.

We further recommend that the Legislature give special attention to alternative methods of providing compensation to those damaged or injured in automobile accidents.

Chapter 1409, Statutes of 1974, requires every driver and owner of a motor vehicle to maintain in force at all times automobile liability insurance, self-insurance, or bonds as specified. In this act the Legislature declared its intent "... to afford monetary protection to those who suffer injury or property damage by virtue of the acts of financially irresponsible drivers." Responsibility for coordination and administration of the program was given to the Department of Motor Vehicles.

Evaluation Study. The department recently conducted an evaluation of the first two years of the program's effectiveness and administration. Overall, this evaluation was highly critical of both the program's effectiveness and administration. Briefly, the study found that:

1. The program addresses problems after they occur rather than preventing them. The department's authority to require proof of financial responsibility begins after an uninsured motorist has been involved in an accident and filed a report of that accident with the DMV. This arrangement does not afford protection or a source of compensation to the victim of the first accident. The uninsured motorist, in effect, is allowed one "free" accident before action can be taken by the department.

2. Only 3 percent of the state's uninsured motorists have maintained financial responsibility as a result of the program. When insured drivers

DEPARTMENT OF MOTOR VEHICLES—Continued

are included in the comparison, persons acquiring financial responsibility under this program represent only 0.5 percent of all California drivers.

3. When faced with the choice of either acquiring financial responsibility or accepting a three-year license suspension, less than half (approximately 22,000) of the uninsured motorists chose to acquire such responsibility. The majority (58 percent) chose to accept the license suspension. However, many of those accepting the suspension continued to drive on the state's roads with neither a valid drivers license nor a means of financial responsibility.

4. The information service which exists to provide data on uninsured motorists to legitimate parties (e.g., law enforcement, insurance companies) was rarely used. Only 6.5 percent of the financial responsibility reports on file were ever requested by such parties.

5. Departmental administration of the program needed to be consolidated and streamlined.

In sum, the evaluation report concluded the present program was "misdirected, inefficient, and ineffective."

Program Alternatives Needed. Although the department has begun implementation of recommendations to improve program administration and reduce costs by \$300,000, basic problems and deficiencies continue. Additional information from the department shows that approximately 17 percent of California's motorists remain uninsured while industry estimates run as high as 20 to 25 percent. This means that between two and three million drivers currently drive without any form of financial responsibility.

We believe the absence of results from a program which costs over \$3 million annually argues strongly for termination. We have found no evidence to contradict the department's evaluation. In recommending termination of the program, we recognize the continued need to provide a source of compensation for victims of vehicular accidents. The current program, which is punitive rather than preventative, does not afford protection to such victims. We believe the Legislature should give high priority to a consideration of alternatives which could provide such protection. The existence of over two million uninsured drivers on California roads underscores the need for an effective program of financial responsibility.

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 \$6,940,114 to support this program in 1977-78, an increase of \$540,406 (8.4 percent) over the current year. This will enable the program to handle an expected workload increase of 13.6 personnel years. (Items 165, 168, 169 and 170.)

Program inputs and outputs are summarized in Tables 12 and 13, respectively.

Table 12
Associated Services, Program Inputs

Program Elements	Personnel Years			Program Costs		
	1976-77	1977-78	Change	1976-77	1977-78	Change
Identification card issuance.....	55.7	59.4	6.6%	\$1,082,044	\$1,211,858	12.0%
Undocumented vessel registration	76.7	74.5	-2.9	1,112,261	1,158,692	4.2
Environmental license plate issuance..	54.1	56.1	3.7	854,599	977,858	14.4
Use tax collection.....	134.5	137.2	2.0	1,890,531	1,947,288	3.0
OHV registration ^a	53.3	61.4	15.2	961,944	1,110,870	15.5
Bicycle licensing.....	—	—	—	32,705	34,365	5.0
Administration	9.7	9.0	-7.2	465,624	499,183	7.2
Totals.....	384.0	397.6	3.5%	\$6,399,708	\$6,940,114	8.4%

^a Increased personnel and expenditure requirements for off-highway vehicle activities are due to departmental error in preparing its program budget. The reconciliation with appropriations detail indicates a net decrease in OHV program expenditures in 1977-78.

Table 13
Associated Services, Program Outputs

Program Activities	1976-77	1977-78	Change
Identification cards issued.....	345,780	446,460	29.1%
Identification card fees.....	\$1,106,000	\$1,428,000	29.1
Vessel registrations	591,600	628,900	6.3
Vessel registration fees.....	\$1,926,200	\$2,045,000	6.2
Environmental license plates issued.....	269,100	310,900	15.5
Environmental license plate fees.....	\$3,892,500	\$4,437,700	14.0
Use tax collections	\$72,892,000	\$74,715,000	2.5
OHV registrations	107,400	108,300	0.8
OHV fees	\$1,755,500	\$1,786,200	1.7
Bicycle license tags issued.....	500,000	500,000	—

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 (including EDP services) to all departmental programs.

The budget request for this program is \$12,658,762, a decrease of \$88,931 (0.7 percent) over the current year. This will result in a net decrease of 40.2 personnel years. Its costs are distributed to the department's other operational programs.

Program inputs are summarized in Table 14.

Table 14
Departmental Administration, Program Inputs

Program Elements	Personnel Years			Program Costs		
	1976-77	1977-78	Change	1976-77	1977-78	Change
Executive	20.9	20.9	—	\$513,799	\$532,528	3.6%
Program administration	213.1	195.2	-8.4%	4,597,727	4,415,565	-4.0
Legal	21.6	22.2	2.7	468,558	496,361	5.9
Fiscal and business management	105.0	104.2	-0.7	1,506,026	1,557,069	3.4
Personnel management services	85.3	81.9	-4.0	1,403,471	1,381,829	-1.5
Program development and evaluation	123.9	105.8	-14.6	2,328,610	2,238,378	-3.9
Public information.....	4.0	4.0	—	77,536	80,766	4.2
EDP services.....	80.7	79.8	1.1	1,851,966	1,956,256	5.6
Totals.....	654.5	614.3	-6.1%	\$12,747,693	\$12,658,762	-0.7%

DEPARTMENT OF MOTOR VEHICLES—Continued**Computer Issues Unresolved**

We withhold recommendation on four department computer projects pending receipt of revised proposals.

The budget proposes expenditures totaling \$1,697,018 from the Motor Vehicle Account, State Transportation Fund for four computer projects in 1977-78. These projects include (1) beginning replacement of the department's computer system, (2) purchase of a computer hardware monitor, (3) replacement of computer video devices, and (4) implementation of Chapter 1179, Statutes of 1975—unpaid parking violations.

Although the department has completed feasibility studies and/or implementation plans for these projects, serious questions must be answered before projects and funds can be approved. Based on questions raised by our office and the Department of Finance, DMV has decided to temporarily suspend action on these projects to allow reassessment of department needs and proposals in this area. Therefore we withhold recommendation on the funds proposed for project implementation pending resubmission by DMV of project proposals.

Computer Issuance Project

We recommend Item 165 be reduced by \$126,046 to eliminate 6.9 personnel years requested for additional analysts to study on-line issuance of drivers licenses and vehicle registrations.

As required by the Budget Act of 1975, the department undertook a feasibility study of computer issuance of drivers' licenses. This study included a limited pilot test in two field offices in the spring and summer of 1976. A department report on the results of the pilot test showed that on-line issuance was technically feasible although many questions existed concerning overall costs and benefits.

In December 1976 we submitted a list of questions to the department regarding issues which had not been addressed or fully answered in the report. Apparently, the department plans to answer these and other questions in a second study and has proposed 11.7 additional personnel years for this purpose.

Some New Positions Not Needed. Although we agree with the need to explore this concept in greater depth, we do not believe all 11.7 personnel years are necessary. We note that the DMV currently employs over 100 persons in its planning, analysis, and research unit and several hundred more persons in its data processing and computer operations. We have concluded that no more than 4.8 of the 11.7 personnel-years requested are justified, permitting a reduction of 6.9 personnel-years at a savings of \$126,046. Any additional personnel required should be taken from existing resources in the research and computer sections.

Minor Equipment Budget Too High

We recommend a reduction of \$93,031 in Item 165 for unnecessary minor equipment.

In reviewing the department's proposal for additional minor equipment we find that several requests should be reduced or eliminated entirely. Four requests totaling \$89,914 were identified as equipment for implementation of Chapter 1179/75 (Unpaid Parking Violations). However, this equipment was previously included in the funds set aside for the implementation of the legislation and therefore should be deleted from the budget.

Also, we recommend the department's request for 23 storage credenzas be reduced by \$2,001 to allow substitution of less expensive bookcases. A request for six tables (\$1,176) for a new field office in Torrance should also be deleted because the department's lease schedule indicates no such move will be made. Finally, we recommend that a request for six new warehouse ladders be reduced to the three that are substantiated in the request, for a reduction of \$660.

Leasing of DMV Facilities

We recommend a reduction of \$47,000 in Item 165 for department leasing expenses. In addition, we recommend that \$313,488 in funds budgeted for new lease-purchase agreements be held in reserve until plans and contract terms have been reviewed by the Department of Finance and the Joint Legislative Budget Committee.

Approximately two-thirds of the department's 147 field offices are in leased facilities. From time to time the department proposes moves to other facilities—usually for expansion purposes. Larger facilities normally require increased rental expenses which are included in annual budget requests. We find that in some cases proposed moves to new leased facilities are denied or delayed or operations are moved to state-owned facilities. These changes require adjustments in the amount budgeted for leasing expenses.

For 1977-78, the department has budgeted full year leasing costs for the Oxnard and Placerville field offices. However, completion of new state facilities permits a shortening of the two leases by two months and five months, respectively, for a total savings of \$6,800. Also, the department has agreed to a two-year interim lease in Chico at \$19,800 per year, permitting a reduction of \$40,200 from the \$60,000 which had been budgeted for 1977-78.

Lease-Purchase Reserve. The lease schedule proposes five lease-purchase agreements in the coming year at a combined cost of \$313,488. Because these plans must be approved by the Joint Legislative Budget Committee and the Department of Finance, we recommend the proposed expenditure be held in reserve pending such approval. Any plans and funds not approved should revert to the Motor Vehicle Account, State Transportation Fund.

DEPARTMENT OF MOTOR VEHICLES—Continued

Repairs and Alterations

We recommend that Item 165 be reduced by \$81,365 to eliminate funding for unnecessary repairs and alterations. We also recommend that \$13,822 budgeted as repairs and alterations be transferred to the minor capital outlay section of the department's budget for an additional reduction in Item 165.

For 1977-78 the department has proposed \$312,252 for repairs and alterations. We believe that many of the requests should be deleted or reduced because of a lack of need or the existence of less costly alternatives.

Our recommended reductions follow.

Carmichael: Reduce \$1,000. Funds are requested to recoat a section of acoustical panel which has darkened due to the proximity of air vents. We believe such alterations would be cosmetic only and suggest the department concentrate instead on determining the cause of the problem. Unless the cause is determined, the problem is likely to recur and produce another request for alterations.

Daly City: Reduce \$700. DMV has budgeted \$2,500 for this project although a bid of \$1,800 was submitted for the work. We recommend that the overbudgeted amount be deleted.

Hawthorne: Reduce \$4,000. This expenditure is justified on the basis that color-coordinating the office by painting desks and counters in matching colors will improve morale. We see no need for this expenditure.

Hollywood: Reduce \$2,500. We believe that proposed exterior landscaping repairs and removal of graffiti can be accomplished for much less than the \$4,500 budgeted.

La Mesa: Reduce \$2,265. DMV leases this property and proposed repairs to the parking lot should be the responsibility of the lessor.

Los Angeles: Reduce \$27,000. The department has requested \$47,500 to provide a facelift for this office. We visited the facility and found that many areas do not need repainting or upgrading and that other costs have been overestimated.

Montebello: Reduce \$12,000. We recommend that the proposed re-flooring of this office be done with the less expensive tile proposed for the Hollywood office.

Oakland: Reduce \$3,300. Two bids were submitted for replacing floor tile. We believe the department should accept the lower bid for the proposed work.

Palm Springs: Reduce \$4,000. DMV leases this property and proposed repairs to the parking lot should be the responsibility of the lessor.

Pasadena: Reduce \$2,300. This interior painting project should be budgeted at an amount similar to that for painting the Glendale field office which is approximately the same size.

Redlands: Reduce \$4,300. This property is leased and repairs should be the responsibility of the lessor.

Riverside: Reduce \$4,000. DMV seeks to install carpeting and acoustical panels to reduce noise. We believe that the carpeting is unnecessary.

Santa Ana: Reduce \$3,000. The proposal to repair the office parking lot

has been budgeted at twice the amount for the same repairs on lots of similar size. Supporting documents indicate a miscalculation in repair estimates.

Seaside: Reduce \$11,000. DMV seeks to replace worn carpeting at a cost of \$12,000 but indicates that repairs could be made to extend the carpet's life two years at a cost of \$1,000. We recommend approval of the less expensive alternative.

Shift of Projects to Minor Capital Outlay. Based on guidelines in the State Administrative Manual, we believe several of the requested repair and alteration projects should be reviewed as minor capital outlay requests. We recommend that the following projects be shifted to Item 394 where their priority can be reviewed in relation to other department proposals for minor capital outlay: Culver City—relocate state vehicle compound (\$1,500); Los Angeles—construct classroom walls (\$2,000); Sacramento—construct bicycle compound (\$4,000); San Bernardino—remodel room (\$2,100); San Jose—install drains and modify parking lot (\$2,500); and Seaside—extend partition (\$1,722).

Vacaville Field Office

We recommend that \$15,000 be deleted from Item 165 for establishment of a DMV field office in Vacaville.

The department has proposed the establishment of a permanent field office in Vacaville to replace service currently provided by a travel crew. The travel crew visits this location once a week and has been doing so since February 1976, providing approximately 6 hours of service per week at an annual cost of \$15,048. The department cites recent growth in the Vacaville area and greater public convenience as reasons for establishing a permanent facility at this location. Annual costs of this new facility are estimated at \$30,048, an increase of \$15,000.

We do not believe a significant improvement in service would result if the department's proposal were approved. Business currently conducted one day a week would be spread out over five days, resulting in a low level utilization of services and facilities. Because most persons visit DMV offices infrequently, the present service appears sufficient. Also, the existence of a DMV office in nearby Fairfield and other travel crew visits to Dixon provide the opportunity to conduct business which cannot be completed during travel crew visits to Vacaville.

Item 166, 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 financial needs. The Legislature has recognized this problem and for many years has provided a special contingency authorization to protect the department. 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.

Business and Transportation Agency
STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 172 from the Stephen P.
 Teale Consolidated Data Cen-
 ter Revolving Fund

Budget p. 406

Requested 1977-78	\$10,326,218
Estimated 1976-77	10,280,804
Actual 1975-76	9,612,002
Requested increase \$45,414 (0.4 percent)	
Total recommended reduction	\$34,350

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|--|-----|
| 1. Use of Computing Capacity. Recommend report on plan to optimize use of center's computing capacity. | 313 |
| 2. <i>Operating Expenses. Reduce \$34,350.</i> Recommend specific reductions in operating expenses and equipment categories. | 313 |

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four such centers authorized by the 1972 Session of the Legislature. The center, which provides computer services to over 40 departments and the Legislature, 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 \$10,326,218 in the budget year as compared with estimated expenditures of \$10,280,804 in the current year. These funds are derived from user departments as reimbursement for services provided by the center.

Establishment of Revolving Fund

Chapter 585, Statutes of 1976, established the Stephen P. Teale Consolidated Data Center Revolving Fund. The fund was created to resolve a cash-flow problem which has confronted the center at the beginning of each fiscal year. The problem occurs because the center has monthly expenses (such as payroll and equipment rental) to meet but there is a normal lag in receiving payment from the center's customer departments, who are billed after services are provided. The revolving fund will allow the center to accumulate a maximum fiscal year carryover of \$2 million. This amount will be sufficient to cover at least two months of operating expenses which will offset the effect of the lag in customer payments.

To establish a fund surplus and provide a carryover, the center's rates have been set higher than necessary to recover actual operating costs. As of January 1, 1977, the estimated fund surplus was about \$250,000. Once the maximum \$2 million surplus is reached, the center will adjust rates downward. This adjustment would be separate from any general rate change, such as the contemplated reduction in rates for the 1977-78 fiscal year, which could average 20 percent or more.

In addition to building a revolving fund balance, the center will in the current year repay several departments for overpayments in 1975-76 which were made to prevent a deficit in center operations in that year. The repayment will be in the form of credits against work performed in the current year and will total approximately \$1 million.

Optimum Use of Computing Center Capacity.

We recommend that the Teale Data Center provide to the Joint Legislative Budget Committee by August 1, 1977 a plan to optimize use of the center's total computing capacity.

The supplementary language report relating to the Budget Act has, for several years, contained specific criteria regarding implementation of Section 4 of the Budget Act, the electronic data processing (EDP) control section. One of these criteria for effective use of EDP is optimum utilization of computing equipment. The report defines optimum utilization as "operation of equipment three shifts per day, seven days per week . . . or a level of use fully justified as appropriate and consistent with the intent of the criteria contained herein." The Teale Data Center's current normal operation consists of two full shifts and a partial third shift each weekday and one shift on Saturdays. Therefore, the center is operating at approximately 65 percent of capacity. Not only is there a significant amount of unused capacity, but each increase in capacity to meet prime time user requests (8 a.m.-5 p.m. on weekdays) results in unused capacity on the third shift and weekends.

Large commercial data centers comparable in size to the Teale Data Center remain in business by operating three shifts per day, seven days per week, in order to optimize the use of a costly facility. The center's management is aware of this problem and intends to develop a plan to use the surplus computing capacity. The establishment of a firm reporting date for disclosure of this plan should ensure its timely completion.

Reduce Operating Expenses

We recommend that the amount budgeted for operating expenses and equipment be reduced \$34,350.

Our review of this budget request with the center's management indicates that operating expenses and equipment can be reduced as follows: (1) general expense (-\$6,000), (2) facilities operation (-\$13,500), (3) equipment (-\$6,350), and (4) EDP operations expense (-\$8,500). These reductions can be accomplished through a reexamination of the budget by center management.