

DEPARTMENT OF JUSTICE

Item 42-44 and 46 from the
General Fund and Item 45
from the Motor Vehicle Ac-
count, State Transportation
Fund

Budget p. 41

| | |
|--|--------------|
| Requested 1978-79 | \$76,172,094 |
| Estimated 1977-78..... | 70,063,022 |
| Actual 1976-77 | 59,488,437 |
| Requested increase \$6,109,072 (8.7 percent) | |
| Total recommended reduction | \$1,869,191 |

1978-79 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|---------------------|---|---------------------|
| 42 | Department Support | General | \$65,257,603 |
| 43 | Fingerprint Fees | Fingerprint Fees, Gen- eral | 2,424,924 |
| 44 | Antitrust | Attorney General's An- titrust Account, Gen- eral | 989,586 |
| 45 | Department Support | Motor Vehicle Account, State Transportation | 7,427,981 |
| 46 | Legislative Mandate | General | 72,000 |
| | | | <u>\$76,172,094</u> |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Safety Retirement. Recommend legislation specifying Department of Justice positions eligible for "safety" retirement based on Personnel Board's findings. 54
2. *Criminal Intelligence File Automation. Reduce Item 42 by \$257,053.* Recommend deletion of twelve new positions for automation of Organized Crime Branch's criminal intelligence file. 56
3. *Controlled Substance Reporting Staff. Reduce Item 42 by \$22,989.* Recommend deletion of 1.3 positions proposed for controlled substance seizures reporting. 57
4. Vehicle Purchases. Withhold recommendation pending more data on the department's vehicle usage policy. 57
5. *Blood Alcohol Funding. Reduce Item 45 by \$1,315,374.* Recommend legislation to continue blood alcohol program only on a fee-for-service basis. 58
6. *New Building Support. Reduce Item 42 by \$145,975.* Recommend deletion of proposed equipment and general expense items for Phase I occupancy of the new Division of Law Enforcement building. 60
7. *Overbudgeting Temporary Help. Reduce Item 42 by \$13,000.* Recommend reduction of funds utilized for a special consultant to coordinate new Division of Law Enforcement building. 61

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|--|----|
| 8. Demonstrate Equity. Recommend demonstration that a potential contract to be awarded for computer replacement will be equitable. | 63 |
| 9. <i>Contract Termination. Reduce Item 42 by \$114,800.</i> Recommend work performed by consultants be assigned to state employees. | 64 |

GENERAL PROGRAM STATEMENT

The Department of Justice, under the direction of the Attorney General as the chief law enforcement officer in the state, provides legal and law enforcement services to state and local agencies. Departmental functions are carried out through three programs—Administration, Legal Services, and Law Enforcement—each of which is divided into several elements.

ADMINISTRATION PROGRAM

Administration, which includes the Attorney General's executive office, provides the following functions and services (1) training for employees of the department and local criminal justice and law enforcement units, (2) management analysis, (3) library services for the legal staff, (4) work measurement and personnel services, and (5) administration services, including all fiscal management functions and legal office support such as stenographic and typing services.

LEGAL SERVICES PROGRAM

The legal services program contains Civil Law, Criminal Law and Special Operations elements, each consisting of attorneys specialized in particular fields of law.

Civil Law Division. This division (1) provides legal representation for most state agencies, boards and commissions, (2) renders legal opinions, (3) represents the state and its employees in the field of tort liability, and (4) provides legal services relating to claims against the Subsequent Injury Fund. Reimbursements are received for legal services provided to state agencies which are supported by special funds and significant amounts of federal funds.

Criminal Law Division. This division (1) represents the state in all criminal appeals from felony convictions and in connection with writs in criminal proceedings before state and federal courts, (2) assists the Governor's office in extradition matters, (3) serves as prosecutor in criminal trials when a district attorney is disqualified or otherwise unable to handle the proceedings, and (4) assists local jurisdictions in enforcing child support obligations through maintenance of the Parent Locator Service, a unit which collects data to assist District Attorneys in the location of parents who have deserted or abandoned their children.

Special Operations Division. This division seeks to protect the public's rights and interests through legal representation in four program components: (1) public resources law, which provides formal and informal legal

assistance to state agencies which administer and enforce laws and programs relating to the use and protection of the state's natural resources, (2) land law, which handles all litigation arising from the administration of state-owned lands by the State Lands Commission, (3) statutory compliance, which investigates the financial practices of charitable trusts to insure compliance with state law and (4) environment and consumer protection, which represents the public's interest in consumer fraud, environmental, antitrust, and constitutional rights matters.

LAW ENFORCEMENT PROGRAM

The Division of Law Enforcement, the department's largest and most complex program, provides a variety of law enforcement services through four branches, a computer center and a Crime Prevention and Control Unit.

Enforcement and Investigation. The Enforcement and Investigation Branch through a program of field investigative services (1) aids local enforcement agencies in the solution and prosecution of significant crimes, particularly those which affect more than one county or area, (2) provides investigative services to the department's civil law programs such as the tort liability, subsequent injury, antitrust and charitable trust programs, (3) develops intelligence and gathers evidence to apprehend major narcotics' violators, (4) administers a triplicate prescription system to prevent diversion of legal supplies of narcotics into illegal channels, and (5) trains local and state enforcement personnel in techniques of narcotic enforcement.

Investigative Services. The Investigative Services Branch maintains a system of laboratories for providing analyses of criminal evidence, blood-alcohol samples and controlled substances and interprets the significance of scientific findings to law enforcement agencies and the courts.

Identification and Information. The Identification and Information Branch (1) collects crime data from state and local criminal justice agencies, (2) compiles, analyzes and prepares statistical reports on crime and delinquency and the operations of criminal justice agencies in California, (3) processes fingerprints and makes tentative identification through fingerprint comparisons in criminal cases, (4) processes noncriminal fingerprints for law enforcement, licensing and regulatory agencies (the cost of which is primarily reimbursed by fees), (5) maintains a central records system (now being automated) consisting of approximately 3.6 million individual record folders and 6.1 million fingerprints, (6) assists law enforcement officers in locating stolen property and missing or wanted persons, and (7) processes applications for permits to carry concealable weapons.

Organized Crime. The Organized Crime and Criminal Intelligence Branch gathers, compiles, evaluates, disseminates and stores criminal intelligence information which may indicate the presence of organized crime. The branch furnishes administrative support for the nationwide Law Enforcement Intelligence Unit (LEIU) and the California Narcotics Information Network (CNIN).

Consolidated Data Center. The Consolidated Data Center, one of four

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such centers established by 1972 legislation, provides centralized management of data processing equipment and services for the Department of Justice, California Highway Patrol (stolen vehicle processing only) and local law enforcement agencies. The center's automated communications systems in Sacramento and Los Angeles link over 550 California criminal justice agencies to computerized files in Sacramento, Los Angeles, Washington, D.C. and other states.

Crime Prevention and Control. The Crime Prevention and Control Unit provides a number of crime prevention programs to organizations and agencies relating to the unique crime problems of specific groups such as youth, the elderly and retail businesses. It also prepares and distributes numerous crime prevention publications including a quarterly journal, "Crime Prevention Review."

ANALYSIS AND RECOMMENDATIONS

The department proposes state appropriations totaling \$76,172,094, an increase of \$6,109,072 or 8.7 percent over the current year. This increase largely is attributable to (1) transfer of (a) existing antitrust and fingerprint automation programs and (b) legal services for the California Coastal Commission to General Fund support, (2) personnel requirements for the acquisition of new computer hardware, and (3) implementation of an automated criminal intelligence file.

Table 1 which details the department's proposed funding and expenditures, reflects a total expenditure program of \$89,003,934, including reimbursements and federal funds. Legislative mandate funds, appropriated for the first time in the current year, are continued in the budget year to pay the costs incurred by cities and counties of destroying or obliterating records of courts and public agencies concerning arrests and convictions for possession of marijuana.

Table 1
Department of Justice
Budget Summary

| | <i>Estimated^a</i> 1977-78 | <i>Proposed^a</i> 1978-79 | <i>Change From</i> <i>Current Year</i> | |
|--|---|--|---|----------------|
| | | | <i>Amount</i> | <i>Percent</i> |
| <i>Funding</i> | | | | |
| General Fund | \$59,715,389 | \$65,257,603 | \$5,542,214 | 9.3% |
| Fingerprint fees (General Fund) | 1,991,854 | 2,424,924 | 433,070 | 21.7 |
| Attorney General's Antitrust Account (General Fund) | 1,474,819 | 989,586 | -485,233 | -32.9 |
| Motor Vehicle Account (State Transportation Fund) | 6,808,960 | 7,427,981 | 619,021 | 9.1 |
| Legislative mandate ^b (General Fund) | 72,000 | 72,000 | — | — |
| Total state funding | \$70,063,022 | \$76,172,094 | \$6,109,072 | 8.7% |
| Reimbursements | 14,194,510 | 12,360,842 | -1,833,668 | -12.9 |
| Federal funds | 1,891,266 | 288,658 | -1,602,608 | -84.7 |
| Political Reform Act | 177,379 | 182,340 | 4,961 | 2.8 |
| Total Expenditures | \$86,326,177 | \$89,003,934 | \$2,677,757 | 3.1% |

Programs

Administration

| | | | | |
|----------------------|---------------|----------------|-------------|------|
| Distributed..... | (\$9,627,383) | (\$10,201,933) | (\$574,550) | 6.0% |
| Undistributed..... | 5,125,131 | 5,554,403 | 429,272 | 8.4 |
| Personnel-years..... | 188.9 | 204.5 | 15.6 | 8.3 |

Legal services

| | | | | |
|-------------------------|--------------|--------------|------------|-------|
| Civil law..... | \$12,603,844 | \$13,407,850 | \$804,006 | 6.4 |
| Personnel-years..... | 344.5 | 368.2 | 23.7 | 6.9 |
| Criminal law..... | \$10,573,350 | \$11,401,862 | 828,512 | 7.8 |
| Personnel-years..... | 340.4 | 349.9 | 9.5 | 2.8 |
| Special operations..... | \$8,207,764 | \$8,703,302 | 495,538 | 6.0 |
| Personnel-years..... | 233.7 | 240.1 | 6.4 | 2.7 |
| Grant projects..... | \$318,750 | \$93,750 | \$-225,000 | -70.6 |
| Personnel-years..... | 8.3 | 4.5 | -3.8 | -45.8 |

Law enforcement

| | | | | |
|--|---------------|---------------|--------------|-------|
| Executive..... | (\$3,595,281) | (\$3,830,012) | (\$234,731) | 6.5 |
| Personnel-years..... | (32.8) | (32.5) | (-0.3) | -0.9 |
| Enforcement and investigation..... | \$9,172,559 | \$9,430,391 | \$257,832 | 2.8 |
| Personnel-years..... | 256.6 | 258.9 | 2.3 | 0.9 |
| Investigative services..... | \$4,897,367 | \$5,276,046 | \$378,679 | 7.7 |
| Personnel-years..... | 163.5 | 168.7 | 5.2 | 3.2 |
| Identification and information..... | \$17,855,729 | \$19,533,273 | \$1,677,544 | 9.4 |
| Personnel-years..... | 1,045.5 | 1,084.7 | 39.2 | 3.7 |
| Organized crime and criminal intelligence..... | \$2,704,848 | \$3,053,741 | \$348,893 | 12.9 |
| Personnel-years..... | 98 | 109.5 | 11.5 | 11.7 |
| Crime prevention and control..... | \$460,997 | \$470,724 | \$9,727 | 2.1 |
| Personnel-years..... | 14.4 | 14.3 | -0.1 | -0.7 |
| Consolidated data center..... | \$10,642,806 | \$11,754,004 | \$1,111,198 | 10.4 |
| Personnel-years..... | 243.6 | 259.8 | 16.2 | 6.7 |
| Grant projects..... | \$3,691,032 | \$252,588 | \$-3,438,444 | -93.2 |
| Personnel-years..... | 182.2 | 5.7 | -176.5 | -96.9 |
| Legislative mandate ^b | \$72,000 | \$72,000 | - | - |
| Program totals..... | \$86,326,177 | \$89,003,934 | \$2,677,757 | 3.1% |
| Personnel-years..... | 3,119.6 | 3,068.8 | -50.8 | -1.6% |

^a Amounts in parentheses are distributed among other items and are so shown to avoid double counting.

^b Funds to pay the costs incurred by cities and counties for legislatively mandated record destruction of possession of marijuana files.

The decrease in reimbursements primarily reflects a reduction in federal grant project expenditures from \$3,691,032 in the current year to \$538,357 in the budget year. A significant program change also is reflected in the reimbursement item. The Parent Locator Service has been converted to a fully reimbursable program, totaling \$1,223,773 in the budget year. General Fund monies previously used to match the federal support for this program, have been transferred from the Department of Justice to the Department of Benefit Payments. The Department of Justice's grants, their sources, dollar amounts and number of positions are shown in Table 2. The major portion of these grants, as noted in Table 2, are reflected in the budget as reimbursements due to a statewide policy which reflects grants as reimbursements if they are first received by another state agency, such as the Employment Development Department in the case of Title II funds. None of the department's 1978-79 grants requires state matching funds.

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Table 2

Department of Justice Grant Projects
 Funded by Law Enforcement Assistance Administration (LEAA),
 the Office of Criminal Justice Planning (OCJP)
 and Employment Development Department (EDD)

| | <i>Amount</i> | <i>Positions</i> |
|---|------------------------|------------------|
| <i>Funded by LEAA</i> | | |
| Drug diversion investigation unit | \$194,908 | 5.0 |
| Computerized litigation support | 93,750 | 4.5 |
| Subtotal | \$288,658 | 9.5 ^b |
| <i>Funded by OCJP</i> | | |
| Automated fingerprint project | \$57,680 ^a | 0.7 |
| Subtotal | \$57,680 | 0.7 ^b |
| <i>Funded by EDD (Title II)</i> | | |
| Uninsured Employers Act | \$107,070 ^a | 3 |
| BCS program enhancements | 115,311 ^a | 3.5 |
| Soundex file purge | 38,691 ^a | 2.5 |
| Record folder file terminal digit | 219,605 ^a | 14.5 |
| Subtotal | \$480,677 | 23.5 |
| Grand total | \$827,015 | 33.7 |

^a Shown in Governor's Budget as reimbursements.

^b Existing positions carried forward to the budget year.

New Positions

The department proposes a total of 207.9 new positions as summarized in Table 3. These additions are partially offset by the deletion of 139.1 existing positions, shown in the budget as workload and administrative adjustments, resulting in a net augmentation of 68.8. Most of the deleted positions (90.3) are assigned to federally supported projects which terminate at the end of the current year. An additional 29 positions were deleted due to the consolidation of the Indemnification of Private Citizens Program (Items 398-399) under the Board of Control. Previously, the department provided investigative services to this program.

Table 3

Department of Justice
 Proposed New Positions

| <i>Program</i> | <i>Number of Professional and Technical Positions</i> | <i>Number of Clerical Positions</i> | <i>Personal Services Cost</i> | <i>Source of Funding</i> |
|------------------------------------|---|---|---------------------------------------|-------------------------------|
| Administration | | | | |
| Grants-indirect conversion..... | 6 | 5 | \$148,920 | General Fund |
| New line program support | 4 | - | 51,624 | General Fund |
| Training center ^a | 1 | 1.5 | 31,884 | General Fund |
| Division of civil law | | | | |
| General workload..... | 14 | 13.2 | 482,476 | General Fund Reimbursement |
| Title II—Uninsured Employer | | | | |
| Fund | 1.5 | 1.5 | 48,360 | Reimbursement (Federal) |

| | | | | |
|--|------|--------|--------------|--|
| Division of criminal law | | | | |
| Writs and appeals workload | 4.5 | 3.6 | 146,793 | General Fund |
| Trials workload | 1 | 0.8 | 32,619 | General Fund |
| Parent locator service | 3 | 7 | 103,836 | Reimbursements |
| Division of special operations | | | | |
| General workload..... | 2 | 3.6 | 82,408 | General Fund Reimbursements |
| Public resources workload | 1 | 0.8 | 32,619 | General Fund |
| State lands workload | 2 | 1.6 | 65,176 | General Fund |
| Investigative services branch | | | | |
| Crime laboratories workload..... | 6 | - | 125,856 | General Fund |
| Latent print workload..... | 1.5 | - | 28,638 | General Fund |
| Identification and information branch | | | | |
| Bureau of criminal statistics | 0.5 | 0.8 | 16,229 | General Fund |
| Title II—program enhancement | 3 | 0.5 | 62,190 | Reimbursement (Federal) |
| Bureau of identification | | | | |
| Automated fingerprint grant con- version..... | 11 | 2 | 245,568 | General Fund |
| General workload..... | 28.5 | 19.5 | 538,588 | General Fund Fingerprint Fees |
| Title II soundex purge and terminal digit filing..... | | 17 | 160,847 | Reimbursement (Federal) |
| Organized crime and criminal intelli- gence branch | | | | |
| Automated criminal intelligence file | 8 | 4 | 177,888 | General Fund |
| Consolidated data center | | | | |
| General workload..... | 1 | 3 | 49,891 | General Fund Motor Vehicle Account |
| Hardware acquisition | 20 | 3 | 257,340 | General Fund Motor Vehicle Account |
| Total proposed new positions | - | 207.9 | \$2,889,750 | |
| Subtotal (Title II positions see Table 2) | - | (23.5) | (\$271,397) | Reimbursement (Federal) |
| Workload and administrative adjust- ments..... | - | -139.1 | \$-2,769,190 | |
| Net addition in positions | - | 68.8 | \$120,560 | |

^a These new positions are financed by existing funds.

Marijuana Impact Legislation Needs Further Analysis

In the 1977-78 Analysis, we reported that a study jointly authored by the Departments of Health and Justice regarding the impact of revised penalties and recordkeeping requirements for possession of marijuana was not received in time for us to include our review in the budget analysis as required by Supplemental Language Report of the Committee on Conference. Unfortunately, the report's release date also precluded our issuing a supplemental analysis in time for budget hearings.

This study, *A First Report of the Impact of California's New Marijuana Law (SB 95)*, compared the state's experience with the new marijuana legislation in the first six months of 1976 with the comparable six-month period in 1975. Because of data limitations, it is difficult to draw substantive conclusions about the impact of these changes upon the criminal

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justice and drug rehabilitation systems. However, the data suggest that changes in penalties for the possession of small amounts of marijuana (one ounce or less) have not been a significant factor in the use of marijuana by California adults. In addition, data presented in the report indicate that there has been some nonfiscal "savings" to various components of the criminal justice system which has enabled them to redirect efforts away from marijuana-related activities to more pressing problems.

We believe that continued analysis of these data is appropriate in light of the significant change in policy direction represented by provisions of Chapter 248, Statutes of 1975, to reduce marijuana penalties and destroy prior criminal records. We therefore recommend, under Item 241, that the Departments of Health and Justice conduct a follow-up study of the impact of Chapter 248.

Reconciliation of Proposed New Positions and Personnel-Years

While the department proposes 207.9 new positions, actual personnel-year utilization decreases by 50.8 as reflected in Table 4. This difference is explained by the significant reductions in grant-supported personnel and administratively established positions plus higher salary savings in the budget year.

Table 4
Department of Justice
Reconciliation of Proposed
New Positions with Personnel-Years

| | 1977-78 | 1978-79 | Difference budget year/ current year |
|--|-------------------|---------|--|
| Total Authorized Positions | 3,138.2 | 3,138.2 | — |
| Less: | | | |
| Reduction in grants personnel | — | -90.3 | -90.3 |
| Reduction in terminated positions ^a | -29.8 | -29.8 | — |
| Reduction due to program changes..... | — | -19.0 | -19.0 |
| Reduction of administratively established positions (1977-78)..... | 96.4 | — | -96.4 |
| Increases: | | | |
| Proposed New Positions | 26.8 ^b | 207.9 | 181.1 |
| Salary Savings | -112.0 | -138.2 | -26.2 |
| Total budgeted (1977-78) proposed (1978-79) person- nel-years | 3,119.6 | 3,068.8 | -50.8 |
| Minus budgeted 1977-78 personnel-years..... | 3,119.6 | 3,119.6 | — |
| Net reductions in personnel-years | — | -50.8 | -50.8 |

^a Most of these positions were transferred to the Board of Control due to the consolidation of the Indemnification of Private Citizens Program.

^b Title II positions.

Questionable Use of Safety Retirement

We recommend legislation specifying Department of Justice positions which meet State Personnel Board requirements for "safety" membership in the Public Employees' Retirement System.

The members of the Public Employees' Retirement System (PERS) are divided into two basic categories (depending on the nature of their job

responsibilities) to which different benefit formulas apply. The largest category, designated the "miscellaneous" group, receives a retirement allowance equal to 50 percent of compensation at age 60 with 25 years of service (the 2 percent at age 60 formula). The remaining members comprise the "safety" category which (except for Highway Patrol officers) receives an allowance of 50 percent at age 55 with 25 years of service (the 2 percent at age 55 formula). Safety members are also entitled to special industrial death and disability benefits. The employer's retirement contribution rate is 14.59 percent of payroll for miscellaneous members and 20.07 percent for the safety members. The Department of Justice, because of its direct involvement in law enforcement activities, has a number of employees classified as safety members.

The Government Code specifies that all Department of Justice employees who are designated peace officers *and* performing investigative duties may be safety members of the retirement system. In a report to the Legislature dated March 15, 1975, the Personnel Board outlined its criteria for safety retirement participation. According to the board's findings, employment in public safety occupations requires that employees "serve in positions where response to emergency situations involving human life is a regular part of their job function. At any time these employees may be directed to place themselves into extremely hazardous situations in order to assure the protection of the public." On the basis of the Government Code provisions and Personnel Board findings, it appears that eligibility of Department of Justice employees for safety retirement benefits should be based on job responsibilities entailing regular investigative duties in hazardous situations.

A review of department personnel data indicates that twelve positions in the Division of Law Enforcement, including the Assistant Director of each of the division's five branches, have been placed in the safety retirement category. We do not believe it is appropriate to extend such benefits to these classifications, particularly to the heads of the department's computer center and identification and information function. We believe these positions fail to meet the combined test of the Government Code and State Personnel Board criteria.

Upon request, PERS will review a position and its duties and advise a department as to the appropriate retirement benefit category for that position. However, PERS is primarily an administrative agency which has no accurate means of auditing participants in the state safety retirement system. A department retains discretion within statutory constraints, regarding the classification of its employees in the various components of the state retirement system. The Government Code specifies state safety members, by position, for the Departments of the Youth Authority and Corrections. We believe a comparable articulation of legislative intent, by position, also is necessary for the Department of Justice because of the manner in which it has utilized its discretion on state safety retirement. Therefore, we recommend adoption of legislation specifying those department positions which meet the Personnel Board's safety membership requirements.

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Premature Automation of Criminal Intelligence Files

We recommend deletion of twelve new positions proposed for automation of the Organized Crime Branch's criminal intelligence file for a savings of \$257,053 (Item 42).

The Organized Crime and Criminal Intelligence Branch operates and maintains a Criminal Intelligence File for the storage and retrieval of intelligence data to aid in the suppression and eradication of organized crime. In a feasibility study dated April 29, 1977, (jointly authored by the department's Organized Crime and Criminal Intelligence Branch and the Law Enforcement Consolidated Data Center) the department proposed to convert the existing manual file to a sophisticated computerized system for the following reasons:

1. To meet required response times,
2. To provide required conversation and interactive capability,
3. To keep costs low, and
4. To maximize flexibility.

The department proposes to utilize twelve new positions (one associate government program analyst, four associate programmer analysts, two key data operators, three criminal intelligence specialist I's and two clerk II's) in the budget year to implement the automated criminal intelligence system and convert the existing manual file. The proposed system would be fully operational beginning in the 1980-81 fiscal year. The department estimates stabilized workload by the 1981-82 fiscal year.

We have several concerns with the proposed system. First, the project is based on the *assumption* that automating will allow the organized crime branch to do a better job, rather than on a demonstration that automation will produce certain results, such as more effective surveillance of organized crime figures.

Second, the proposed automation would result in the most complex computer analysis of data in the department because each data variable would be correlated with every other index. We do not believe that the department has effectively demonstrated that such computer sophistication is justified or that it is entirely feasible.

Third, ongoing operational costs are undetermined. Because of the planned conversion of existing computer hardware in the Law Enforcement Consolidated Data Center, this feasibility study has not been able to identify the hardware costs associated with this project. Recognizing the inherent margin for error in electronic data processing projects, and that this margin increases relative to the complexity of the project, we believe the ongoing operational cost could be far greater than currently anticipated.

Finally, the choice to automate the criminal intelligence file with the particular system proposed by the department rests, to a large extent, on what the department believes to be required response times. For example, the department estimates that a "field critical" situation requires a response in two to five minutes while "field interrogation" requires a response in two to four hours. When questioned regarding the derivation

of these requirements, the department indicated that these times were based on the assumptions of the organizational units within the Organized Crime and Criminal Intelligence Branch. The department indicated that field agencies were not accustomed to receiving the information that the department plans to provide, thus prohibiting any refined estimate of these requirements.

In light of the number of uncertainties accompanying this proposal we believe it is inappropriate to automate the manual system in the manner indicated by the department and recommend deletion of twelve new positions for a General Fund savings of \$257,053.

New Controlled Substance Reporting Staff Not Needed

We recommend deletion of 1.3 positions (0.5 research analyst II and 0.8 office assistant II) proposed for controlled substance seizures reporting for a General Fund savings of \$22,989 (Item 42).

Chapter 1134, Statutes of 1976 (effective January 1, 1977), requires each city, county, or state agency coming into possession of a controlled substance to report semiannually to the Attorney General regarding the amounts, kind, and disposition of these drugs. The Attorney General is required to issue an annual report to the Governor and Legislature correlating and summarizing these data. The law expires January 1, 1980.

The department proposes to add 1.3 positions in the budget year to comply with this mandate. However, the Bureau of Criminal Statistics has been able to absorb this workload in the current year and will be issuing its first report May 15, 1978. We believe these additional positions are unnecessary because (1) the department already has demonstrated its ability to compile this report with no increases in staff and (2) the reporting requirement is for a limited-term. We therefore recommend reduction of the 1.3 positions proposed to prepare the controlled substances seizure report for a savings of \$22,989.

Departmental Vehicle Purchase

We withhold recommendation on the replacement of seventy-four vehicles, at a cost totaling \$423,747, pending clarification of the department's vehicle usage policy.

The department proposes to purchase 74 vehicles at a cost totaling \$423,747 during the budget year as summarized in Table 5.

Table 5
Department of Justice
Vehicle Replacement 1978-79

| <i>Intended User</i> | <i>Number of Vehicles</i> | <i>Cost</i> |
|--|---------------------------|------------------|
| Attorney General..... | 1 | \$14,000 |
| Legal Office Pool..... | 1 | 5,000 |
| Chief, Program Services | 1 | 5,500 |
| Protective Services Unit | 2 | 9,500 |
| Special Agents | 54 | 306,500 |
| Laboratory Vehicle Pool | 6 | 30,000 |
| Chief, Bureau of Identification | 1 | 5,247 |
| Organized Crime and Criminal Intelligence Branch | 3 | 18,000 |
| Advanced Training Center | 5 | 30,000 |
| Total | 74 | \$423,747 |

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The Department of Justice assigns cars to all individuals who are subject to 24-hour call, such as special agents on field assignment. The central inventory records of state-owned vehicles maintained by the Department of General Services reveal that the Department of Justice had an inventory of 316 vehicles at the conclusion of calendar year 1976. Because the department employs approximately 184 special agents, it appears that approximately 132 vehicles are utilized by nonagent personnel. The Division of Law Enforcement, to which most of these vehicles are assigned, does not have a written departmental policy regarding vehicle utilization. We question the appropriateness of purchasing and replacing vehicles without a clear, written policy on their utilization.

Specifically, we have the following questions:

- Are departmental vehicles assigned to particular individuals? If so, how many of these vehicles are assigned to special agents including Advanced Training Center instructors? Which other employee positions qualify for vehicle assignment and on what basis?
- How many vehicles are utilized in departmental pools? Where are these pools located? What types of trips are authorized from the pool?
- Does the department utilize the Department of General Services vehicle pool? If so, to what extent?
- Under what conditions may a departmental employee drive a vehicle home?
- What size of vehicles, by number of cylinders, are included in the department's inventory?
- How many departmental vehicles carry undercover plates? What is the department's policy regarding utilization of these vehicles?

Pending receipt of data to answer these questions, we withhold recommendation on this item.

Inequitable Blood Alcohol Funding

We recommend (a) a reduction of \$1,315,374 (Item 45) in Motor Vehicle Account funding for the state blood alcohol program, and (b) legislation to continue this program only on a fee-for-service basis.

In 1972, the Department of Justice received a grant from the Office of Traffic Safety to establish a uniform blood alcohol testing program throughout the state. The project was initiated because of a lack of standardized testing methods to determine the alcoholic content of the blood of individuals believed to be driving while under the influence of alcohol. A person arrested for this offense has a choice of whether the alcohol test shall be of his blood, breath, or urine. District Attorneys, Chiefs of Police and Sheriffs were advised by the department in 1972 that there would be no charge for the department's blood alcohol testing and analysis services as long as federal funds were available, and that a charge system, based on actual costs, would be implemented if other funding methods could not

be established.

During consideration of the 1975-76 Governor's Budget the department proposed interim funding of the blood alcohol program from the Motor Vehicle Account, State Transportation Fund, because (1) federal support of the program was terminating, (2) the Governor had refused General Fund financing for continuation of the program, and (3) the Department of Justice needed time to seek legislation enabling it to charge a fee for service as recommended by the Department of Finance and our office. Funding from the Motor Vehicle Account was approved on that basis. However, since this time, the Department of Justice has been unsuccessful in establishing a fee-for-service charge, and the program continues to be funded from the Motor Vehicle Account.

The department's blood alcohol program primarily is designed to serve those counties which do not have their own crime laboratories. The following table summarizes counties which support their own crime laboratory facilities.

Table 6
County Operated Crime Laboratories

| <i>Counties</i> | <i>Population Served</i> |
|----------------------|--------------------------|
| Alameda | 1,101,100 |
| Contra Costa | 611,600 |
| Kern | 363,300 |
| Los Angeles | 7,034,700 |
| Orange | 1,799,700 |
| Sacramento | 721,500 |
| San Bernardino | 738,200 |
| San Diego | 1,679,000 |
| San Mateo | 588,400 |
| Santa Clara | 1,218,600 |
| Ventura | 468,900 |
| Total | 16,325,000 |

The county laboratories listed in Table 6 serve 74.6 percent of the state's 21,896,000 citizens. All of these laboratories are locally supported. However, residents of these counties are also contributing, through the Motor Vehicle Account, to the support of the state's blood alcohol program provided to other counties.

The Motor Vehicle Account, supported by registration, license and truck weight fees, has been increasingly burdened in recent years as we have noted in both our 1976-77 and 1977-78 Analyses. Current revenue forecasts show the account remaining solvent only through the next two to three years. The account is intended primarily to support the California Highway Patrol and Department of Motor Vehicles as well as to transfer surplus revenues to the State Highway Account for road construction, rehabilitation, and maintenance. In recent years, minimal funding has been available for transfer to the latter account.

We believe the state is faced with an inequitable funding arrangement for the blood alcohol program. The majority of the state's taxpayers are, in effect, supporting two blood alcohol testing programs—a local crime laboratory in their county plus a state program financed from the Motor

DEPARTMENT OF JUSTICE—Continued

Vehicle Account. The problem is compounded because the account is not able to fund its intended uses and is approaching insolvency. We believe it is inappropriate and inequitable to continue this funding arrangement.

A change in the state's blood alcohol program also is warranted because (1) testing standardization has been accomplished by strict licensing regulations implemented and administered by the Department of Health, and (2) the state's per unit costs of maintaining the program have continued to rise from \$10 in 1972 to an estimated \$24.13 for fiscal year 1978-79, placing additional pressure on the account.

Recognizing the inequities of the current blood-alcohol financing system, the tenuous condition of the Motor Vehicle Account, and the interim nature of this financing as originally proposed, we recommend that Department of Justice funding from the Motor Vehicle Account be reduced by \$1,315,374 (the proposed funding level for the state blood alcohol program). We further recommend legislation authorizing the department to charge user agencies fees to cover actual state costs for this program. Local governments currently derive revenue from drunk driving convictions which would more than offset these costs.

New Building Support Improperly Budgeted

We recommend deletion of \$145,975 (Item 42) proposed as a one-time increase for equipment and general expense items for the Phase I occupancy of the new Division of Law Enforcement building.

Double Budgeting. The department proposes a one-time increase of \$145,975 for various expenses associated with the anticipated Phase I occupancy of the new Department of Justice building during the summer of 1979. The department's Law Enforcement Consolidated Data Center will be occupying the building during Phase I with the remaining branches of the Division of Law Enforcement to move into the facility during Phase II. Most of the requested expenditures, totaling \$105,232, are construction-related, including cutting floor tiles for wire connections, acoustical wall coverings, conduit and wire, and are inappropriately included in the support item. We further believe that the Legislature's decision to appropriate funds for Phase I construction and site development of the new Department of Justice building under Item 389 (d) Budget Act of 1977, was with the understanding that the \$4,679,000 appropriation would provide adequate funds to construct a complete and usable facility. Because these moneys already have been appropriated, the requested construction-related expenditures are unnecessary. We therefore recommend deletion of \$105,232.

Capital Outlay Review. We further recommend that requests totaling \$12,214 which are nonconstruction-related but required for building occupancy, including furniture and telephone instruments, be shown as augmentations in Item 439 (c) (.1) entitled "Phase I equipment" in the capital outlay section of this analysis. We believe that budgeting of these expenses under the capital outlay item is essential to the Legislature's review of the total costs associated with this building. For this reason, we recommend \$12,214 be deleted from this item and transferred as an augmentation to

the capital outlay section, Item 439.

The department also requests \$2,429 to purchase general expense items such as chalkboards, towel racks, and an emergency kit. We believe these items can be absorbed in the department's budget and do not justify an augmentation. We therefore recommend a deletion of \$2,429 for general expenses.

Security Requirements. The department proposes a security-related expenditure of \$26,100 for three handi-talkies, a security card key system for the computer center, and an electric vehicle. We believe these expenditures are unwarranted for several reasons. First, the department has yet to develop an overall plan detailing the security requirements for the phased occupancy of the new building as well as the phased departure from the current Division of Law Enforcement facility. We believe that such a plan is essential to enable the Legislature to understand the personnel and equipment requirements of each phase and the proposed utilization of existing resources. Second, and closely related to our first concern, is the department's utilization of state police and security services. The department has hired its own security personnel at the Division of Law Enforcement since 1975 because of internal security requirements and its belief that such personnel are more cost-effective and responsive to the department. However, the department is still required to reimburse the state police \$55,700 annually for essentially duplicative services provided to the Division of Law Enforcement. We believe the department should clarify the intended utilization of state police services during all stages of occupancy of the new law enforcement building. Finally, we believe additional security measures for the computer center are unwarranted. The building is designed for limited employee and visitor access. Visitors are required to sign in, be escorted to their destination, and signed out. Following a background check, all departmental employees are issued badges and required to wear them at all times during working hours. In addition to these departmental measures, the computer center is served by a surveillance camera as well as a security man-trap door system. Given the high level of security measures protecting the computer center, we believe the additional card key system is unnecessary. We therefore recommend deletion of the proposed \$26,100 security-related expenditure.

Overbudgeting for Temporary Help

We recommend a reduction of \$13,000 (Item 42) in nonagent overtime and temporary help utilized to fund a special consultant to coordinate the new Division of Law Enforcement building.

Effective July 1, 1977, the department hired a retired departmental employee as a special consultant responsible for coordinating the new Division of Law Enforcement building project. This consultant is being paid \$13,000 for his services from sources identified in the following table.

The duties of the special consultant include coordination of the following activities for the new building: development of security systems and procedures, development of communication systems with the telephone company, renegotiation of leases on current facilities, and preparation of the contractual agreement to move equipment and personnel from existing facilities to the new building. We question the appropriateness of

DEPARTMENT OF JUSTICE—Continued

TABLE 7
Division of Law Enforcement
Nonagent Overtime/Temporary Help Contributions

| | | |
|---|-----------------|------------------|
| Executive | \$2,000 | (overtime) |
| Enforcement and Investigation Branch Executive | 1,000 | (temporary help) |
| Investigative Services Branch | 4,000 | (temporary help) |
| Bureau of Criminal Statistics | 3,000 | (overtime) |
| Fingerprint (Identification and Information Branch) | 1,000 | (overtime) |
| Data Center | <u>2,000</u> | (temporary help) |
| Total | <u>\$13,000</u> | |

hiring a special consultant when the department already reimburses the Department of General Services and Office of the State Architect for technical and coordination services relating to the new building. Moreover, the department has a "new building committee" which we believe can coordinate departmental liaison utilizing existing staff for the duration of the building project. We believe employment of a special consultant for this purpose represents overbudgeting of temporary help and nonagent overtime, and therefore recommend a reduction totaling \$13,000 from the respective sources outlined in Table 7.

TELECOMMUNICATIONS SYSTEM/COMPUTER UPGRADE

In accordance with Chapter 1595, Statutes of 1965, the Department of Justice maintains the California Law Enforcement Telecommunications System (CLETS). This system consists of a computer-based data communications network which provides local law enforcement agencies direct electronic access to specific Department of Justice and Department of Motor Vehicles information files. These files include data on criminal history, wanted persons, stolen vehicles, vehicle registration and driver licenses. The automated files maintained by the Department of Justice comprise the Criminal Justice Information System (CJIS). In addition to providing access to these files, CLETS also provides direct access to federal data bases through the National Crime Information Center, and to those of other states through the National Law Enforcement Telecommunications System. Currently, the six computers in the department's Law Enforcement Consolidated Data Center meet departmental administrative data processing requirements as well as CLETS requirements.

Faced with significant increases in message volumes through CLETS, and increases in the department's own use of electronic data processing, the data center has been working since 1975 toward complete replacement of its current computer systems. According to the department's current equipment procurement schedule, both equipment and computer program conversion costs will be incurred in the budget year and an additional \$566,823 is included in the budget for these purposes.

Lack of Competition

The procurement effort now in process at the Department of Justice is the first major computer acquisition project since creation of the Stephen P. Teale Consolidated Data Center in 1973. That procurement was controversial because many believed that competition had been limited unjustifiably. As a result, the Legislature adopted policy (expressed in Section 4 of the Budget Act) which emphasized the competitive acquisition of computing equipment.

Despite this policy, efforts by the Department of Justice to obtain competitive proposals have been unsuccessful and the incumbent equipment vendor, Univac, was the only vendor to submit a proposal. Certain management decisions made by department personnel and reflected in the Request for Proposal released by the department apparently were a contributing factor.

Demonstration of Equity

We recommend that the department demonstrate to the Legislature that any contract awarded Univac in the absence of competition contains equitable terms, conditions and prices.

The department and Univac have recently arrived at an agreement allowing the department to purchase much of the current installed computer equipment now being leased. Although this equipment will ultimately be replaced as a result of the current procurement effort, continued lease of the equipment until that time would cost significantly more than the purchase price. However, an independent attempt by the Department of Motor Vehicles (another large user of Univac equipment) to negotiate a similar arrangement has not been successful to date. Further, the State Data Processing Management Office in the Department of Finance has recently approved the replacement of the Board of Equalization's Univac computers with a more powerful Univac computer. This decision will limit competition to Univac and equipment brokers who market Univac computers, thus excluding potential competition from other major computer manufacturers. These examples and the current situation at the Department of Justice demonstrate the accrual of benefits to Univac resulting from that firm's incumbency and the state's apparent inability to attract competition for equipment replacement. Recognizing these benefits to Univac, we believe that the executive branch should secure commensurate benefits for the state. There does appear to be at least partial concurrence with this position, because the state data processing officer has indicated informally that the state will secure an equitable contract in the absence of competition.

Therefore, in the event the department awards a contract to Univac in the absence of any other proposal, the department should demonstrate conclusively that the final contract negotiated contains terms, conditions and prices comparable to the terms found in the most favorable contracts between Univac and other private or governmental entities.

Section 4 of the Budget Act requires that the fiscal committees and the Joint Budget Committee receive advance notification of intent to award a contract to a sole bidder which is also the incumbent vendor. We recom-

DEPARTMENT OF JUSTICE—Continued

mend that this notification include a demonstration that a contract awarded in the absence of competition is equitable from the state's perspective.

Consultant Contract Should be Terminated

We recommend that the current contract with Computer Deductions, Inc. be terminated effective June 30, 1978, for a savings of \$169,800. In support of this recommendation, we recommend the department be authorized to establish two senior systems software specialist positions, and that the budget be augmented \$55,000 for this purpose. Acceptance of these recommendations will enable a net budget reduction of \$114,800.

The department has maintained a contract with Computer Deductions, Inc. since 1971 for the purpose of providing continuous technical support to maintain CLETS and other systems. The initial contract for the 1971-72 fiscal year was in the amount of \$80,000. The amount for 1977-78 is \$146,500, and \$169,800 has been budgeted for 1978-79. In the 1975-76 Analysis we recommended that the department begin efforts to phase these consultants out in favor of state personnel, and we recommended an augmentation to enable establishment of three high-level state technical positions. This recommendation was withdrawn when it was indicated that even if the consultants were phased out of their current work activities they would probably be retained for other technical work. However, the Departments of General Services and Finance have also expressed their preference that the consultants be phased out. Despite these pressures, the department continues to contract with Computer Deductions and has announced its intention to continue contracting with the firm through the 1980-81 fiscal year, at which time the contract will supposedly be terminated.

We are concerned with the continuing contractual arrangement for a number of reasons:

1. As long as a contract remains in force there is the question of incentive for the department to develop and rely on its own internal expertise. The proposed budget does reflect one new position to begin a phase out of the consultants, but there is no offsetting reduction in the contract.
2. The consultants have been used for a number of activities which could have been assigned to state personnel.
3. The department has developed some internal expertise of its own which is in process of being expanded.
4. We do not understand how the department's stated objective of eliminating its reliance on Computer Deductions is going to be met by continually renewing its contract. The continued presence of the consultants constitutes an exception to normal civil service procedures and has morale implications with respect to data center employees.

A departmental memorandum dated February 13, 1975, reflects the concurrence of the data center director with our recommendation to replace the consultants and notes a lead time of approximately 18 to 24 months to accomplish the phase-out. Three years have elapsed since that

time. Now the Legislature is being asked to accept the department's contention that three more years are required. It appears that the department will continue to contract with Computer Deductions as long as funding is provided.

STATE CONTROLLER

Item 47-50 from the General Fund

Budget p. 61

| | |
|--|--------------|
| Requested 1978-79 | \$28,873,784 |
| Estimated 1977-78..... | 26,345,260 |
| Actual 1976-77 | 20,560,531 |
| Requested increase \$2,528,524 (9.6 percent) | |
| Total recommended reduction | \$938,845 |

1978-79 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|------------------|--|---------------------|
| 47 | State Controller | General | \$27,102,847 |
| 48 | State Controller | Motor Vehicle, Fuel Account and Transportation Tax | 1,454,832 |
| 49 | State Controller | State School Building Aid | 204,195 |
| 50 | State Controller | Aeronautics Account and State Transportation | 111,910 |
| | | | <u>\$28,873,784</u> |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Mandated Cost Audits. Reduce Item 47 by \$42,489.* Recommend deletion of two governmental auditor II positions. 67
2. *Medi-Cal Check Writing Procedures.* Withhold recommendation on Medi-Cal check writing activity pending resolution of contract award. 68
3. *Senior Citizens' Property Tax Postponement. Reduce Item 47 by \$24,100.* Recommend deletion of funds for toll-free telephone system for tax deferment information. 72
4. *Unclaimed Property Program. Reduce Item 47 by \$493,754.* Recommend deletion of 18 field audit and two clerical positions. 75
5. *Consolidated Data Center. Reduce Item 47 by \$336,000.* Recommend reduction of expense item for data center. 76
6. *Executive Secretary. Reduce Item 47 by \$42,502.* Recommend deletion of one exempt position for the Pooled Money Investment Board. 77

STATE CONTROLLER—Continued

GENERAL PROGRAM STATEMENT

The State Controller is the elected fiscal officer of the state. As such, he is the state's chief accounting and disbursing officer, and serves on several fiscally-oriented boards and commissions, including the State Board of Equalization, Franchise Tax Board, State Lands Commission, Pooled Money Investment Board, Board of Control and various bond finance committees.

The State Controller's office administers five major programs (see Table 1) through nine operating divisions. The office draws support primarily from the General Fund with the remainder coming from three special funds and reimbursements from other agencies.

ANALYSIS AND RECOMMENDATIONS

The State Controller has requested a 9.6 percent increase in General Fund support for the budget year and a net increase of 33.3 personnel years. Major changes in the budget are related to (1) the increase in reimbursed auditing activities, (2) short-term workload increases in inheritance and gift tax administration, (3) the Senior Citizens' Tax Postponement program, and (4) the growth of the Unclaimed Property program.

Table 1
State Controller
Program Summary

| Program | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 |
|---|-------------------|----------------------|---------------------|
| I. Fiscal control | \$13,347,404 | \$16,319,897 | \$16,585,686 |
| II. Tax administration | 4,316,115 | 5,234,431 | 5,495,867 |
| III. Local government fiscal affairs | 1,561,588 | 2,140,955 | 2,522,261 |
| IV. Personnel systems support | 1,678,388 | 2,472,076 | 3,051,544 |
| V. Unclaimed property | 1,196,044 | 2,867,187 | 3,498,511 |
| VI. Legislative mandates | 35,966,846 | 72,777,851 | 73,406,771 |
| Less: Amounts shown in other bud- gets | -35,966,846 | -72,777,851 | -73,406,771 |
| VII. Return of taxes, license, other fees | — | — | 30,000 |
| VIII. Administration | | | |
| Distributed to other programs | (738,178) | (829,393) | (825,054) |
| Undistributed | 431,070 | 506,358 | 741,158 |
| Totals, programs | \$22,530,609 | \$29,540,904 | \$31,925,027 |
| Reimbursements | -1,970,078 | -3,195,644 | -3,051,243 |
| Net totals, programs | \$20,560,531 | \$26,345,260 | \$28,873,784 |
| Personnel-years | 892 | 1,061.1 | 1,094.4 |

FISCAL CONTROL

The Fiscal Control program maintains a system of internal control over the state's financial transactions and reports on the state's financial condition and operations. The program is implemented through four divisions: accounting, audits, disbursements and personnel and payroll services. Staffing and expenditures for the Fiscal Control program are shown in Table 2.

Table 2
Fiscal Control Program Summary

| Program Elements | Personnel | | | Expenditures | | |
|---|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 |
| Accounting Division | | | | | | |
| Control accounting | 44.9 | 45.5 | 46.9 | \$1,068,091 | \$1,430,100 | \$1,466,940 |
| Financial analysis | 13.3 | 15.9 | 15.9 | 379,001 | 485,395 | 479,997 |
| Audits Division | | | | | | |
| Claim audits | 40.2 | 41.1 | 43.1 | 672,778 | 787,260 | 833,937 |
| Field audits | 71.1 | 85.7 | 89.5 | 1,900,627 | 2,548,466 | 2,692,459 |
| Disbursements Division | | | | | | |
| Disbursements services .. | 101.9 | 101.3 | 109.3 | 3,733,246 | 3,838,934 | 4,132,636 |
| Technical services | | | | | | |
| Distributed to other programs | 33 | 43.7 | 42.5 | (735,902) | (1,190,693) | 1,148,332 |
| Undistributed | | | | 33,253 | 32,842 | 33,581 |
| Personnel and Payroll Services Division | | | | | | |
| Personnel services | 134.2 | 134.8 | 121.9 | 4,142,495 | 4,345,980 | 3,907,383 |
| Payroll services | 93.2 | 121.0 | 109.3 | 1,417,913 | 2,850,920 | 3,038,753 |
| Total | 531.8 | 589.0 | 578.8 | \$13,347,404 | \$16,319,897 | \$16,585,686 |
| Reimbursements | | | | -1,738,603 | -2,128,092 | -2,216,205 |
| Other funds | | | | -222,944 | -243,490 | -274,409 |
| Net Total, Fiscal Control (General Fund) | | | | \$11,385,857 | \$13,948,315 | \$14,095,072 |

Accounting Division

The control accounting and financial analyses sections have requested minor increases for workload associated with mandated cost claims and the Local Agency Investment Fund. A total of 4.5 positions are requested, including one federally funded, one reimbursed from the Timber Tax program and 2.5 financed by the General Fund.

Audits Division

The Audits Division is requesting a total of 15 positions in the budget year. Two positions are proposed to upgrade the review process for the increasing number of claims submitted on electronic tape. Eleven positions are for field audit staff to be supported by reimbursements from the Water Resources Control Board, Airport Assistance, and the Health Department. Two positions are proposed for increased auditing of mandated cost claims.

Mandated Cost Audits

We recommend deletion of two governmental auditor II positions for a reduction of \$42,489 from Item 47.

The Audits Division presently reviews all local government claims for state mandated costs. One personnel-year has been allocated in the current year to perform audits specifically in the area of workers' compensation. Two additional positions are requested to expand audit coverage of workers' compensation mandated cost claims.

Table 3 shows the audit effort in this area since 1974-75. Audits made in 1974 identified claims for state mandated costs which had already been

STATE CONTROLLER—Continued

paid by state and federal funds. In 1975-76, legal counsel advised that the statutes as worded permitted duplicate payments of workers' compensation mandated costs. Chapter 528, Statutes of 1976, eliminated these problems and required reimbursements to be based on actual cost. No audits were performed in 1976-77 because of legal uncertainties.

Table 3
Audit Reports

| | Personnel- Years | Number of Agencies Audited | | | Special Districts | Total Claims Audited (State Expend- itures Audit) | Amount Of Claims Disallowed |
|------------------------|---------------------|-------------------------------|----------|-----|----------------------|--|-----------------------------------|
| | | Cities | Counties | | | | |
| 1974-75 Actual | .80 | 77 | 31 | 7 | \$732,511 | \$65,938 | |
| 1975-76 Actual | .24 | 1 | 1 | 1 | 165,692 | -50,045 ^a | |
| 1976-77 Actual | 0 | 0 | 0 | 0 | 0 | 0 | |
| 1977-78 Estimated..... | 1.00 | 0 | 31 | 100 | 2,000,000 | 100,000 | |
| 1978-79 Proposed | 3.00 | 100 | 27 | 200 | 6,000,000 | 300,000 | |

^a Claims allowed due to subsequent legal decision.

In 1977-78, one audit year is allocated to this area and the estimated workload is shown in Table 3. The Controller is requesting two additional audit personnel-years to extend the audit coverage to additional cities, counties and special districts (including school districts).

We question the need at this time for the two additional audit positions. The original problems in the area of workers' compensation were addressed by Chapter 528 and extensive audit coverage may not be necessary. In addition, results of the current year audits are not available to establish the need for increased audit activity. The information obtained in the current year should be evaluated before a tripling of the audit years is approved.

Disbursements

The state's bills are paid by the Controller through the Disbursements program element. Within the program, the Controller has two operating sections, disbursements services and technical services.

The disbursements services section has requested 10 new positions for the budget year: one clerical position to meet workload demands, three programmers to rewrite deficient computer programs and six positions relating to Medi-Cal check writing.

Medi-Cal Check Writing Procedures

We withhold recommendation of six new positions related to Medi-Cal check writing services pending resolution of contract award.

Check writing for Medi-Cal claims is currently done by a private firm under contract to the Department of Health. The department has issued a request for proposal seeking bids on a new Medi-Cal contract which would not provide for warrant writing. The department's plans call for the Controller to assume these duties beginning January 1, 1979. One programmer already has been added in the current year to begin preliminary

development work for the warrant writing activity under Medi-Cal. Five processing positions are requested in the budget year in addition to the continuing programmer. All positions except the programmer would be effective January 1, 1979, when the system is operative.

However, the status of the entire contract, as well as the involvement of the State Controller, is uncertain at this time. Thus, we withhold recommendation until additional information is available and the Legislature has had an opportunity to review the matter.

The technical services section of the Disbursements Division supplies reproduction and mail services, key entry computer services, EDP programming, and systems analyses to all divisions of the Controller's office. One position is requested in the budget year to assist the Accounting Division to develop an automation process for the Controller's annual report. Two positions are requested in the budget year to assist the Unclaimed Property program in the development of its on-line data base. Three positions are requested in the current and budget year for the development of programs related to the Senior Citizens' Property Tax Deferment program. All these positions are for limited terms.

Personnel and Payroll Services Division

The previously separate personnel and payroll production functions were consolidated in the past year into the Personnel and Payroll Services Division (PPSD). This was the first step in what the controller intends to be a gradual reorganization of personnel-related activities into two divisions—one which emphasizes production functions and another which emphasizes maintenance, modification and development functions. As part of this reorganization, the budget provides for the creation of the Personnel Systems Support Division which is discussed on page 72. In the budget year, the Personnel and Payroll Services Division will transfer 24 nonproduction positions to the new division.

The personnel systems element of this program maintains the employment history data base, which contains the personnel records of all state employees. This element has now had several years of operating experience and is achieving a stabilization of personnel needs and document workload.

The payroll services element continues to struggle with a deteriorating payroll system as it awaits the eventual conversion to the new third generation system. Completion once again has been postponed—this time to February 1979. Current personnel levels are to be maintained for the budget year as 11 current year limited term positions are proposed to be re-established on another limited term basis. Anticipated workload levels coupled with continued uncertainty of system conversion dates indicate this request is justified.

TAX ADMINISTRATION

The Tax Administration program is carried out through two operating divisions, the Inheritance and Gift Tax Division and the Tax Collection and Refund Division. Table 4 shows the program elements, personnel-years and expenditures for the Tax Administration program.

STATE CONTROLLER—Continued

Table 4
Tax Administration Program Summary

| Program Elements | Personnel-Years | | | Expenditures | | |
|---|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 |
| Inheritance and Gift Tax Division | | | | | | |
| a. Inheritance tax | 129.8 | 148.7 | 147.0 | \$2,973,694 | \$3,667,404 | \$3,891,049 |
| b. Gift tax | 20.2 | 26.7 | 26.5 | 475,864 | 559,235 | 601,243 |
| Tax Collection and Re- fund Division | | | | | | |
| a. Tax collection | 2.3 | 2.6 | 2.6 | 49,637 | 85,122 | 65,862 |
| b. Gas tax refund | 38.1 | 37.7 | 37.8 | 816,920 | 922,670 | 938,713 |
| Total, tax administra- tion | 190.4 | 215.7 | 213.9 | \$4,316,115 | \$5,234,431 | \$5,495,867 |
| Reimbursements | | | | -3,000 | -3,000 | -3,000 |
| Other | | | | -829,753 | -948,681 | -955,746 |
| Total, General Fund ... | | | | \$3,483,362 | \$4,282,750 | \$4,537,121 |

Inheritance Tax

The Inheritance Tax Division has experienced steady growth in normal workload in recent years. In addition, a large case of great complexity is currently in litigation. As a consequence, seven positions have been administratively added in the current year, primarily to resolve problems associated with this specific estate. Four of these positions would be continued in the budget year on a limited term basis due to the uncertainty of litigation proceedings. Although potential tax revenues at stake justify the augmentation of limited term funds, the Controller must identify any unspent funds resulting from early resolution of the case.

Three positions are requested to handle workload increases. Two of the positions are for the Los Angeles office and are the result of a study by the Controller's fiscal systems unit of the manpower and physical plant problems being experienced there. Lack of client privacy, excessive workload and low morale are to be addressed by redesigning the floor layout and by adding supervisory personnel for desk staff.

The third position would continue to provide temporary help in the Sacramento office until a definite staffing pattern for the future can be established.

Gift Tax

The budget for this activity proposes the continuation of four positions established in 1977-78 to process a one-time increase in workload resulting from a 1976 change in federal gift tax legislation. The actual backlog of unresolved filings is appreciably higher than estimated last year. The Controller must audit these filings within a four-year statutory period and has documented the fiscal effect of not continuing these positions. We anticipate that the staffing needs of the Gift Tax Division will decrease as the backlog is erased.

LOCAL GOVERNMENT FISCAL AFFAIRS

This program is responsible for (1) prescribing uniform accounting systems for counties and special districts, (2) reporting local government financial transactions, (3) reviewing and reporting the use of state gas tax funds, (4) prescribing procedures for and approving county cost allocation plans, and (5) prescribing procedures for tax collection and the sale of tax delinquent property. Table 5 shows the program elements for the Division of Local Government Fiscal Affairs.

Table 5
Local Government Fiscal Affairs

| Program Elements | Personnel-Years | | | Expenditures | | |
|--|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 |
| a. Financial reporting, budgeting and accounting..... | 23.8 | 27.7 | 33.7 | \$702,926 | \$781,287 | \$1,000,088 |
| b. Streets and roads..... | 20.5 | 25.1 | 25.4 | 544,693 | 703,819 | 776,882 |
| c. County cost plans..... | 5.4 | 8.7 | 8.3 | 129,624 | 234,012 | 222,108 |
| d. Tax-deeded land..... | 8.9 | 8.7 | 8.6 | 184,345 | 220,896 | 216,716 |
| e. Senior citizens' tax deferment .. | | 5.7 | 8.5 | — | 200,941 | 306,467 |
| Total | 58.6 | 75.9 | 84.5 | \$1,561,588 | \$2,140,955 | \$2,522,261 |
| Reimbursements.... | | | | -224,565 | -337,717 | -339,584 |
| Other funds..... | | | | -469,835 | -471,434 | -540,782 |
| Total General Fund, Local Government Fiscal Affairs .. | | | | \$867,188 | \$1,331,804 | \$1,641,895 |

Financial Reporting, Budgeting and Accounting

This element is responsible for collecting financial data, promoting uniformity of accounting systems in local governments, and reviewing budgetary information of counties. As Table 5 illustrates, the element is proposing 6 new positions in the budget year, a 40 percent increase over the 1976-77 staffing level. Two positions were administratively established in the current year and would be continued in 1978-79 for the audit of school district maximum tax rates. One clerical position is added to alleviate workload problems. Five limited term positions are added in the budget year to implement Chapter 928, Statutes of 1977, which requires the Controller to establish guideline and procedures for the reporting and publishing of state and local public retirement systems' financial statements. The supporting data on these positions indicate that the requests are justified.

STATE CONTROLLER—Continued**Streets and Roads**

The Streets and Roads element is responsible for auditing all of the gas tax funds apportioned to cities and counties of California to ensure compliance with the law. In addition, Cal Trans contracts with the Controller's office to perform audits on federal and state funded street and road projects. These audits have increased from 188 in 1976-77 to a projected 729 in 1978-79.

The budget proposes five positions to perform reimbursable audits of nontransit claims under the Transportation Development Act. Local transportation planning agencies contract with the Controller because he is familiar with the records and can perform the function in conjunction with current audits. This will result in lower costs.

County Cost Plans

In our 1977-78 Analysis we questioned the need to perform County cost plan field audits and suggested that a post expenditure review would be a better means of protecting the state's interests. Three limited term positions were approved last year to develop a county cost procedure manual and to increase the reviewing capability. These three positions are proposed to be continued through two more years. The Controller's office advises that the one year term is not sufficient to evaluate the merits of the auditing efforts. We agree with this assessment and will examine the results of the program during the interim.

Senior Citizens' Property Tax Postponement

We recommend that \$24,100 for a toll-free telephone system for tax deferment information be deleted for a reduction in Item 47 of \$24,100.

This element implements Chapter 1242, Statutes of 1977, which provides for the postponement of property taxes on owner-occupied principal places of residence for persons who are 62 years of age or older. Program expenditures amounting to \$306,467 are proposed within the Controller's budget. The administration of this program, including the details of our recommendation, is discussed under Item 402.

PERSONNEL SYSTEMS SUPPORT

In 1973, the Legislature approved the Personnel Information Management System (PIMS) Project to administer the design and development of a computer based personnel and payroll information system. The PIMS project was a joint effort of the State Personnel Board, State Controller's office, Public Employees' Retirement System (PERS) and the California State University and Colleges, with policy guidance and program direction provided by a steering committee representing these agencies.

With the scheduled implementation in the budget year of the last major subsystem, basic payroll, the emphasis will change to development of programs for improved user agency utilization. The Controller has recognized the change of direction by creating the new Personnel Systems Support Division composed of development personnel originally from PIMS and the Personnel and Payroll Division.

Table 6 shows the personnel and expenditures for the program elements which are within the Personnel Systems Support Division.

Table 6
Personnel Systems Support Division

| <i>Program Elements</i> | <i>Personnel-Years</i> | | | <i>Expenditures</i> | | |
|---|---------------------------|------------------------------|------------------------------|---------------------------|------------------------------|------------------------------|
| | <i>Actual 1976-77</i> | <i>Estimated 1977-78</i> | <i>Projected 1978-79</i> | <i>Actual 1976-77</i> | <i>Estimated 1977-78</i> | <i>Projected 1978-79</i> |
| Payroll development..... | 31.7 | 37.3 | 37.3 | \$1,083,797 | \$1,290,654 | \$1,350,699 |
| PERS support | 9.3 | 10.3 | — | 301,312 | 322,591 | — |
| Employment history de- velopment | 11.0 | 17.8 | 15.4 | 293,279 | 858,831 | 742,150 |
| PPSD support | — | — | 34.3 | — | — | 958,695 |
| Total | 52.0 | 65.4 | 87.0 | \$1,678,388 | \$2,472,076 | \$3,051,544 |

As Table 6 shows, the division has been divided into three sections, one to continue the development of payroll systems; the second to continue expansion of the employment history data base and the third to provide adjustment and maintenance functions to the production element of PPSD.

The payroll development unit is preparing for implementation of the basic payroll subsystem in February 1979.

The Employment History subsystem has been operational for several years and is producing benefits to user agencies. The development work for the Employment History subsystem has faced constraints because of its secondary importance in relation to the still unfinished payroll system. Now that the payroll system is nearing completion, development of the information system becomes more appropriate. Six limited term positions are terminating at the end of the current year and four new positions are proposed. Of these, three positions are requested to develop basic modifications recommended by the Department of Finance and user agencies. The fourth position, a staff service analyst, is added to perform general administrative tasks for the entire division, allowing management to concentrate on the program elements.

PPSD Support

This element will be established in the budget year. It will be staffed by 24 positions from the Personnel and Payroll Systems Division and 10.3 positions from the former PERS support program. This action will place in one management unit all EDP activities required to maintain the effectiveness of production activities.

UNCLAIMED PROPERTY

This program has custody of property of heirs or owners and provides revenue to the General Fund from property which remains unclaimed. It is operated through the Unclaimed Property Division for which Table 7 summarizes activity.

STATE CONTROLLER—Continued

Table 7
Unclaimed Property Program

| Program Elements | Personnel-Years | | | Expenditures | | |
|-------------------------------------|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 |
| a. Abandoned property | 39 | 92 | 103.4 | \$1,112,884 | \$2,790,436 | \$3,418,707 |
| b. Estates of deceased persons..... | 4.2 | 3.2 | 3.2 | 83,160 | 76,751 | 79,804 |
| Total, unclaimed property | 43.2 | 95.2 | 106.6 | \$1,196,044 | \$2,867,187 | \$3,408,707 |

The Unclaimed Property Division was created in February 1975, reflecting the high priority of the State Controller for enforcement of the Unclaimed Property Law. Under this law, property held by an individual or organization which has not been claimed by the legal owner within a statutory period must be delivered to the state. The state maintains an account for each owner of unclaimed property. The state may liquidate noncash items and credit the owner's account for the net proceeds. Any owner is entitled to a refund of his property, and in some cases, the state must pay interest.

Unclaimed property includes savings accounts, checking accounts, stocks, bonds, dividends, insurance proceeds, credit balances on department store accounts, money orders, gift certificates, unpaid wages and unpaid vendor claims. All cash collected and proceeds of property liquidations are deposited in the General Fund.

Until the current year the budget growth of the division had largely reflected the increased level of enforcement and of changes in law.

Recently the division submitted a Section 28 augmentation request of \$713,778 which proposed 18 new field audit staff and 19 new office operations staff positions.

We recommended the augmentation (approximately \$450,000) for the office staff and expenses to handle a substantial backlog of cases. We recommended against the increase in field audit capability. Our concern with the field audit expansion reflected three major issues: (1) validity of revenue projections, (2) impact of legislative changes, and (3) alternative compliance methods.

For the budget year, the Controller is proposing a total increase of 50 positions including those proposed in the Section 28 request. This includes 20 office staff positions, and 30 field audit staff, composed of 27 auditors and 3 clerical positions.

Having previously recommended approval of the additional office staff, we support its continuation on a limited term basis. We believe this increase is justified because of (1) the unexpected rise in the number of new accounts during the last two reporting periods and (2) the lack of management information reporting capability. We anticipate that as these positions help reduce the backlog and develop the information system, a potential exists for some reduction in staffing.

Program Expansion Not Justified

We recommend deletion of 20 personnel-years in the Unclaimed Property program, 18 auditors and two clerical, for a reduction of \$493,754 (Item 47).

The Controller is presently authorized 17 field audit positions and is requesting 27 more in the budget year, plus 3 clerical positions. The audit staff request represents a 150 percent increase in the audit personnel-years, and we have not received supporting data regarding expected audit results which would justify an increase of this magnitude.

Our concerns involve three major issues which have not been adequately addressed.

Validity of Revenue Projections. Table 8 shows the increase in total receipts and General Fund revenues collected over the last five years. The State Controller advises that the 1978-79 budget figures are inaccurate and that new figures are not available at this time. "Total Receipts Collected" represents the amount transferred from holders to the state pursuant to the Unclaimed Property Law. "Total Revenue Transferred to General Fund" represents the amount remaining after extensive advertising and subsequent recovery by legal owners.

Table 8

| | 1974-75 | 1975-76 | 1976-77 | Estimated 1977-78 |
|---|-------------|-----------|--------------|----------------------|
| Total receipts collected | \$3,825,000 | 6,850,218 | \$15,861,926 | \$19,000,000 |
| Total revenue transferred to General Fund..... | 3,297,000 | 6,102,814 | 15,021,871 | 17,072,000 |

The division has estimated that by June 1981, with the requested level of auditors, total receipts should be in the neighborhood of \$40 million. No data have been submitted supporting this revenue projection, nor has information been provided as to the assumptions on which it is based.

Impact of Legislation. We believe that the following statutory changes are largely responsible for the recent growth in both revenues and compliance:

(1) Chapter 578, Statutes of 1975, changed the reporting time from 15 to 7 years for demand deposits and corporate shares (revenue impact: 1976-77).

(2) Chapter 25, Statutes of 1975, changed the reporting time from 15 to 7 years for travelers checks (revenue impact: 1976-77).

(3) Chapter 1214, Statutes of 1976, changed the reporting time from 15 to 7 years for savings and matured time deposits (revenue impact: 1977-78).

(4) Chapter 49, Statutes of 1976, creates a delinquent holder penalty of 12 percent (revenue impact: 1977-78).

(5) Chapter 582, Statutes of 1976, repealed the public utility exemption (revenue impact: 1978-79).

Shortening the reporting time from 15 to 7 years has created a one-time revenue bulge which distorts the revenue figures for the current and budget years. A 12 percent delinquent penalty against property holders may have encouraged more timely remittances. These changes suggest

STATE CONTROLLER—Continued

that revenue growth in the program is not solely the result of auditing efforts.

Alternative Compliance Methods. Before an audit expansion is undertaken, we think it appropriate that an analysis be made of how auditors have been utilized and how they might be used in the future. Additional legislation, simpler reporting procedures, selective audit and litigation strategies could result in increased compliance without a major staffing increase. These approaches to achieve better compliance should be addressed before the audit program is expanded.

Nine Additional Auditors Justified

For the above reasons given, we believe it inadvisable to increase the audit staff 150 percent by adding 27 new auditors in the budget year. Some expansion is appropriate and our recommended reduction of 20 positions would allow an increase of nine auditor positions and one clerical position.

The rate at which collections of unclaimed property has accelerated in the past two years suggests that a substantial amount of such property remains unreported. There is no basis, however, for estimating its magnitude. Accordingly, we suggest that an increase of nine audit positions, or 50 percent of the existing staff would be a reasonable expansion of this program. After the results of this higher level of auditing effort have been documented and analyzed, a reevaluation can be made.

ADMINISTRATION

The Administration program provides executive direction, policy guidance, management and support services to the operating divisions. Table 9 shows the resources used in departmental administration.

Table 9
Administration Program Summary

| Program Elements | Personnel-Years | | | Expenditure | | |
|---|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 | Actual 1976-77 | Estimated 1977-78 | Proposed 1978-79 |
| a. Executive office | 17 | 19 | 19.9 | \$634,522 | \$669,439 | \$732,431 |
| b. Administrative serv- ices..... | 22.2 | 28.6 | 31.9 | 534,726 | 666,312 | 833,781 |
| Total administrative..... | 39.2 | 47.6 | 51.8 | \$1,169,248 | \$1,335,751 | \$1,566,212 |
| Total, amounts charged to other programs.. | -23.2 | -27.7 | -28.2 | -738,178 | -829,393 | -825,054 |
| Net total, administra- tion | 16 | 19 | 23.6 | \$431,070 | \$506,358 | \$741,158 |

Overestimated Teale Cost Increase

We recommend a reduction of \$336,000 from consolidated data center expenses.

The Controller's budget for data processing services from the Teale Data Center was based on a projected 10 percent increase in rate. The Teale Center now advises there will be no increase in rates for the budget year and the budget should therefore be reduced by \$336,000.

New Exempt position not justified

We recommend deletion of one exempt position—an executive secretary for the Pooled Money Investment Board—a reduction of \$42,502 in Item 47.

The Controller is requesting an exempt position at salary level V to be the Executive Secretary of the Pooled Money Investment Board. The Controller claims the position is needed to “meet both the expanding scope of the issues before the PMIB and the desires of the board members to have a highly qualified individual available for the development and presentation of innovative policies.”

We question the need for this position because of the availability of expertise in the current staff.

The state has developed a wealth of professional expertise to satisfy the staff support needs of the PMIB. There are three major support areas necessary to the functioning of the Pooled Money Investment Account: investment services, accounting services and cash management forecasting. The State Treasurer provides investment services. The State Controller provides accounting services. The Department of Finance provides cash management forecasting services. There is no apparent need for additional staff support in any of these areas. Furthermore, there is no evidence that interdepartmental coordination or communication is inadequate.

STATE BOARD OF EQUALIZATION

Items 51-55 from various funds

Budget p. 75

| | |
|--|--------------|
| Requested 1978-79 | \$55,956,384 |
| Estimated 1977-78..... | 52,768,546 |
| Actual 1976-77 | 46,390,768 |
| Requested increase \$3,187,838 (6.0 percent) | |
| Total recommended reduction | \$45,560 |

1978-79 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|-----------------------------|--|---------------------|
| 51 | State Board of Equalization | General | \$52,349,231 |
| 52 | State Board of Equalization | Energy Resources Conservation and Development Special Account, General | 38,296 |
| 53 | State Board of Equalization | Motor Vehicle Fuel Account, Transportation Tax | 2,595,980 |
| 54 | State Board of Equalization | State Emergency Telephone Account, General | 48,971 |
| 55 | State Board of Equalization | Timber Tax | 923,906 |
| | | | <u>\$55,956,384</u> |

STATE BOARD OF EQUALIZATION—Continued

| | <i>Analysis page</i> |
|--|--------------------------|
| SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS | |
| 1. Property Tax Trending. Recommend legislation to eliminate requirement that board prepare annual estimate of change in value of assessable property for determining assessment ratios. | 88 |
| 2. Property Tax Trending. Further recommend board develop specific proposals for such legislation by September 1, 1978. | 88 |
| 3. <i>Property Tax Trending. Reduce Item 51 by \$45,560.</i> Recommend deletion of two research positions requested to improve reliability of trending model. | 91 |

GENERAL PROGRAM STATEMENT

The Board of Equalization, which is the largest tax collection agency in California, consists of five members. Four are elected from geographic districts, and the fifth is the State Controller, who serves ex-officio. All members of the board serve four-year terms and are elected at each gubernatorial election. The chairman of the board is selected by the members annually. The chairman automatically serves as a member of the Franchise Tax Board, which administers the personal income and bank and corporation franchise taxes.

Responsibilities of the Board

The main responsibility of the board is administering six major state and local taxes. Administration of these taxes involves registration of taxpayers, processing tax returns, auditing accounts, and collecting taxes receivable. The board's tax collection and other responsibilities are discussed briefly below.

Administration of State and Local Taxes. The primary function of the board is to administer and collect the states' 4¾ percent sales and use tax, the local 1¼ percent sales and use tax, and a ½ percent sales and use tax for the San Francisco Bay Area Rapid Transit District and the Santa Clara County Transit District. The board is either responsible or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax), and (5) the insurance tax. The board also administers the private car tax (imposed on privately owned railroad cars), a surcharge on the consumption of electricity, and beginning January 1, 1978, an annual assessment on sellers of tangible personal property, which will be used to fund programs authorized under the Litter Control, Recycling and Recovery Act of 1977.

Local Property Tax Equalization. The board surveys the operation of county assessors' offices, issues rules governing assessment practices, trains property appraisers, and provides technical assistance and handbooks to county assessors' staff.

Assessment of Public Utilities. The board determines the value of public utilities' property and allocates assessed values to each local taxing jurisdiction in which such property is located.

Review of Appeals from Other Governmental Programs. The board hears appeals by taxpayers and property tax assistance claimants from decisions of the Franchise Tax Board. In addition, hearings are also provided to review local assessments of property owned by a city or county, when these assessments are contested.

Taxation of Timber. The board collects a 6 percent yield tax on all timber imposed at the time of harvest, semi-annually develops tables of timber value to be used in determining the taxable value of cut timber for yield tax purposes, and periodically audits timber owners to ensure payment of the tax. Additionally, the board, starting in 1980-81, will annually develop schedules of timberland values to be certified to each county assessor.

Revenues Administered by the Board

Table 1 summarizes estimated state and local revenue collections from programs administered by the board, for the current and budget years. Total estimated revenues of \$8.8 billion represent a growth of 9.3 percent over the 8.0 billion estimated for 1977-78.

Table 1
Estimated State and Local Tax,
Surcharge and Assessment Revenues Collected by
the Board of Equalization
(Millions of dollars)

| | <i>Revenues</i> | | <i>Percentage Change</i> | |
|---|-----------------|----------------|--------------------------|----------------|
| | <i>1977-78</i> | <i>1978-79</i> | <i>1977-78</i> | <i>1978-79</i> |
| State sales and use tax..... | 5,020.0 | 5,515.3 | 16.4% | 9.9% |
| Local sales and use tax | 1,320.0 | 1,450.0 | 16.2 | 9.8 |
| Litter assessment | 1.0 | 24.9 | — | 2,490.0 |
| Alcoholic beverage tax and fees..... | 131.0 | 135.0 | 4.4 | 3.1 |
| Cigarette tax | 275.2 | 282.32 | 2.2 | 2.6 |
| Motor vehicle fuel license tax..... | 783.0 | 809.0 | 4.6 | 3.3 |
| Use fuel tax | 65.7 | 71.2 | 6.7 | 8.4 |
| Energy resources surcharge | 17.7 | 20.8 | 26.4 | 17.5 |
| Emergency telephone users surcharge | 15.0 | 15.0 | — | — |
| Insurance tax | 391.0 | 447.0 | 21.2 | 14.3 |
| Timber yield tax..... | 28.6 | 28.6 | — | — |
| Totals | \$8,048.2 | \$8,799.1 | 15.1% | 9.3% |

ANALYSIS AND RECOMMENDATIONS

The responsibilities of the board are divided among 14 administrative programs. Table 2 provides a breakdown by program of authorized personnel-years and expenditures. As shown in this table, staff of the board currently numbers 2,539.5 personnel-years and the budget request is for an additional 133 personnel-years (+5.2%). Total proposed expenditures from state funds is almost \$56 million in 1978-79, an increase of 6.0 percent over the current year.

STATE BOARD OF EQUALIZATION—Continued

Table 2
Board of Equalization
Authorized Personnel-Years and Expenditures by Program

| | <i>Personnel-Years</i> | | | <i>Expenditures</i> | <i>Percent Change in Expenditures</i> |
|--|--------------------------|--------------------------|-------------------------|--------------------------|---------------------------------------|
| | <i>Estimated 1977-78</i> | <i>Requested 1978-79</i> | <i>Requested Change</i> | <i>Requested 1978-79</i> | |
| 1. Local property tax equalization..... | 165.4 | 168.4 | 3.0 | \$5,497,165 | 3.9% |
| 2. State assessed property | 95.9 | 95.9 | — | 2,765,968 | 3.1 |
| 3. Timber tax..... | 37.9 | 33.9 | -4.0 | 923,906 | -3.5 |
| 4. Sales and use tax | 2,056 | 2,126.7 | 70.7 | 53,201,946 | 5.8 |
| 5. Litter assessment | — | 64.3 | 64.3 | 990,546 | — |
| 6. Alcoholic beverage tax..... | 30.9 | 30.9 | — | 702,658 | 3.1 |
| 7. Cigarette tax | 14.1 | 14.1 | — | 1,205,262 | 10.4 |
| 8. Motor vehicle fuel license tax | 14.2 | 14.2 | — | 367,384 | 1.8 |
| 9. Use fuel tax | 96 | 96 | — | 2,228,596 | 1.8 |
| 10. Energy resources surcharge | 1.6 | 1.6 | — | 38,296 | 2.3 |
| 11. Emergency telephone users surcharge | 2.7 | 2.7 | — | 48,971 | 2.4 |
| 12. Insurance tax | 4.1 | 4.1 | — | 130,065 | 3.1 |
| 13. Appeals from other governmental programs | 12.7 | 12.7 | — | 422,502 | 3.1 |
| 14. Administration (undistributed) | 8 | 7 | -1 | 166,604 | -48.3 |
| 15. Total | 2,539.5 | 2,672.5 | 133 | \$68,680,869 | 6.1% |
| 16. Reimbursements | — | — | — | -12,724,485 | 6.4 |
| 17. Total from state funds | | | | \$55,956,384 | 6.0% |

SALES AND USE TAX PROGRAM

We recommend approval of 30 sales tax field auditor positions and 3 headquarters support positions proposed to maintain the existing level of audit coverage.

The board has requested \$53.2 million to administer the sales tax program in 1978-79. Of this amount, \$24.5 million or 46.1 percent of total expenditures is proposed for auditing accounts of business firms subject to the sales and use tax.

Thirty new field audit positions are requested for 1978-79 to maintain the same coverage of accounts authorized for 1977-78. Table 3 shows for the period 1974-75 through 1976-77 the actual number of accounts audited by level of audit productivity, and the percentage of the total number of eligible accounts audited. Estimates for the current year are also shown in the table.

Table 3 shows that about 28 percent to 30 percent of all large firms (most productive accounts) doing business in California are audited and that about 9 percent of the moderately productive accounts (e.g., grocery stores, auto repair shops, office equipment suppliers, and home furnishers with annual taxable sales below \$400,000) are audited every year. Slightly productive accounts consist primarily of small and large firms which usually have a single line of goods, simple inventory procedures, and have few sales which involve the more complicated applications of the sales tax law. Moderately productive and slightly productive accounts are selected for audit by district offices on the basis of prior audit productivity, leads developed by audit and compliance personnel in the course of operations, and industry type where there is reason to suspect widespread noncompliance because of law changes or other factors.

Table 3
Sales Tax Audit Coverage
1974-75 through 1977-78

| Type of Account ^a | 1974-75 | | | 1975-76 | | | 1976-77 | | | 1977-78 | | |
|-------------------------------------|---------------------------------|------------------|---------|---------------------------------|------------------|---------|---------------------------------|------------------|---------|---------------------------------|-------------------------------|---------|
| | Number of Accounts ^b | Accounts Audited | Percent | Number of Accounts ^b | Accounts Audited | Percent | Number of Accounts ^b | Accounts Audited | Percent | Number of Accounts ^b | Accounts Audited ^c | Percent |
| In State Accounts | | | | | | | | | | | | |
| Most productive | 14,611 | 4,120 | 28.2% | 14,559 | 4,352 | 29.9% | 14,352 | 4,294 | 29.9% | 15,247 | 4,320 | 28.3% |
| Moderately productive | 99,592 | 9,187 | 9.2 | 107,122 | 9,575 | 8.9 | 109,196 | 9,571 | 8.8 | 109,547 | 9,569 | 8.7 |
| Slightly productive..... | 194,770 | 2,399 | 1.2 | 202,702 | 2,485 | 1.2 | 208,571 | 2,369 | 1.1 | 223,683 | 2,448 | 1.1 |
| Totals, in state accounts | 308,973 | 15,706 | 5.1% | 324,383 | 16,412 | 5.1% | 332,119 | 16,234 | 4.9% | 348,477 | 16,337 | 4.7% |
| Totals, out-of-state accounts | 12,830 | 1,397 | 10.9 | 13,185 | 1,807 | 13.7 | 13,068 | 1,645 | 12.6 | 13,226 | 1,707 | 12.9 |
| Totals, all accounts.. | 321,803 | 17,103 | 5.3% | 337,568 | 18,219 | 5.4% | 345,187 | 17,879 | 5.2% | 361,703 | 18,044 | 5.0% |

^a Productivity of accounts is determined by level of retail sales, type of business, and the audit yield from prior year audits.

^b Accounts becoming eligible for audit in current year and subsequent two years.

^c Estimated.

STATE BOARD OF EQUALIZATION—Continued

The board's workload request is based on an estimated 3.7 percent increase in the number of accounts contained in its three-year eligible list for 1978-79. This list is composed of all accounts having a reporting history of two years or more, so the increase in accounts on this list is not attributable to expected registrations of new taxpayers. Audit coverage has traditionally been defined as the percentage of accounts on this list which are audited in a single year, and budget requests for staff to maintain audit coverage are normally based on the existing level of coverage. The boards' request is based on an estimated coverage rate for 1977-78 of 5.1 percent, although more recent data indicate the board will actually achieve a 5.0 percent rate, as shown in Table 3.

Declines in the annual rate of audit coverage have occurred regularly in the past 10 years, even with staff augmentations intended to maintain the existing levels. (This is largely the result of unanticipated increases in the average number of hours required to complete an audit, which is caused by turnover within the audit staff, the increasing complexity of business operations, changes in tax laws and other factors). Of more interest than the decline in the overall rate, however, are the changes in the rates of coverage by type of account. Table 3 shows that for 1976-77, the rate of coverage for the most productive in-state accounts was 29.9 percent, while for 1977-78 this rate is expected to be 28.3 percent. There is expected to be little change in the rates of coverage for moderately and slightly productive accounts, indicating that the overall decline in coverage of in-state accounts is attributable to the decline in coverage of the most productive accounts. Also, for the same period there is expected to be an increase in coverage of the out-of-state accounts.

We believe that the board should re-examine its procedures for allocating manpower to audit categories to see whether such changes in the relative rates of coverage between in- and out-of-state districts, and between types of accounts in general, have detracted from the rate of audit recovery.

Study of Sales Tax Audit Selection System Completed

In the Analysis for 1976-77, we recommended that the board undertake a comprehensive internal study toward the end of developing recommendations which could result in significant cost savings and/or an improved level of service. Four major topics were identified in the analysis as deserving particular attention. The Legislature approved this recommendation and, in the Supplement to the Budget Bill, directed the board to submit a plan outlining the scope, organization, and time schedule for the study. Because of funding limitations, the board sought and obtained legislative approval to perform the four elements of the study in phases, rather than concurrently as originally proposed. The first phase of the study, focusing on the sales tax audit selection system, was submitted to the Legislature in August 1977.

In general, the study team found that the existing sales tax audit selection system is valid and should be continued. Some areas where the potential for improvement may exist were identified, based upon a questionnaire completed by the principal auditors from each district, and the board intends to pursue the investigation of these topics as time per-

The board's report on the audit study contains three principal recommendations:

- 1) A feedback system for sharing audit experience among districts should be initiated.
- 2) A study of the industry coding structure should be undertaken, and
- 3) A statistical analysis of the relationship between total sales, exempt transactions and audit productivity should be completed.

Our review of the report indicates that the board's effort on this study was somewhat less than comprehensive. The report fails to address several topics identified in the study plan which was approved by the board and submitted to the Legislature, and is in fact more a report on the history of the present system than an evaluation of that system. It does not appear that any areas where the potential for improvements in productivity actually exist were identified in conjunction with this study.

Sales Tax Compliance Program

This program consists of the registration of taxpayers, filing enforcement, and collection of delinquent sales taxes. Table 4 shows the total staff and expenditure requirements proposed in the budget year.

Table 4
Board of Equalization
Sales Tax Compliance Program

| | <i>Personnel-Years</i> | | | <i>Proposed Expenditures</i> |
|---------------------------------|------------------------|----------------|----------------|------------------------------|
| | <i>1976-77</i> | <i>1977-78</i> | <i>1978-79</i> | <i>1978-79</i> |
| Registration | 459 | 468 | 482 | \$10,434,054 |
| Return Processing | 407 | 409 | 427 | 12,209,049 |
| Delinquent Tax Collection | 262 | 260 | 270 | 6,032,475 |
| Totals | 1,128 | 1,137 | 1,179 | \$28,675,578 |

Increased Registration Workload

We recommend approval of fourteen positions requested for district registration of new sales tax permits, and \$133,907 for computer equipment to process the increased workloads.

Table 5 shows the relevant workload indicators used to develop budget requirements in the registration program.

Table 5
Sales Tax Compliance Program
Taxpayer Registration

| | <i>Sales Tax Permits in Force</i> | <i>New Accounts</i> | <i>New Accounts Per Personnel Year^a</i> | <i>Required Personnel Years</i> |
|--------------------------|-----------------------------------|---------------------|--|---------------------------------|
| 1973-74 | 449,000 | 122,000 | 280 | 435 |
| 1974-75 | 527,000 | 133,000 | 310 | 429 |
| 1975-76 | 559,000 | 152,000 | 343 | 443 |
| 1976-77 | 587,000 | 157,000 | 336 | 460 |
| 1977-78 (Estimate) | 615,000 | 162,000 | 346 | 468 |
| 1978-79 (Estimate) | 668,000 | 167,000 | 346 | 482 |

^a Standard includes distribution of administrative overhead to this program element.

STATE BOARD OF EQUALIZATION—Continued

Growth in the number of new accounts is projected for budget purposes at 3 percent over 1977-78, which is consistent with the annual increases experienced subsequent to fiscal year 1975-76. Registration workload includes the processing of new accounts, closeout and revocation activities, and changes in registration due to mergers and outright sales of a business. Productivity levels in this area have experienced no significant change since the 1975-76 fiscal year, and the budget requests indicate that this is expected to be the case for the budget year. The board expects that some improvement in productivity should be forthcoming when the new video accounts reference system becomes fully operational in 1980. The \$133,907 requested for computer equipment reflects planned-for expansion to accommodate workload growth and provide additional capabilities in the accounts reference system.

Sales Tax Return Processing Workload Up

We recommend approval of 18 positions requested to process an anticipated increase in sales tax return workload.

The expected increase in tax return workload is based on continued growth in the number of sales tax permits outstanding and existing productivity standards. In accordance with the 1976-77 legislative recommendations, the board is currently engaged in a study of the return processing function which may produce recommendations for improving productivity levels in several areas. Among the topics to be studied are (1) the feasibility of instituting a computerized math verification program, as recommended in our 1977-78 analysis, (2) computerized billing of taxes due, (3) use of microfilm storage facilities for taxpayer files, and (4) analysis of reporting forms and input billing documents.

New Department of Motor Vehicles (DMV) Use Tax Collection Procedure

We recommend approval of two positions to process workload associated with the new DMV use tax collection procedure.

Effective November 15, 1976, use taxes on purchases of used vehicles collected by DMV at the time of registration are based on purchase prices declared by the registrant, rather than on the Vehicle License Fee Chart. This change in method of calculation has increased actual revenue collections dramatically but it has also increased the potential for error due to the self-assessment feature of the procedure. Workload associated with the new procedure consists of the receipt and review of purchase price documentations by the board's Occasional Sales Unit. This request provides two positions to sort the documentations by vehicle make and model year. This activity facilitates review of those vehicle categories which experience shows tend to have the greatest probability of error in self-assessed tax.

Table 6
Sales Tax Compliance Program
Delinquent Accounts Receivable
(Dollar Amounts in Millions)

| | <u>Beginning Inventory</u> | | <u>Additions to Inventory</u> | | <u>Clearances</u> | | <u>Ending Inventory</u> | |
|-------------------------|-----------------------------|---|-------------------------------|---|----------------------------|--|----------------------------|---|
| | <i>Numbers of Items</i> | <i>Value of Delinquent Accounts</i> | <i>Number of Items</i> | <i>Value of Delinquent Accounts</i> | <i>Number of Items</i> | <i>Value of Cleared Accounts</i> | <i>Number of Items</i> | <i>Value of Delinquent Accounts</i> |
| 1973-74..... | 21,550 | \$22.5 | 58,576 | \$37.5 | 57,099 | \$34.3 | 23,027 | \$25.6 |
| 1974-75..... | 23,027 | 25.6 | 62,493 | 49.8 | 60,678 | 43.6 | 24,842 | 31.8 |
| 1975-76..... | 24,842 | 31.8 | 62,489 | 49.0 | 60,186 | 38.2 | 27,145 | 42.6 |
| 1976-77..... | 27,145 | 42.6 | 68,637 | 57.5 | 66,198 | 50.9 | 35,455 | 49.1 |
| 1977-78 (Estimate)..... | 29,584 | 49.1 | 72,069 | 60.3 | 66,198 | 50.9 | 35,455 | 58.6 |
| 1978-79 (Estimate)..... | 35,455 | 58.6 | 75,672 | 63.3 | 70,858 | 57.1 | 40,269 | 64.8 |

STATE BOARD OF EQUALIZATION—Continued**Sales and Use Tax Account Delinquencies on the Rise**

We recommend approval of 10 positions requested to increase the amount of delinquent taxes receivable collected.

Table 6 summarizes the relevant factors contributing to the increase in number and value of delinquent accounts.

As indicated by these data, the board has not been able to keep pace with the number of returns becoming delinquent each year, resulting in an increase in the inventory of delinquent items. The number of new delinquencies occurring has been increasing at an average of 5.7 percent per year, a trend which the board expects to continue at only a slightly lower level in the budget year.

Litter Assessment Program

We recommend approval of 64.3 positions requested to staff the new Litter Assessment program established by Chapter 1161, Statutes of 1977.

Chapter 1161 enacted the Litter Control, Recycling and Resource Recovery Act which provides for a comprehensive litter control and waste removal program and the development of operational projects for the recovery of energy and resources from solid waste. To provide funding for this program, an annual assessment is imposed on each person holding a seller's permit under the Sales and Use Tax Law and every manufacturer or wholesaler making in-state sales of tangible personal property. Collection of this assessment is the responsibility of the board and involves the following activities:

(1) *Registration of Taxpayers.* The board must establish an account for each taxpayer, maintain the account on a current basis, and close it out when the business terminates. This activity is currently performed by the board in conjunction with Sales and Use Tax accounts, and the population of taxpayers is essentially the same in both programs. The board has requested additional funding for the close-out activity, and for registration of temporary accounts. Taxpayers must pay their assessment for the current year at the time of close-out, and the board estimates that overall the additional time required to explain and process this final assessment will be about 20 minutes for each account to be closed out. Based on experience in the sales tax program, some 105,000 accounts will be closed out in the budget year, indicating that an additional 19.5 direct personnel years is required for this activity. Temporary accounts (e.g., PTA's and church clubs), will be assessed at the time of registration. The board estimates that 10 minutes of clerical time will be required to register each of the 12,000 temporary accounts expected in the budget year. Without the benefit of any experience in the Litter Assessment program, it is difficult to evaluate the board's estimate of the time required to process the registrations and close-outs. However, we would expect that as taxpayers become familiar with the program it will be possible to handle temporary registrations and close-outs in much less time, resulting in significantly lower expenditures for this activity.

(2) *Processing Annual Assessments.* Annual assessments for calendar

year 1978 will become due in January of 1979. The board must process the self-assessment forms, prepare billings or refunds where errors are detected by the return review unit, and generate delinquency notices for mailing to those taxpayers who fail to file an annual assessment form. This processing is the same as that performed on sales and use tax returns, but the board has decided not to attempt a consolidation of the programs primarily because of the potential for disrupting the timely receipt and processing of the sales and use tax returns. Our review of the problems associated with the implementation of this program indicates that consolidation, at least initially, would in fact be likely to have adverse effects upon the time required to process sales tax returns and lead to the loss of interest income from the delayed deposit of revenues. However, at such time as the board and the taxpayers become accustomed to the program, there may be the potential for savings through such consolidation. The board has requested 29.4 positions for this activity.

(3) *Auditing Accounts.* These audits will be made in conjunction with audits of sales and use tax accounts, beginning in March of 1979. The board's request for three field auditors and support is based on the assumption that an additional 15 minutes per audit will be required to verify the accuracy of the taxpayer's reported liability. Some problems exist in conjunction with this activity because it is not clear how the board will determine the average annual number of employees used for purposes of establishing liability under the manufacturer-wholesaler categories of assessment. Until such time as an acceptable methodology is established, it is not possible to determine the actual resource requirements for this activity. The board is currently seeking passage of legislation to resolve certain ambiguities in this law, and to provide funding for current year costs of this program. We suggest that it would be appropriate to incorporate in this legislation a simplified definition of the number of employees criterion as well.

(4) *Collecting Assessments Receivable.* This activity consists primarily of the collection of delinquent assessments, and workload is directly related to the number of taxpayers failing to file a return. Field compliance personnel will be responsible for contacting any sales tax permit holders who do not respond to a headquarters-generated delinquency notice, and for locating other business entities who may have a liability under the Litter Act.

Table 7 summarizes the board's proposed allocation of personnel and expenditures by activity for the budget year.

During 1977-78 and 1978-79 temporary funding for this program is proposed to come from a General Fund loan which would be repaid from the State Litter Control, Recycling and Resource Recovery Fund upon passage of the previously mentioned legislation. The board estimates that revenues collected for this fund during 1978-79 will total approximately \$24.9 million, but because the majority of these funds will not be collected until early 1979, they will not be available to pay the initial costs of the collection effort. Due to the uncertain nature of program costs, program activities during the budget year will be carefully monitored by this office to determine the program's ongoing funding requirements.

STATE BOARD OF EQUALIZATION—Continued

Table 7
State Board of Equalization
Litter Assessment Program Administrative Costs

| | <i>Proposed Positions</i> | <i>Expenditures 1978-79</i> |
|----------------------------------|-------------------------------|---------------------------------|
| <i>Personal Services</i> | | |
| I. Registration..... | 21.0 | \$192,486 |
| II. Processing assessments..... | 21.1 | 201,104 |
| III. Auditing accounts..... | 5.0 | 39,864 |
| IV. Collecting assessments..... | 7.0 | 73,806 |
| V. EDP services..... | 10.2 | 151,065 |
| Total personal services..... | 64.3 | \$658,325 |
| Salary savings..... | -2.5 | -32,916 |
| Staff benefits..... | — | 150,098 |
| Net personal services..... | 61.8 | \$775,507 |
| Operating expenses and equipment | | |
| Travel..... | | \$1,829 |
| Printing and postage..... | | 105,000 |
| Data processing operations..... | | 30,659 |
| Other..... | | 77,551 |
| Total, operating expense..... | | \$215,039 |
| TOTAL REQUEST..... | | \$990,546 ^a |

^a Includes \$127,489 identified by the board as limited term cost.

LOCAL PROPERTY TAX EQUALIZATION

We recommend legislation to eliminate the requirement that the board prepare an annual estimate of the change in total full value of locally assessable property for purposes of determining the annual assessment ratios.

We further recommend that the State Board of Equalization submit a report to the Legislature by September 1, 1978 developing specific proposals for such legislation with a plan for implementation.

This legislation would specify that county assessment ratios developed on the basis of the triennial survey would serve as the annual assessment ratio until replaced by assessment ratios developed in a subsequent triennial survey.

The Division of Intercounty Equalization is responsible for appraising a *sample* of properties in each county every three years to determine if overall values in one county are equivalent to values determined for similar properties in other counties. Resulting findings of underassessment or overassessment are "equalized" by computing an "assessment ratio" for each county which reflects the difference between the assessor's determination of value and the board's sample values. These ratios, when compared to the statewide average assessment ratio for all counties, become the so-called "Collier factors" which are used to distribute uniformly \$1.4 billion in school equalization aid and almost \$600 million in county contributions to the state Medi-Cal and adult welfare programs. This magnitude of expenditures demonstrates the importance these ratios have in the distribution of state and local funds among counties. To the extent that

ratios established by the board become unreliable, the equity of the distribution of intergovernmental payments becomes adversely affected.

In the three years between physical appraisals the board's estimate of the full cash value of all locally assessed property, as determined by the physical appraisal, is adjusted by a process referred to as "trending" to reflect changes in property values. The trending formula assumes that changes in property values are directly related to changes in retail sales, school attendance, and wages in employment covered by unemployment insurance. These three factors are specified in the statute requiring annual reestimation of assessment ratios.

We believe that in the foreseeable future trending will consistently lead to a significant overestimation of the correct assessment ratio (that is, the ratio of assessed value to full cash value). This will have adverse effects upon the equitable distribution of intergovernmental transfer payments. There has never been any *causal* relationship between the trending variables and property values in general, but because the results of the trending method corresponded reasonably to actual growth in property values in past years, this method has adequately served the purposes for which it was intended. In recent years, however, the trending equation has been able to predict only a portion of the growth in property values because property values have been growing at significantly higher rates than any of the variables used in the trending equation. By understating the actual growth in property values, the trending formula tends to overstate the actual assessment ratio. Conclusions drawn from them, therefore, are consistently biased in a way that suggests county assessors are improving their ability to capture the annual increases in value (and in some cases even valuing properties in excess of market value).

As an indication of the extent to which the method produces erroneous estimates of the change in county values, the board has reported that 10 counties in 1975, 14 counties in 1976 and 10 counties in 1977 were valuing properties (in total) in excess of market value (assessment ratios in excess of 25 percent). These reports are of questionable reliability—particularly when one considers the rapid increases in market values over the last three years.

Table 8 summarizes the findings of the Intercounty Equalization Survey team for each of the last four survey years (the "actual" ratio) in relation to the trended (or "predicted") ratios in effect for the surveyed counties during the survey year. These data indicate that the difference between surveyed and trended ratios (the "trend gap") has exhibited steady growth in each of the last four survey years. The table also shows that for the 1973-74 and 1976-77 surveys, where the surveyed counties are identical, the actual mean assessment ratio, as measured by the survey, declined by 1.8 points while the trended mean ratio increased by 3.2 points over the previous survey value.

STATE BOARD OF EQUALIZATION—Continued

Table 8
Comparison of Survey and Trended Ratios for
Counties Surveyed During Fiscal Years 1973-74 Through 1976-77

| <i>Survey Year</i> | <i>Mean Trended Ratio</i> | <i>Mean Survey Ratio</i> | <i>Mean Trend Gap</i> |
|--------------------|-----------------------------------|----------------------------------|-------------------------------|
| 1973-74..... | 24.4 | 23.6 | 0.8 |
| 1974-75..... | 24.6 | 21.8 | 2.8 |
| 1975-76..... | 25.6 | 22.0 | 3.6 |
| 1976-77..... | 26.8 | 21.8 | 5.0 |

The upward bias inherent in the trending formula is further evidenced by the fact that, over the last three survey years, 44 of the 58 counties experienced a decline in their ratios, as measured by the survey. However, for only one of those counties did the trending formula produce a ratio lower than that of the previous survey. For this reason, we do not believe the problems associated with the trending method can be attributed to the application of a trend factor in the third year of the process. While application of the factor in the third year contributes more to the inaccuracy of the predicted ratios than it does in the first or second year factors, the fact that trending is unable to predict declines in ratio values (in any year) is evidence that the method is not reliable. Each of the last three surveys (1974-75 through 1976-77) has found a mean assessment ratio which is less than that reported for those same counties in the previous survey three years earlier. However, the mean trended ratios have been moving in the opposite direction, and the magnitude of the change has been substantially greater.

As these trend gaps have increased, so also has the potential for adverse effects on the equitable distribution of intergovernmental payments. For example, the mean 5.0 percentage point trend gap for all counties surveyed in 1976-77 resulted in an understatement of their full cash value of 18.7 percent, while for 1975-76 and 1974-75 the trend gaps caused an understatement of 13.8 percent and 11.4 percent, respectively. Although the impact of these results is mitigated somewhat by the averaging processes used in development of the Collier factors, the magnitude of understatement is still significant. Because greater understatements of value give correspondingly greater advantage in the allocation of intergovernmental payments, and because in recent years the trend has been towards greater understatements of value, we suspect that serious distortions in these allocations are taking place.

Our review of the available data indicates that there are no indicators which will accurately explain short-term movements in property values for each county. It also has shown that the use of trended ratios has resulted in greater deviations between board-estimated full values and actual survey values than would have been the case if the survey ratios had simply been held constant and applied in the subsequent two years (rather than trended). For example, the 18.7 percent underestimation of value mentioned above for 1976-77 would have been 7.5 percent if the

survey values were held constant, while for 1975-76 and 1974-75 the figures would have been reduced to 4.0 percent and 4.2 percent, respectively. We believe these differences are significant enough to warrant abandonment of the trending method.

The only real disadvantage associated with not trending the survey values is that it does not provide for adjustments during the intervening years in counties where significant improvements (or deteriorations) in valuation procedures take place between survey years. This is not a disadvantage relative to the trending procedure, since trending provides upward adjustments for all counties regardless of effort, but it is a disadvantage in terms of the period of time for which the ratio is demonstrably incorrect. There may be a potential for adjusting the ratios in the years between surveys, perhaps using sales ratio data or other relevant information. We believe that the board should give consideration to such a mechanism in developing a plan for implementation of the new procedure.

Sample Selection and Trending Responsibilities Transferred

We recommend deletion of two research positions requested to improve the reliability of the trending model for a reduction of \$45,560 (Item 51).

In accordance with a 1977-78 legislative recommendation, the board has transferred the sampling and trending responsibilities from the Property Tax Department back to the Administration Division. One of the reasons for this recommendation was that this two-month workload was easily absorbed by the larger Statistical Research and Consulting Division, whereas the smaller Property Tax Statistical Services Unit was unable to divert extra staff to the task as required. Review of the Consulting Division's staffing and workload indicates that no additional positions will be required, even if a decision is made to devote staff to a study of the trending model.

Appraisal Workload Increases

We recommend approval of one position requested to process increased workloads associated with petroleum and mining properties.

Board appraisers estimate the market values of approximately 5,300 individual properties each year. These appraisals form the basis for the board's determination of the full cash value of locally assessable property, and for this reason maintaining confidence in their validity is of great importance. We have frequently recommended augmentation of this program in past years, and although consistently approved by the Legislature, such augmentations have been disapproved by the Governor. Augmentations have been recommended previously due to a decline in the number of sample parcels appraised by the Division of Intercounty Equalization from 5,620 parcels in 1966-67 to 5,273 in 1975-76, while state expenditures allocated on the basis of these appraised values increased from \$420 million to \$1.9 billion in the same period. Table 9 summarizes the board's workload data for this program.

STATE BOARD OF EQUALIZATION—Continued

Table 9
Properties Sampled by Division of
Intercounty Equalization

| | <i>Sampled Properties</i> | | <i>Appraisal Personnel Hours Per Sampled Property</i> | |
|------------------------|-------------------------------|----------------------------------|---|---------------------------------------|
| | <i>Three-Year Average</i> | <i>Per 1,000 Assessments</i> | <i>Total</i> | <i>Direct as Percent of Total</i> |
| 1966-67..... | 5,618 | 2.27 | 20.8 | 59.1% |
| 1967-68..... | 5,550 | 2.25 | 22.7 | 57.3 |
| 1968-69..... | 5,362 | 2.15 | 23.9 | 57.3 |
| 1969-70..... | 5,179 | 2.07 | 24.3 | 55.2 |
| 1970-71..... | 5,115 | 2.02 | 23.8 | 56.2 |
| 1971-72..... | 5,186 | 2.03 | 24.0 | 55.9 |
| 1972-73..... | 5,308 | 2.04 | 23.9 | 54.6 |
| 1973-74..... | 5,287 | 1.99 | 24.9 | 56.3 |
| 1974-75..... | 5,293 | 1.94 | 23.8 | 55.7 |
| 1975-76..... | 5,273 | 1.93 | 24.9 | 55.9 |
| 1976-77..... | 5,331 | 1.91 | 26.5 | 54.7 |
| 1977-78 estimated..... | 5,375 | 1.90 | 26.6 | 54.5 |

Analysis of the board's workload data indicates that the decreases in sample size have occurred for two reasons. The Office of Appraisal Appeals (OAA), created in 1966, is an intermediate appellate agency for reviewing board appraisals contested by county assessors. Documentation of board findings necessary to defend the board appraisals has resulted in the loss of significant amounts of direct field appraisal time, with a corresponding decrease in the number of parcels the division is able to appraise. The presence of the OAA guarantees county assessors the right to contest appraisals, but because of the limited sample size it also offers the assessor the opportunity to affect the ultimate ratio value significantly.

Contributing also to the decline in sample size is the necessity for reallocation of appraisal time from smaller more easily appraised parcels to the larger more complicated properties. The board's request for one appraiser position is intended to address this problem partially in terms of the increased appraisal workload in the area of petroleum and mining properties.

Sample Verification of Homeowners' Property Tax Exemption Claims

We have recommended under Item 405, which provides funding for the homeowners' property tax exemption, that the Board of Equalization assume primary responsibility for a review of the feasibility, cost, procedures and potential benefits of verifying eligibility with respect to a limited sample of current claims for the homeowners' exemption. This review would be conducted with the assistance, as necessary, of the Franchise Tax Board and the State Controller, with the findings to be reported to the Joint Legislative Budget Committee by June 1, 1978. The details of this recommendation are included in our analysis of Item 405.

TIMBER TAX PROGRAM

The board has requested \$923,906 to administer this program in 1978-79, a reduction of \$33,505 from the estimate of the amount to be expended in the current year. This results from the expiration of four limited-term data processing positions used to prepare EDP programs for cashiering and accounting of tax receipts and receivables, and to develop programs to accumulate quarterly harvest data.

Little data are yet available on which an evaluation of ongoing program requirements can be made. Program elements not fully operational at this time include the development of schedules of land value and the auditing of yield tax accounts. As more experience with these activities is accumulated in the next two years, funding requirements and the potential for cost savings will be more easily determined.

SECRETARY OF STATE

Items 56-59 from the General Fund

Budget p. 97

| | |
|--|-------------|
| Requested 1978-79 | \$8,848,647 |
| Estimated 1977-78..... | 8,974,627 |
| Actual 1976-77 | 6,418,510 |
| Requested decrease \$125,980 (1.4 percent) | |
| Total recommended reduction | \$263,953 |

1978-79 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|--------------------------------|---------|--------------------|
| 56 | Secretary of State Operations | General | \$5,829,732 |
| 57 | Printing Ballot Measures | General | 1,742,200 |
| 58 | Subvention to Local Government | General | 212,762 |
| 59 | Subvention to Local Government | General | 1,063,953 |
| | | | <u>\$8,848,647</u> |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Voter Outreach. Reduce Item 59 by \$263,953.* Recommend amount to reimburse local costs be reduced to reflect more current estimate of expenditures. 95
2. *Protection of Rare Documents.* Recommend examination of level of protection afforded rare state documents. 95

GENERAL PROGRAM STATEMENT

The Secretary of State is a constitutional officer. In addition to performing numerous duties prescribed in the Constitution, the secretary has statutory responsibility with regard to the filing of specified corporate-related documents and financing statements, statewide elections, notaries public, and the state archival function.

SECRETARY OF STATE—Continued**CORPORATE FILINGS**

Attorneys and document examiners on the staff of the Secretary of State examine articles of incorporation and related documents which establish, revise, or dissolve corporate entities and attest to their compliance with the appropriate statutes before accepting them for formal filing. Information regarding corporate officers and corporate addresses is also maintained as required by law.

ELECTIONS

Responsibilities in the area of elections include overseeing and coordinating statewide election activities, the production of various statistical reports required by the Elections Code, the preparation of the state ballot pamphlet, the compilation of a semiofficial and official canvass of election results, and membership on the Commission on Voting Machines and Vote Tabulating Devices.

UNIFORM COMMERCIAL CODE

Under the Uniform Commercial Code, Uniform Federal Tax Lien Registration Act and the Government Code, the Secretary of State is required to accept for filing as a public record financing statements which assure security interests in personal property.

NOTARY PUBLIC

The office has responsibility for the appointment of notaries public, including the issuance of original certificates and renewals. It also provides verification of the authenticity of notary signatures upon request from the public and can revoke appointments.

ARCHIVES

The Chief of Archives collects, catalogs, indexes and preserves historic and otherwise valuable papers and artifacts. These documents are by law received from both state and local government. Reference services are provided for the public. Advice and direction is received from the California Heritage Preservation Commission and the Secretary of State serves as its secretary.

ANALYSIS AND RECOMMENDATIONS

The proposed budget of \$8,848,647 represents a decrease of \$125,980 or 1.4 percent from current year expenditure estimates. In addition to support for ongoing programs, the budget includes \$1,742,200 in Item 57 for printing the state voter pamphlet for the November 1978, general election. This is the same amount budgeted for the June 1978, primary election in the current year. The budget also includes \$212,762 in Item 58 to reimburse local government to cover administrative costs when candidates for public office submit signatures in lieu of filing fees. Item 59 is a new item which makes \$1,063,953 available for reimbursing net local government costs resulting from Chapter 704, Statutes of 1975, which authorized voter registration by mail. According to the Governor's Budget, the same amount will be expended in the current year with part of the funding provided by an Emergency Fund allocation of \$571,568.

The proposed budget also includes \$393,609 for the notary public program to respond to Chapter 1009, Statutes of 1977, which requires that an applicant for a notary public commission be fingerprinted. This new requirement accounts for \$375,036 of the additional amount requested for this program. This added cost will be offset by fee increases authorized by Chapter 1009.

Reimbursement of Local Costs

We recommend that Item 59 be reduced \$263,953 to reflect a more current estimate of expenditures for the voter outreach program.

Chapter 704, Statutes of 1975, requires counties to implement programs for identifying and registering persons eligible to vote (known as "voter outreach"), thus imposing a cost on counties. Chapter 704 states that it is the Legislature's intent that local governments be reimbursed for any net costs associated with the implementation of the new voter registration law. Accordingly, current year and budget year reimbursements will be necessary. Although the budget estimates these expenditures at \$1,063,953, a recent recalculation of anticipated county costs by the Secretary of State indicates that only \$800,000 will be required in the budget year, thus enabling a reduction of \$263,953.

Ballot Pamphlets

The proposed budget contains \$1,742,200 in Item 57 for the printing of the state's voter pamphlet. The actual amount required may be significantly less depending upon the extent to which counties take advantage of a new law (Chapter 520, Statutes of 1977) authorizing counties to mail one pamphlet to each household instead of to each registered voter.

Protection of Rare Documents

We recommend that the California Heritage Preservation Commission examine the current level of protection afforded rare documents in the state archives.

Presently, valuable and rare state documents in the state archives are housed in a state building located at 1020 O Street. Although the most valuable documents, including the State Constitution and early Spanish censuses, are contained in a large, relatively secure walk-in vault, space limitations have caused other rare documents to be located elsewhere in the building. The building is old and in recent years leaks caused by heavy rains have damaged rare documents. Further, even in the vault, which sometimes remains open during business hours, smoke detection, fire suppression and environmental conditions do not appear to be adequate.

The California Heritage Preservation Commission is responsible for advising the Secretary of State on the preservation of archival documents. We believe it would be appropriate for the commission to evaluate the protection afforded valuable documents and present its findings to the Secretary of State.

**COMMISSION ON VOTING MACHINES
AND VOTE TABULATING DEVICES**

Item 60 from the General Fund

Budget p. 106

| | |
|-----------------------------------|----------|
| Requested 1978-79 | \$21,000 |
| Estimated 1977-78..... | 21,000 |
| Actual 1976-77 | None |
| Requested increase—None | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

The Commission on Voting Machines and Vote Tabulating Devices consists of the Governor, Secretary of State and Attorney General. The Governor is its chairman and the Secretary of State acts as its secretary. The law authorizes commissioners to appoint alternates.

The commission is responsible for approving or denying the use of new machines or devices, and is empowered to employ expert electronic technicians to assist it in these determinations.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The commission's request is for \$21,000, the same expenditure level as for 1977-78. Although \$43,337 was appropriated in 1977-78, only \$21,000 was expended and the balance will revert to the General Fund.

This reduction results from the commission's decision to eliminate the 1.5 positions authorized for the current year because of insufficient workload. Instead, the commission has budgeted for consultant services on an "as needed" basis.

STATE TREASURER

Item 61 from the General Fund

Budget p. 107

| | |
|--|-------------|
| Requested 1978-79 | \$2,168,945 |
| Estimated 1977-78..... | 2,022,300 |
| Actual 1976-77 | 1,582,215 |
| Requested increase \$146,645 (7.2 percent) | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

The State Treasurer has the following responsibilities:

- (1) Provide custody of all money and securities belonging to or held in trust by the state;
- (2) Invest temporarily idle state and other designated funds;
- (3) Pay warrants and checks drawn by the State Controller;
- (4) Prepare, sell and redeem general obligation bonds;

- (5) Prevent the issuance of unsound securities by irrigation, water storage and certain other districts.

These responsibilities are met through the six program elements shown in Table 1.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Treasurer's office is requesting a budget of \$2,168,945 which is a 7.2 percent increase over the authorized total of the current year. The Treasurer has administratively established four positions in the current year and is requesting an additional 10 positions in the budget year for a net increase of 14 personnel-years. A total of 6.5 personnel-years will be supported by the General Fund with 7.5 positions to be supported by reimbursements, increased revenues and fees. The specific elements of the Treasurer's program are reviewed below.

Table 1
Budget Summary

| | <i>Personnel Years</i> | | | <i>Expenditures</i> | | |
|---|---------------------------|-------------------------------|-----------------------------|---------------------------|-------------------------------|-----------------------------|
| | <i>Actual 1976-77</i> | <i>Authorized 1977-78</i> | <i>Proposed 1978-79</i> | <i>Actual 1976-77</i> | <i>Authorized 1977-78</i> | <i>Proposed 1978-79</i> |
| 1. Bond sales and services | 15 | 16.1 | 21.1 | \$365,180 | \$399,984 | \$482,609 |
| 2. Investments services | 7 | 8.3 | 9.3 | 266,200 | 332,935 | 378,267 |
| 3. Paying and receiving | 28.6 | 33.6 | 33.6 | 826,745 | 1,047,564 | 974,350 |
| 4. Trust services | 17.2 | 17.2 | 18.2 | 541,547 | 561,839 | 599,457 |
| 5. District Securities Division | 7.3 | 7.7 | 10.7 | 237,569 | 278,197 | 341,390 |
| 6. Administration (distributed to other elements) | 18.6 | 17.9 | 17.9 | (480,025) | (530,640) | (559,730) |
| Total | 93.7 | 100.8 | 110.8 | 2,237,241 | 2,620,519 | 2,776,073 |
| Reimbursement | | | | -655,026 | -598,219 | -607,128 |
| General Fund | | | | \$1,582,215 | \$2,022,300 | \$2,168,945 |

Bond Sales and Service

This program element is responsible for selling, issuing, servicing and redeeming all general obligation and revenue bonds and bond anticipation notes. Reimbursements of approximately \$169,000 are expected from sales of special fund bonds. The remaining \$313,000 or 65 percent of the program element costs are supported by the General Fund. The Treasurer has recently instituted new "bond acceptance" charges and administrative fees in order to recover more of the cost of services provided to non-General Fund agencies.

Of the five new positions requested for this element, two are to handle the increased workload resulting from the growth in trusteeship responsibilities. Two positions are requested to establish a bond and coupon paying audit capability that will obviate the need for services now provided by commercial banks. This will allow a reduction in compensating

STATE TREASURER—Continued

balances held by these banks as payment for services and a transfer of these funds to the interest bearing Pooled Money Investment Account. The remaining position is to bolster clerical services to handle correspondence due to increased bond servicing workload.

Investment Services

This program element has responsibility for investing the temporary surplus cash of the General Fund and other state funds. In addition, legislation (effective January 1, 1977) created the Local Agency Investment Fund to be administered by the State Treasurer. This fund allows local government units the opportunity to earn a higher return than is normally available to them. The objective is to maximize earnings from these funds within the statutory limitations and the policy decisions of the Pooled Money Investment Board.

Earnings from the pooled money account are distributed to the General Fund and to the approximately 200 other special funds and accounts to which interest can accrue.

Table 2 shows the results of the investment program for the last four years. This table illustrates the continuation of the decline in the percentage yield through 1976-77 reflecting reductions in market interest rates from the record high levels of 1974. An increase in average daily investments of nearly 40 percent, however, boosted dollar earnings to a new high of \$261.7 million. Current year trends point to slightly increasing yields and another 30 percent to 40 percent increase in the average daily investments. The budget year forecast, necessarily more uncertain, is for yields and average daily balance amounts to stabilize with perhaps slight increases in earnings.

The sizeable growth of the Pooled Money Investment Account is a result of two major factors. For the past year and current year, the increase in the average daily investments is largely attributable to the growth of the General Fund surplus and the unexpected rate of growth of the Local Agency Investment Fund. For the budget year, we can expect a significant reduction in General Fund surplus due to the enactment of property tax relief legislation. Local Agency Investment Fund activity is expected to stabilize at around \$800 million to \$900 million dollars.

Table 2
Investment Results
Pooled Money Account

| | <i>Average daily investments (millions)</i> | <i>Earnings (millions)</i> | <i>Percent yield</i> |
|---------------|---|--------------------------------|--------------------------|
| 1973-74 | \$2,587.2 | \$231.2 | 8.97% |
| 1974-75 | 2,740.1 | 236.3 | 8.62 |
| 1975-76 | 3,209.1 | 204.3 | 6.37 |
| 1976-77 | 4,460.9 | 261.7 | 5.87 |

Paying and Receiving

The State Treasurer provides banking services for state agencies. Such services include depositing state monies and redeeming warrants issued by the Controller and other state agencies. In addition, this element provides information to the investment division on the state's daily cash position. Table 3 summarizes the activities of this element.

The element is purchasing, in the budget year, a minicomputer to handle warrant processing. In the previous Budget Analysis, our office supported the Treasurer's plan to acquire the computer capability because of the significant identifiable savings in reduced data processing charges and the potential increase in investment earnings from having more timely data. This element requests an additional \$50,000 to cover a price increase of the minicomputer and one data processing technician to operate the system. In addition, one clerk-typist is requested to handle the increased level of cashier-related transactions primarily due to the unexpected growth of the Local Agency Investment Fund.

Table 3
Paying and Receiving

| | <i>Actual</i> 1976-77 | <i>Estimated</i> 1977-78 | <i>Projected</i> 1978-79 |
|--|--------------------------|-----------------------------|-----------------------------|
| Dollars deposited (billions) | \$91.4 | \$107.5 | \$112.2 |
| Number of warrants paid (millions) | 23.7 | 28.2 | 30.9 |
| Personnel Years | 28.6 | 33.6 | 33.6 |
| Total program expenditures..... | \$826,745 | \$1,047,564 | \$974,350 |

Trust Services

The Trust Services program element is responsible for the safekeeping of securities owned by or pledged to the state. Such securities are held in the Treasurer's vault or in approved depositories. As of June 1977, the Treasurer's vault contained over \$18 billion. Table 4 describes the magnitude of the transactions involved.

Table 4

| | 1974-75 | 1975-76 | 1976-77 |
|--|---------|---------|---------|
| Transactions | 16,000 | 16,800 | 19,200 |
| Number of securities | 493,000 | 568,000 | 598,000 |
| Coupons clipped and processed (millions) | 1.8 | 1.86 | 1.6 |

Much of the trust services are provided to other state agencies such as PERS, STRS, and the Insurance Commissioner. The Treasurer is reimbursed for trust services provided to other agencies. Such reimbursements will amount to \$302,500 in 1978-79 or 59 percent of the cost of the trust services program.

Recent legislation has added promissory notes secured by first mortgage and first trust deeds on real property to the list of securities eligible to secure state deposits. One clerk position is added to handle anticipated document workload and maintain evaluation data on this type of security.

STATE TREASURER—Continued

District Securities

The primary function of this division is the technical and fiscal evaluation of construction projects proposed by water irrigation and certain other districts. By promoting sound financial programs for these districts, the division seeks to protect the public from unsound securities and to protect the credit standing of the state and its local jurisdictions.

The division is budgeted from the General Fund but is expected to recover an equal amount through fees charged for its services. The division has requested an additional three personnel-years which are fully recoverable from additional fees. Table 5 details program costs, reimbursements and personnel of recent years.

Table 5
District Securities Division

| | <i>Actual</i> 1976-77 | <i>Estimated</i> 1977-78 | <i>Projected</i> 1978-79 |
|-----------------------|--------------------------|-----------------------------|-----------------------------|
| Program cost | 239,569 | 278,197 | 347,390 |
| Reimbursements | 287,278 | 290,000 | 350,000 |
| Personnel-years | 7.3 | 7.7 | 10.7 |

The division has requested a 40 percent increase in program personnel based upon the claim that, due to a shortage of staff, the supervision of construction projects and bond fund expenditures has been reduced below the minimum statutory requirements of Article 5, Division 10, of the Water Code. Table 6, however, illustrates the minimal growth in anticipated workload for the division.

Last year in our Analysis, we encouraged the division to consider the proposed source of financing in allocating its existing resources to achieve its purposes. We suggested that the federal government and large commercial banks do not warrant the same degree of protection that a less sophisticated investor might require. The increase in staffing prompts us again to encourage the Treasurer to examine his investigative priorities with these concerns in mind.

Table 6
District Securities Division

| | <i>Actual</i> 1976-77 | <i>Estimated</i> 1977-78 | <i>Projected</i> 1978-79 |
|--|--------------------------|-----------------------------|-----------------------------|
| Examination and report of debt proposals | 102 | 105 | 110 |
| Examination and approval of financing programs | 9 | 10 | 10 |
| Exemption approvals of DSI law | 44 | 50 | 55 |

Administration

The administrative element is comprised of the executive officers and the general services section including the budgeting, personnel and accounting functions. A consolidation of the Management Services Division has been implemented and the Treasurer is requesting a CEA I position to direct it.