

STATE TREASURER—Continued

DISTRICT SECURITIES DIVISION

The primary function of this division is to provide 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 as well as to protect the credit standing of the state and its local jurisdictions.

Although the division is budgeted from the General Fund, it is expected to recover an equal amount through fees charged for its services. In recent years, this requirement has been successfully met. Table 5 reviews program costs, revenues and personnel requirements.

Table 5
District Securities Division

| | Actual 1977-78 | Estimated 1978-79 | Proposed 1979-80 |
|-----------------------|-------------------|----------------------|---------------------|
| Program Cost | \$253,246 | \$329,343 | \$335,150 |
| Revenue | 318,801 | 327,886 | 350,255 |
| Personnel-Years | 7.3 | 8.3 | 8.3 |

ADMINISTRATION

The administrative element is comprised of the executive officers and the general services section including the budgeting, personnel and accounting functions. The executive officers consist of the State Treasurer, the assistant treasurer, the chief deputy treasurer and the assistant deputy treasurer.

MUSEUM OF SCIENCE AND INDUSTRY

Item 70 from the General Fund

Budget p. 121

| | |
|--|-------------|
| Requested 1979-80 | \$2,662,996 |
| Estimated 1978-79..... | 2,711,192 |
| Actual 1977-78 | 2,595,126 |
| Requested reduction \$48,196 (1.8 percent) | |
| Total recommended increase | \$15,500 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

| | Analysis page |
|---|------------------|
| 1. <i>Reimbursements. Increase reimbursements \$6,000, reduce General Fund \$6,000.</i> Recommend reimbursements be increased based on past experience. | 124 |
| 2. <i>Workers' Compensation. Augment \$21,500.</i> Recommend increase to meet anticipated workers' compensation costs based on past experience. | 124 |
| 3. <i>Museum Foundation.</i> Recommend foundation corporation be required to reimburse the state for its pro rata share of the cost of services provided by the museum. | 124 |

4. Salary Savings. Recommend the current reporting requirements for excess, unbudgeted salary savings be continued. 125

GENERAL PROGRAM STATEMENT

The Museum of Science and Industry is an educational, civic and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors, appointed by the Governor. The museum's exhibits feature scientific accomplishments, and its education program is designed to stimulate students' interests in science and the arts. A portion of this program is financed by the Museum Foundation Fund which is supported from private contributions. Several facilities of the museum are available to public and private groups for educational, recreational and civic functions. The museum also owns and operates 26 acres of public parking for both its patrons and those of the adjacent coliseum, sports arena and swimming stadium. These facilities are all located in Exposition Park which is owned and maintained by the state through the museum. In addition to providing security for its own facilities, the museum is also responsible for security in Exposition Park.

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$2,662,996 from the General Fund for support of the museum for 1979-80. This amount is \$48,196 or 1.8 percent less than is budgeted for the current year. Table 1 sets forth program expenditures, funding sources, positions and proposed changes.

Table 1
Museum of Science and Industry
Budget Summary

| <i>Programs</i> | <i>Actual</i> | <i>Estimated</i> | <i>Proposed</i> | <i>Change</i> | |
|------------------------|--------------------|--------------------|--------------------|------------------|----------------|
| | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> | <i>Amount</i> | <i>Percent</i> |
| Education | \$2,035,380 | \$2,030,267 | \$2,003,081 | \$-27,186 | -1.3% |
| Administration | 579,547 | 680,925 | 659,915 | -21,010 | -3.1 |
| Foundation | (382,786) | (494,921) | (608,000) | (113,079) | (22.9) |
| TOTALS | \$2,614,927 | \$2,711,192 | \$2,662,996 | \$-48,196 | -1.8% |
| <i>Funding Sources</i> | | | | | |
| General Fund | \$2,595,126 | \$2,711,192 | \$2,662,996 | \$-48,196 | -1.8% |
| Reimbursements | 19,801 | — | — | — | — |
| TOTALS | \$2,614,927 | \$2,711,192 | \$2,662,996 | \$-48,196 | -1.8% |
| <i>Positions</i> | 126.9 | 140.7 | 123.5 | -17.2 | -12.2% |

Table 1 shows there are no significant program increases. The budget decreases result primarily from a reduction in personnel.

Personnel Reductions

The equivalent of eight positions were administratively reduced during the current year in response to Control Section 27.2 of the 1978 Budget Act. These eight positions will be permanently eliminated for the budget year. The budget does not identify the specific positions to be eliminated, but states this will be done prior to the budget hearings. We assume the positions selected for elimination will be from lower priority activities. In addition, 9.2 museum guide positions are also proposed for elimination in

MUSEUM OF SCIENCE AND INDUSTRY—Continued

the 1979-80 fiscal year. Some additional funds (\$13,500) have been budgeted to provide increased contracting for guide services during peak tour times.

Estimated Reimbursements Should Be Budgeted

We recommend reimbursements be increased based on actual experience, for a General Fund savings of \$6,000.

The budget indicates that no reimbursements are anticipated in 1979-80. Our examination of reimbursements received in prior years shows that at least \$6,000 will be received from Los Angeles County during 1979-80 as its annual share of park maintenance costs. We recommend adjusting the budget accordingly.

Unbudgeted Worker's Compensation

We recommend a General Fund augmentation of \$21,500 to meet anticipated increased Workers' Compensation costs based on past experience.

Section 6114 of the State Administrative Manual allows an agency to include Workers' Compensation costs as a portion of its budgeted staff benefits. Until recently, such costs for the museum were relatively small and have been met historically from excess, unbudgeted salary savings.

However, these costs have been increasing rapidly and the availability of unbudgeted excess salary savings has been limited. Based on the past year's experience and experience for the first six months of the current year, we believe \$21,500 is a conservative estimate of worker's compensation needs for 1979-80.

Foundation Prorata Reimbursements

We recommend the museum foundation corporation be required to reimburse the state for its pro-rata share of the cost of services provided by the Museum of Science and Industry.

The museum foundation is a nonprofit private corporation established to enhance museum activities. By written contract, the museum provides the foundation with free office space, utilities, janitorial and maintenance services and the right to operate and maintain the gift center, the refreshment area and the classroom in the science wing of the museum.

The terms of the museum's contract with the foundation are contrary to normal state practices. It is customary for state agencies to recover pro rata costs to the state of janitor services, rent, insurance, utilities and any administrative expense. Such reimbursements appear all the more appropriate in this instance because the foundation is actually operating revenue-generating activities on state property.

Our recommendation would require the Department of General Services, under the provisions of Government Code 11010, to determine a proration of museum costs attributable to the foundation. This would be used as the foundation's basis for reimbursing the state. Collections from the foundation would be placed in a fund and budgeted each year as an offset to General Fund support costs.

Afro-American History and Culture Museum

Chapter 571, Statutes of 1977, established the Afro-American History and Culture Museum. This legislation provided for a seven member advisory board and an executive director. The proposed museum is authorized to accept funds from public and private sources for the purposes of presenting, collecting and displaying specified historical, Afro-American contributions to California and the United States.

The current year budget provided \$35,000 for an executive director and advisory committee travel expenses. We understand the advisory committee has met twice, but the position of the executive director remains vacant. Museum staff report that the 1979-80 budget does not include travel expense money for the advisory members but does include \$27,240 for an executive director. However, we are not aware of any effort being made to fill the position.

We cannot understand why no funds are proposed for the existing advisory committee, while funds are included for a position which remains vacant. We have requested the museum to be prepared to clarify its funding policy for the Afro-American Museum during budget hearings.

Review of Salary Savings

We recommend the current reporting requirements for excess, unbudgeted salary savings be continued for one more year.

During hearings on the 1978-79 budget, the Legislature, through supplemental budget language, required that any expenditures to be funded from excess salary savings be approved by the Department of Finance only after 30 days notification to the Legislature. The purpose of this requirement is to verify the accuracy of the museum's salary savings estimate.

We recommend that the Legislature continue this special reporting procedure during 1979-80 because we believe the 1978-79 data will not be an adequate base on which to compute future salary savings estimates.

**State and Consumer Services Agency
DEPARTMENT OF CONSUMER AFFAIRS**

| Items 71-111 from various funds | Budget p. 124 |
|--|---------------|
| Requested 1979-80 | \$36,375,474 |
| Estimated 1978-79 | 35,891,921 |
| Actual 1977-78 | 33,983,951 |
| Requested increase \$483,553 (1.3 percent) | |
| Total recommended reduction | \$191,272 |
| Division of Consumer Services and Contractors' State Licensing Board | Pending |

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|--|---|-----------|
| 71 | Board of Behavioral Science Examiners | Behavioral Science Examiners | \$311,667 |
| 72 | Board of Dental Examiners | State Dentistry | 1,243,804 |
| 73 | State Board of Guide Dogs for the Blind | General | 12,615 |
| 74 | Board of Medical Quality Assurance | Contingent Fund of Board of Medical Quality Assurance | 7,940,918 |
| 75 | Acupuncture Advisory Committee | Acupuncturist | 113,468 |
| 76 | Hearing Aid Dispensers | Hearing Aid Dispensers | 102,483 |
| 77 | Physical Therapy | Physical Therapy | 155,769 |
| 78 | Physicians' Assistants | Physicians' Assistants | 84,715 |
| 79 | Speech Pathologists and Audiologists Examining Committee | Speech Pathology and Audiology Examining Committee | 91,165 |
| 80 | Board of Examiners of Nursing Home Administrators | Board of Examiners of Nursing Home Administrators | 186,043 |
| 81 | Board of Optometry | State Optometry | 217,929 |
| 82 | Board of Pharmacy | Pharmacy Board Contingent | 1,218,210 |
| 83 | Board of Registered Nursing | Board of Registered Nursing | 2,001,724 |
| 84 | Board of Examiners in Veterinary Medicine | Veterinary Examiners Contingent | 310,509 |
| 85 | Animal Health Technician Examining Committee | Animal Health Technician Examining Committee | 54,063 |
| | Board of Vocational Nurse and Psychiatric Technician Examiners | | |
| 86 | Vocational Nurse Program | Vocational Nurse and Psychiatric Technician Examiners | 1,081,971 |
| 87 | Psychiatric Technician Program | Vocational Nurse and Psychiatric Technician Examiners | 254,876 |
| 88 | Board of Accountancy | Accountancy | 1,109,469 |
| 89 | Cemetery Board | Cemetery | 71,162 |
| | Bureau of Collection and Investigative Services | | |
| 90 | Collection Services | Collection Agency | 328,843 |
| 91 | Investigative Services | Private Investigator and Adjusters | 709,421 |
| 92 | Tax Preparers' Program | Tax Preparers | 72,658 |
| 93 | Board of Architectural Examiners | Architectural Examiners | 168,736 |
| 94 | Contractors' State License Board | Contractors' License | 8,127,351 |
| 95 | Board of Registration for Geologists and Geophysicists | Geology and Geophysics | 54,019 |
| 96 | Board of Landscape Architects | Landscape Architects | \$36,336 |
| 97 | Board of Registration for Professional Engineers | Professional Engineers | 944,844 |
| 98 | Structural Pest Control Board | Structural Pest Control | 1,058,016 |
| 99 | State Athletic Commission | General | 434,792 |
| 100 | Bureau of Automotive Repair | Automotive Repair | 2,766,700 |
| 101 | Board of Barber Examiners | Barber Examiners | 531,825 |
| 102 | Board of Cosmetology | Cosmetology Contingent | 1,390,623 |
| 103 | Bureau of Employment Agencies | Employment Agencies | 310,015 |
| 104 | Bureau of Fabric Care | Fabric Care | 229,271 |
| 105 | Board of Funeral Directors and Embalmers | Funeral Directors and Embalmers | 344,020 |
| 106 | Bureau of Home Furnishings | Bureau of Home Furnishings | \$621,221 |

| | | | |
|-----|--------------------------------------|-------------------------------|--------------|
| 107 | Nurses' Registry | Nurses' Registry | 6,928 |
| 108 | Bureau of Repair Services | Repair Services | 675,940 |
| 109 | Certified Shorthand Reporters' Board | Certified Shorthand Reporters | 53,708 |
| 110 | Division of Consumer Services | General | 947,647 |
| 111 | Division of Administration | Consumer Affairs * | (6,951,078) |
| | Total | | \$36,375,474 |

* Revolving Fund established to pay administrative costs. Revenue derived from pro rata charges to boards and bureaus.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Termination of Occupational Licensing Activities. Support deletion of specified occupational licensing activities and recommend the department advise the Legislature on the status of legislation necessary to permit proposed reductions. 130
2. Excessive Surplus. Recommend that specified boards and committees reduce fees to bring surplus funds into conformance with existing law. 138
3. Optometry Board Fees. Recommend that Board of Optometry continue schedule of reduced fees. 139
4. *Physician Competence Pilot Project. Reduce by \$62,967.* 139
Recommend not funding pilot project with Medical Quality Board funds after January 1, 1980, as specified by law.
5. *Medical Student Loan Program. Reduce Item 74 by \$100,000.* 139
Recommend deletion of funds for medical student loan program and adoption of plan for recovering outstanding student loans.
6. *Pharmacy Board. Augment Item 82 by \$35,000.* 140
Recommend legislation to change annual appropriation of \$60,000 for drug price list preparation from existing statute to Budget Bill for a savings of \$25,000.
7. Contractors' State Licensing Board. Withhold recommendation pending review of operations and additional information. 141
8. *Division of Administration. Reduce by \$63,305.* 141
Recommend deletion of three positions for a savings of \$63,305.
9. Division of Consumer Services. Withhold recommendation pending review of additional information and Joint Legislative Audit Committee report. 142

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Chapter 1394, Statutes of 1970) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

Subject to such authority as is conferred upon the department director

DEPARTMENT OF CONSUMER AFFAIRS—Continued

by specific statute, each of the present 30 boards or bureaus within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetence and fraudulent practices. Each entity seeks to accomplish its objectives through licensure and the enforcement of laws, rules and regulations. Licensing involves the issuance and renewal of licenses or certificates or a registration procedure. It also includes the establishment of curricula, school accreditation and required experience periods. Enforcement activities include inspections, investigations, and administrative hearings (before an officer of the Office of Administrative Hearings) or court proceedings.

The Division of Consumer Services was established by Chapter 1399, Statutes of 1970. The division is responsible for the department's statewide consumer protection activities, which include research and advertising compliance, representation and intervention, consumer education and information, and consumer protection legislation.

The department's Division of Investigation provides investigative and inspection services for most constituent agencies. However, a few boards and bureaus have their own inspectors and investigators. Boards and bureaus are charged \$24.00 per hour for inspections and \$28.00 per hour for investigations by the division during the current year.

The Division of Administration provides centralized services such as accounting, budgeting, personnel management, internal auditing, legal assistance and building operation and maintenance. The costs of the Divisions of Administration and Consumer Services are largely distributed on a pro rata basis to each constituent agency.

ANALYSIS AND RECOMMENDATIONS

The net budget request for the department is \$36,375,474, which is \$483,553 or 1.3 percent above the current year. Building and maintenance costs, estimated at \$1,011,284, and \$60,000 in appropriations pursuant to chartered legislation bring the total expenditure program to \$37,446,758. Departmental administrative costs of \$5,939,794 will be allocated on a pro rata or fee-for-service basis to the boards and bureaus.

Reductions per Sections 27.1 and 27.2—Budget Act of 1978

In the current year the various boards and bureaus within the Department of Consumer Affairs reduced their budgets by \$942,735 for operating expenses and equipment to comply with Section 27.1 of the 1978 Budget Act. In addition, they collectively eliminated 36.0 positions for a savings of \$876,210 pursuant to Section 27.2 of the same act. Table 1 displays a summary of these reductions for each of the boards and bureaus. The \$942,735 reduction was accomplished generally by lowering the amounts budgeted for operating expenses and deleting low priority activities. The 36.0 positions to be eliminated have not been specified. The Governor's budget states that the positions will be identified at the time of the budget hearings.

In the current year Administrative Services of the Department of Consumer Affairs reduced their budget by \$150,794 for operating expenses and

equipment to comply with Section 27.1. In addition, 10.3 positions were eliminated pursuant to Section 27.2.

Table 1
Department of Consumer Affairs
Summary of Reductions Per Sections 27.1
and 27.2 of the 1978 Budget Act

| Board/Bureau | Section 27.1 | | Section 27.2 | |
|--|------------------|-----------------|------------------|-----------------|
| | Amount | Personnel-years | Amount | Personnel-years |
| Board of Behavioral Science Examiners | \$14,955 | 0.4 | \$16,475 | |
| Board of Dental Examiners..... | 43,047 | 0.8 | 19,306 | |
| State Board of Guide Dogs for the Blind | 287 | — | 311 | |
| Board of Medical Quality Assurance..... | 145,721 | 5.4 | 130,993 | |
| Acupuncture Advisory Committee | 3,159 | 0.1 | 1,272 | |
| Hearing Aid Dispensers Examining Committee | 4,445 | 0.1 | 1,260 | |
| Physical Therapy Examining Committee | 5,190 | 0.1 | 3,399 | |
| Physicians' Assistants..... | 1,116 | 0.1 | 2,164 | |
| Speech Pathologists and Audiologists Examining Committee | 2,087 | 0.1 | 3,324 | |
| Board of Examiners of Nursing Home Administrators | 5,147 | 0.2 | 4,103 | |
| Board of Optometry | 6,418 | 0.2 | 4,316 | |
| Board of Pharmacy | 27,851 | 1.3 | 32,511 | |
| Board of Registered Nursing..... | 63,704 | 1.6 | 38,760 | |
| Board of Examiners in Veterinary Medicine | 9,093 | 0.2 | 3,744 | |
| Animal Health Technician Examining Committee..... | 1,640 | — | 830 | |
| Board of Vocational Nurse and Psychiatric Technician Examiners | | | | |
| Vocational Nurse Program | 30,587 | 1.0 | 24,359 | |
| Psychiatric Technician Program | 6,001 | 0.2 | 4,422 | |
| Board of Accountancy | 38,188 | 0.7 | 16,199 | |
| Cemetery Board..... | 2,657 | 0.2 | 5,115 | |
| Bureau of Collection and Investigative Services | | | | |
| Collection Services | 5,008 | 0.5 | 11,756 | |
| Investigative Services | 23,001 | 0.5 | 12,339 | |
| Tax Preparers' Program | 8,474 | 0.2 | 3,825 | |
| Board of Architectural Examiners..... | 12,747 | 0.3 | 7,739 | |
| Contractors' State License Board | 137,238 | 10.1 | 245,490 | |
| Board of Registration for Geologists and Geophysicists..... | 2,288 | 0.1 | 3,170 | |
| Board of Landscape Architects | 2,606 | 0.1 | 1,536 | |
| Board of Registration for Professional Engineers | 24,172 | 1.7 | 40,083 | |
| Structural Pest Control Board | 101,932 | 0.9 | 21,908 | |
| State Athletic Commission..... | 5,498 | 0.8 | 18,228 | |
| Bureau of Automotive Repair..... | 48,549 | 3.8 | 93,249 | |
| Board of Barber Examiners..... | 16,250 | 0.5 | 11,418 | |
| Board of Cosmetology..... | 56,460 | 1.2 | 28,773 | |
| Bureau of Employment Agencies | 13,532 | 0.4 | 9,001 | |
| Bureau of Fabric Care | 20,130 | 0.3 | 7,462 | |
| Board of Funeral Directors and Embalmers | 6,084 | 0.4 | 8,923 | |
| Bureau of Home Furnishings | 27,677 | 0.7 | 17,657 | |
| Nurses' Registry | 1,140 | — | — | |
| Bureau of Repair Services..... | 16,798 | 0.7 | 18,076 | |
| Certified Shorthand Reporters' Board | 1,858 | 0.1 | 2,714 | |
| Total | \$942,735 | 36.0 | \$876,210 | |

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Projected Fund Deficits

According to the Governor's Budget, the following units are projected to have little or no surplus in their support funds at the end of the budget year: The Hearing Aid Dispensers Examining Committee, Board of Nursing Home Administrators, Pharmacy Board, and the Board of Vocational Nurse and Psychiatric Technician Examiners (Psychiatric Technician program). We are advised that the Hearing Aid Dispensers Examining Committee, Pharmacy Board, and the Psychiatric Technician Program have legislative authorization to increase fees, and will be doing so for the 1979-80 renewals. Because the amount of the increases has not been determined, the additional revenues are not included in the Fund Condition Statements in the 1979-80 Governor's Budget. The Board of Nursing Home Administrators anticipates introducing legislation to increase the maximum fees which the board may charge for initial and renewal licenses.

Proposed Program Changes

We recommend adoption of legislative proposals in the Governor's Budget to terminate the following boards, programs and title act licensing activities: Cemetery Board, Tax Preparers' Program, Board of Architectural Examiners, Board of Registration of Geologists and Geophysicists, Board of Landscape Architects, Board of Fabric Care, Nurses' Registry Board, Certified Shorthand Reporters' Board, Board of Registration for Professional Engineers and Registered Social Workers' Program within the Behavioral Science Board.

Further, we recommend that the department describe and present relevant materials on the status of legislation required to implement the proposed reductions for the 1979-80 fiscal year.

The budget request for the Department of Consumer Affairs includes 81 separate proposals which amend the current year budget. Twenty of the proposals would eliminate statutory programs or activities, and they would result in a reduction of 59.5 positions and a savings of \$1,352,834. Table 2 summarizes these changes, both increases and decreases, for each board, bureau and division within the department.

Although the funding for these activities is derived from fees levied on licensees rather than from general tax revenues, use of these funds should be given the same amount of scrutiny as other expenditures in the budget. In this analysis, we have attempted to assess whether the benefits derived from the activity warrant imposing a "tax" directly on licensees (and indirectly on the public) to pay for them.

The eight occupational licensing boards or programs to be eliminated are the Cemetery Board, Tax Preparers' Program, Board of Architectural Examiners, Board of Registration for Geologists and Geophysicists, Board of Landscape Architects, Board of Fabric Care, Nurses' Registry Board and the Certified Shorthand Reporters Board. In addition, a number of advisory boards to various bureaus would be eliminated as well as the title act licensing programs of the Behavioral Science Board (Registered Social Workers) and the Board of Registration for Professional Engineers.

Table 2
Department of Consumer Affairs
Summary of Proposed Changes—1979-80 Budget Request

| <i>Area</i> | <i>Activity</i> | <i>Current Year Adjustments</i> | | <i>Budget Year Request</i> | |
|---|--|---------------------------------|----------------|----------------------------|----------------|
| | | <i>Personnel-Years</i> | <i>Dollars</i> | <i>Personnel-Years</i> | <i>Dollars</i> |
| Board of Behavioral Examiners | 1. Workload adjustment | — | \$+15,000 | — | \$+15,000 |
| | 2. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +11,200 |
| | 3. ^a Discontinue registration of social workers | — | — | -0.5 | -14,105 |
| Board of Dental Examiners..... | 1. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | +19,530 | — | +39,059 |
| Board of Guide Dogs for the Blind..... | 1. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +800 |
| Board of Medical Quality Assurance..... | 1. Additional clerical support for Ex- ecutive staff (redirection of exist- ing funds) | +1.0 | — | +1.0 | — |
| | 2. ^b Additional senior special investi- gator for illegal drug enforce- ment activities | +1.0 | +14,905 | +1.0 | +30,710 |
| | 3. ^b Increase funds for evidence and expert witness fees (workload) .. | — | +47,458 | — | +47,458 |
| | 4. ^b Increase funds for disciplinary hearings (workload) | — | +49,873 | — | +49,873 |
| | 5. ^b Increase proctor and exam posts | +0.7 | \$+80,496 | +0.9 | \$+161,188 |
| | 6. ^b Increase exam costs and work- load for Psychology Examining Committee..... | — | +11,118 | +0.6 | +23,706 |
| | 7. ^b Pilot program to evaluate physi- cians..... | +4.2 | +47,673 | +5.2 | +125,935 |
| | 8. Convert Assistant Executive Di- rector positions from limited term to permanent | — | — | — | — |
| | 9. Reduce temporary help, add cler- ical positions (workload) | — | — | +0.7 | +5,609 |
| | 10. Add clerical support for register- ing professional corporations (lim- ited term to 6/30/80) | — | — | +1.0 | +13,728 |

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 2—Continued
 Department of Consumer Affairs
 Summary of Proposed Changes—1979-80 Budget Request

| Area | Activity | Current Year Adjustments | | Budget Year Request | |
|--|--|--------------------------|----------|---------------------|----------|
| | | Personnel-Years | Dollars | Personnel-Years | Dollars |
| | 11. Add Executive Secretary position (Podiatry Examining Committee) | — | — | +1.0 | +34,712 |
| | 12. ^c Continued staff support for Medical Quality Review Committees | — | — | +13.0 | +290,000 |
| Acupuncture Advisory Committee | 1. Per diem for addition of 4 public members | — | — | — | +4,800 |
| Acupuncture Advisory Committee | 2. Add temporary help staff to establish apprenticeship program | — | — | +0.2 | +1,723 |
| Hearing Aid Dispensers Examining Committee | 1. Workload adjustment | — | \$-8,951 | — | -8,951 |
| Physical Therapy Examining Committee | 1. Workload adjustment | — | -16,200 | — | -18,512 |
| Physicians Assistant Examining Committee | 1. Additional funds for enforcement.. | — | — | — | +15,202 |
| Speech Pathology and Audiology Examining Committee | 1. Workload adjustment | — | -11,311 | — | -11,311 |
| Board of Examiners of Nursing Home Administrators | 1. Reduce current year expenditures to avoid deficit | — | -39,000 | — | — |
| | 2. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | +2,663 | — | +5,325 |
| Board of Optometry | 1. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +13,720 |
| Board of Pharmacy | 1. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +17,500 |
| Board of Registered Nursing..... | 1. Workload adjustment (Chapter 283, Statutes of 1978) | — | \$+500 | — | \$+1,000 |
| | 2. Increase enforcement program (Chapter 69, Statutes of 1978) | — | +950 | — | +1,600 |
| | 3. Increased board member per diem (Chapter 1141, Statutes of 1978) | — | +6,713 | — | +13,425 |
| | 4. Workload adjustment | — | -46,000 | — | -78,615 |

| | | | | | |
|---|--|------|------------|------|----------|
| Board of Examiners in Veterinary Medicine | 1. Increased enforcement program.... | — | — | — | +10,000 |
| | 2. Increase inspection program (Chapter 1134, Statutes of 1978) | — | — | +0.4 | +41,860 |
| | 3. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +4,550 |
| Animal Health Technician Examining Committee..... | 1. Promulgate regulations and guide- lines for unregistered health care assistants (Chapter 609, Statutes of 1978) | — | — | — | +2,000 |
| | 2. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +1,000 |
| Board of Vocational Nurse and Psychiat- ric Technician Examiners | | | | | |
| Vocational Nurse Program | 1. Increase enforcement program (Chapter 69, Statutes of 1978) | — | \$+2,500 | — | \$+5,000 |
| | 2. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | +5,413 | — | +10,825 |
| | 3. Workload adjustment..... | — | -11,438 | — | -32,526 |
| Psychiatric Technician Program | 1. Increase exam proctors | +0.2 | +1,700 | +0.2 | +1,700 |
| | 2. Increase enforcement program | — | +56,914 | — | +56,914 |
| | 3. Increase enforcement program (Chapter 69, Statutes of 1978) | — | +5,000 | — | +10,000 |
| | 4. Eliminate inspector position..... | -1.0 | -13,065 | -1.0 | -26,130 |
| Board of Accountancy | 1. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +17,475 |
| Cemetery Board..... | 1. ^a Proposed elimination of board (phase-out budget provided). Transfer "Trust Program" to the Board of Funeral Directors and Embalmers..... | — | — | -4.7 | -86,507 |
| Bureau of Collection and Investigative Services | | | | | |
| Collection Program | 1. ^a Eliminate Collection Agency Ad- visory Board | — | — | — | \$-1,400 |
| | 2. Reestablish Enforcement Program | +6.0 | \$+102,723 | +6.0 | +107,421 |
| Private Investigators and Adjusters Pro- gram | 1. Workload adjustment (redirection of existing resources) | +3.0 | — | +3.0 | — |

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Table 2—Continued
Department of Consumer Affairs
Summary of Proposed Changes—1979-80 Budget Request

| Area | Activity | Current Year Adjustments | | Budget Year Request | |
|--|---|--------------------------|------------|---------------------|------------|
| | | Personnel-Years | Dollars | Personnel-Years | Dollars |
| Tax Preparers Program | 1. ^a Proposed elimination of program (phase-out budget provided) | — | — | -5.3 | -162,474 |
| Board of Architectural Examiners..... | 1. ^a Proposed elimination of board (phase-out budget provided) | — | — | -8.4 | -246,035 |
| | 2. Increase examination commissioners | +1.8 | +21,962 | — | — |
| Contractors' State License Board | 1. Increase staff to decrease backlog in applications and complaints (PWEA Title II Federal Funds) .. | +26.0 | \$+249,877 | — | — |
| | 2. Implement Construction Law Enforcement Program (PWEA Title II Federal Funds) | +6.4 | +150,000 | — | — |
| | 3. Additional staff to maintain automated filing system (redirection of funds) | +2.0 | — | +2.0 | — |
| | 4. Additional staff to reduce backlog in consumer complaints..... | +13.0 | +117,058 | +13.0 | \$+233,017 |
| | 5. Increased staff to process license applications (limited term to 6-30-80) | +18.0 | +94,263 | +18.0 | +191,600 |
| | 6. Increased staff to process solar insulation applications (limited term to 12/30/79) | — | — | +2.0 | +10,876 |
| | 7. Increased board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +2,600 |
| | 8. Conversion to continuous renewal (transfer 4 temporary positions to permanent positions) | — | — | — | — |
| | 9. ^c Continue Construction Law Enforcement Program..... | — | — | +8.0 | \$+155,611 |
| | 10. Increase salary savings | (-1.0) | \$-9,056 | (-5.9) | -60,943 |
| | 11. Eliminate limited term position for Solar Retrofit Program | — | — | -1.0 | -14,472 |

| | | | | | |
|---|--|--------|-------------|-------|------------|
| Board of Registration for Geologists and Geophysicists..... | 1. ^a Proposed elimination of board (phase-out budget provided) | — | — | -2.7 | -53,248 |
| Board of Landscape Architects | 1. ^a Proposed elimination of board (phase-out budget provided) | — | — | -1.5 | -47,520 |
| Board of Registration for Professional Engineers..... | 1. Workload adjustment due to inactivity related to grandfathering specialty licenses | — | — | -3.0 | -86,408 |
| Board of Registration for Professional Engineers..... | 2. Add 2 board members and increase board member per diem (Chapter 1082 and 1141, Statutes of 1978) | — | — | — | \$+12,748 |
| | 3. ^a Eliminate "Title Act" Registration Program | — | — | -9.0 | -261,592 |
| Structural Pest Control Board | 1. Increase board member per diem (Chapter 1141, Statutes of 1978) | — | — | — | +5,575 |
| | 2. ^a Eliminate pest control inspection files..... | — | — | -11.0 | -137,973 |
| Athletic Commission | 1. ^a Eliminate licensing and regulation of professional wrestling..... | — | — | -1.5 | -20,000 |
| Bureau of Automotive Repair..... | 1. Increased salary savings..... | (-2.5) | (\$-53,000) | — | — |
| | 2. ^a Eliminate Advisory Board | — | — | — | -11,000 |
| | 3. Workload Adjustment | — | — | — | -30,000 |
| Board of Barber Examiners..... | 1. Legislation will be proposed to merge this board with Cosmetology Board | — | — | — | — |
| | 2. Workload adjustment | — | -15,000 | — | -15,000 |
| Board of Cosmetology..... | 1. Workload adjustments | — | \$-187,750 | -4.0 | \$-264,820 |
| | 2. ^a Eliminate student records program | — | — | -3.0 | -40,000 |
| | 3. Legislation will be proposed to merge this board with the Board of Barber Examiners | — | — | — | — |
| Bureau of Employment Agencies | 1. Workload adjustment | -2.0 | -130,000 | -2.0 | -130,000 |
| | 2. ^a Eliminate Advisory Board | — | — | — | -7,950 |
| Board of Fabric Care | 1. ^a Proposed elimination of board (phase-out budget provided) | — | — | -8.9 | -250,000 |

Table 2—Continued
Department of Consumer Affairs
Summary of Proposed Changes—1979-80 Budget Request

| Area | Activity | Current Year Adjustments | | Budget Year Request | |
|---|--|--------------------------|---------|---------------------|-----------|
| | | Personnel-Years | Dollars | Personnel-Years | Dollars |
| Board of Funeral Directors and Embalmers..... | 1. ^a Add "Trust Program" currently implemented by Cemetery Board | — | — | +1.0 | +45,000 |
| Bureau of Home Furnishings | 1. Reduce inspection program | — | — | -1.0 | -219,256 |
| | 2. ^a Eliminate Advisory Board | — | — | — | -2,225 |
| Nurses' Registry Board | 1. ^a Propose elimination of board (phase-out funds provided) | — | — | -0.0 | \$-15,000 |
| Bureau of Repair Services | 1. ^a Eliminate Advisory Board | — | — | — | -10,375 |
| Certified Shorthand Reporters Board..... | 1. ^a Propose elimination of board (phase-out funds provided) | — | — | -3.0 | -40,000 |
| Division of Administration..... | 1. Increase staff to develop legislation regarding health care professions (limited term positions to 6/30/80) | — | — | +3.0 | +63,305 |
| | 2. Eliminate low priority activities | — | — | -3.0 | -80,504 |
| Division of Consumer Services..... | 1. Eliminate Ad Substantiation Unit .. | — | — | -3.0 | -65,842 |
| | 2. Reduce Legal Services Unit staff .. | — | — | -1.0 | -22,816 |
| | 3. Reduce Research and Development Unit staff..... | — | — | -3.0 | -70,232 |
| | 4. ^a Eliminate Consumer Advisory Council | — | — | -1.0 | -31,830 |

^a Implementation of this proposal would require legislation.
^b To be included in proposed deficiency bill for current year.
^c This activity currently funded with PWEA Title II Federal Funds.

We understand that the administration's decision to eliminate the occupational licensing boards and other mandated activities was based on information developed by the State and Consumer Services Agency as well as on the Regulatory Review Task Force Reports prepared during 1977-78 at the request of the department. These documents do not necessarily reflect information prepared by the boards or other interested parties which might support continuation of the various activities and programs, in whole or in part.

Based on our review of the benefits resulting from the activities of these boards, we recommend approval of the proposed terminations. Our conclusions on each of the major proposals may be summarized as follows:

Cemetery Board—Private associations currently exist which have the capacity to monitor and certify the performance of cemeteries. The board receives less than 100 complaints per year, half of which are dismissed because no violation is found. The majority of complaints relate to cemetery trust funds and the regulation of the trust accounts which, in our judgment, should be continued by the state. The budget proposes to transfer to the Board of Funeral Directors and Embalmers responsibility for regulating these trust accounts.

Tax Preparers' Program—This program merely registers tax preparers; it does nothing to protect the public from incompetent ones. No experience or education is required to be registered and the program does not test for competency or knowledge of the law. Current federal law regulates tax preparers and provides for penalties relative to fraudulent tax preparations.

Board of Architectural Examiners—The consumers of this service are typically corporations, public entities or individuals who are capable of determining quality and obtaining redress through means other than the licensing board. The board utilizes the National Council of Architectural Registration Board examination, which is a general examination used by most states and does not attempt to cover problems unique to California. In 1977-78 the board received 111 complaints and only one resulted in any action on a licensee.

Board of Registration for Geologists and Geophysicists—The services of these licensees are used primarily by mineral and oil firms, land developers, and governmental agencies that can evaluate competency and quality. The board receives only a few complaints annually and has not suspended or revoked a license in its eleven-year existence. It should also be noted that over 80 percent of all licensees were grandfathered in without examination.

Board of Landscape Architects—This occupational specialty is used primarily by corporations, governmental agencies or private citizens who are sophisticated enough to evaluate both the level and quality of service. Moreover, the services of licensees are not among those that affect an individual's health, safety, or welfare. The board's enforcement program is minimal. Of the 30 complaints received in 1977-78, 15 were dismissed for no violation and only one resulted in any license action. We understand that very few complaints are received from consumers and an even smaller number relate to incompetency or negligence.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Board of Fabric Care—The average consumer is equipped to determine the quality of fabric care services. Redress can be obtained through small claims court. Also, there is sufficient competition in this industry to allow the consumer to shop for quality fabric-care establishments.

Nurses Registry Board—The consumers of this service are nurses and members of the public in need of nursing services. Less than 30 complaints are received annually, and the vast majority relate to “temporary help” agencies, which are exempt from the Nurses Registry Program. In the event that patients have complaints against nurses, the Board of Registered Nursing and the Board of Vocational Nurse and Psychiatric Technician Examiners are appropriate agencies to contact.

Certified Shorthand Reporters Board—The consumers of these services are primarily district attorneys, judges, public defenders, and law firms who are capable of determining competency and quality. In many instances noncertified reporters are permitted to perform identical functions.

Title Act Licensing—Title Act licensing does not prevent unregistered or incompetent individuals from performing the functions of an engineer or social worker; it only prohibits the use of a specific title. The primary consumers of these services are corporations or government entities who are capable of determining competency and obtaining redress through means other than the licensing boards.

Because these program deletions require enactment of legislation to be implemented, the Legislature will be in a position to evaluate not only the Task Force and agency reports but also additional information which may support or negate the findings of these reports.

To assist the fiscal committees in determining the appropriate budget actions for these board and programs, we recommend that the department comment on the status of the legislation required to implement the proposed reductions for the 1979-80 fiscal year at the time of the budget hearings and that the boards and bureaus involved present any additional material which is relevant to the administration's proposals.

Excessive Surplus

We recommend that the Physical Therapy Examining Committee, Physician's Assistant Examining Committee, Speech Pathology and Audiology Examining Committee, Board of Registration for Professional Engineers, Structural Pest Control Board and the Bureau of Employment Agencies adopt a schedule of reduced fees in order to bring their surpluses into conformance with existing law.

Section 128 of the Business and Professions Code states that at the end of any fiscal year, no agency within the Department of Consumer Affairs shall have unencumbered funds in an amount which equals or exceeds the agency's operating budget for the next two fiscal years. Currently, six agencies within the department anticipate surpluses for June 30, 1980, which exceed the maximum amount allowed by Section 128. We therefore recommend that the Physical Therapy Examining Committee, Physician's Assistant Examining Committee, Speech Pathology and Audiology Exam-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

anism for collecting outstanding loans. The 1978 Budget Act required the board to adopt a plan of recovery prior to committing funds for this program. To date, the board has not approved a mechanism for recovering loan money.

Further, in our judgment, this activity is of very low priority when compared to other budget requirements of the state, particularly in the health area. For this reason, and in view of the fact that no loans have been repaid to date, we recommend that funding for the granting of student loans for medical education be denied in the budget year, for a savings of \$100,000.

Annual Appropriation Too High

We recommend legislation to remove from Chapter 883, Statutes of 1973, an annual appropriation of \$60,000 to the Pharmacy Board. Funding for drug price list preparation by the board should be included in the budget, at a level of \$35,000 in 1979-80, for a savings of \$25,000.

Chapter 684, Statutes of 1973, requires a retail price list of the 100 prescription drugs most frequently sold by pharmacists to be prepared and distributed by the Pharmacy Board and posted in every pharmacy. The board is to revise this list annually as necessary. An annual appropriation of \$60,00 from the Board of Pharmacy Contingent Funds is provided to carry out these activities.

As shown in Table 3 the board has not used all of the funds appropriated by Chapter 883 during the last three years.

Table 3
Expenditures for Price Listing of Drugs

| | 1975-76 | 1976-77 | 1977-78 |
|----------------------------|---------------------|---------------------|---------------------|
| Appropriation..... | \$60,000 | \$60,000 | \$60,000 |
| Expenditure | 36,720 | 34,276 | 32,788 |
| Unexpended (percent) | \$23,280 (38.8%) | \$25,724 (42.9%) | \$27,212 (45.4%) |

Although the board has not provided billings for this program in the current year, there are no indications that the amount expended will exceed that in 1977-78.

We believe that funding for this activity should be based on need as determined each year as part of the budget process, rather than at an arbitrary amount established six years ago. Accordingly we recommend that legislation be enacted to remove the annual \$60,000 appropriation to the board from Chapter 883. We further recommend that the Legislature appropriate \$35,000 for this activity in 1979-80, in lieu of the \$60,000 appropriated by Chapter 883. This would provide adequate funds to meet the estimated costs of preparing the required price list, while permitting a savings of \$25,000.

Serious Backlogs in Contractors' Licensing Board

We withhold recommendation on funding the Contractors' State Licensing Board pending the review of operations and additional information.

During the past 18 months, the Contractors' State Licensing Board has had serious backlogs in the areas of license application and complaint handling. In the current year, the board's budget was increased by a total of \$611,198 and 65.4 personnel-years to decrease the backlog in both of these areas. Of this amount \$399,877 and 32.4 positions are funded from PWEA Title II Federal Funds. This funding and the positions will terminate June 30, 1979. Of the remaining amount, \$94,263 and 18 positions are limited-term positions which also are scheduled to terminate at the end of this fiscal year.

For the budget year, the board is requesting \$593,704 and 43 positions primarily to process license applications and continue to reduce the backlog of consumer complaints. Twenty of these positions at a cost of \$202,476 are limited-term positions which will terminate by the end of the budget year. Given the nature and size of the request and the recent problems the board has experienced, we are withholding recommendation on the proposed budget request for the Contractors' State Licensing Board pending further review of the board's operations and additional support information.

Division of Administration

We recommend the elimination of 3 positions in the Division of Administration for a reduction of \$63,305 in expenditures from the Consumer Affairs Revolving Fund.

The Governor has formed an interdepartmental task force on apprenticeship training programs in nontraditional occupations for the purpose of developing new employment and career opportunities in California industry and agriculture. The Department of Consumer Affairs is participating in this task force with its Health Care Professions Career Ladder Project (Project Iatrogeneis). This project commenced in January 1978. The \$400,000 in funds available for this program consist of PWEA Title II Federal Funds (\$250,000) and General Funds (\$150,000). The project was established to analyze and develop policy recommendations for possible regulatory and legislative reforms of the health care personnel licensure statutes and regulations. Part of the project will be an analysis of existing health professions, their interaction, possible improved interaction and integrated career ladders, and new alternative career ladders leading to licensure as physicians. The completion date for this work is June 1979.

For the budget year, the Division of Administration of the department is requesting 3 one-year positions and \$63,305 to develop legislation regarding health care professions. The department has not furnished sufficient support material to justify either the number of positions or the amount of expenditure. In any event, we believe that the Division of Consumer Services (DCS) is capable of carrying out this task within existing resources and recommend that this work be directed to the appropriate units within DCS. Additionally, because the Division of Administration

DEPARTMENT OF CONSUMER AFFAIRS—Continued

is funded by pro rata charges to *all* the boards and bureaus within the department and not just the healing arts boards, we find the request to fund these positions within the Division of Administration inappropriate. Non-Healing Arts Boards should not pay for portions of a project geared to health care professionals. The Division of Consumer Services receives the majority of its support from the General Fund and therefore no conflict would result if this unit undertook the task. Based on the lack of workload justification for these positions, coupled with the inappropriate funding source, we recommend the deletion of 3 positions and a reduction of \$63,305.

Additional Review of Consumer Services Division

We withhold recommendation on the Division of Consumer Services pending the review of operations and additional information.

On December 1, 1978, the Division of Consumer Services submitted a report to the Legislature pursuant to the Supplemental Report of the Conference Committee on the 1978 Budget Bill. The supplemental report called for the division to identify its goals and objectives, reassess the need for its current activities, develop guidelines for establishing priorities, establish measures of effectiveness and begin budgeting the division by units. Additionally, it requested the Joint Legislative Audit Committee to conduct a performance and program audit of the divisions within the department. This audit report is expected in early February 1979.

We have reviewed the report submitted by the division and are in the process of evaluating the proposed restructuring of activities. At the time of the budget hearings, we will present our recommendations on the division's budget after completing our evaluation and reviewing the Audit Committee report.

**State and Consumer Services Agency
OFFICE OF THE STATE FIRE MARSHAL**

Item 112 from the General
Fund

Budget p. 201

| | |
|--|-------------|
| Requested 1979-80 | \$2,659,099 |
| Estimated 1978-79 | 2,895,089 |
| Actual 1977-78 | 2,783,245 |
| Requested decrease \$235,990 (8.2 percent) | |
| Total recommended increase | \$35,564 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|---|-----|
| 1. "Fires and Firemen" Publication. Recommend reimbursements be increased to restore funding for a fire code publication. | 145 |
| 2. Building Materials Listing. Recommend reimbursement | 146 |

funding be restored for Building Material Listing program.

3. *City and County Facilities.* Augment Item 112 by \$35,564. 147
Recommend funding be restored to provide assistance to local fire authorities.

GENERAL PROGRAM STATEMENT

The State Fire Marshal is responsible for preventing loss of life and property by fire. The Office of the State Fire Marshal develops fire safety standards which are generally enforced by local fire authorities. The Fire Marshal has responsibility in areas where no local jurisdiction exists and in state-owned buildings. He also has responsibility for certain safety programs.

The State Fire Marshal's Office has two programs—Public Fire Safety and Administration. The Public Fire Safety program includes two elements (1) Enforcement and (2) Analysis and Development.

Public Fire Safety

Enforcement—The enforcement element of Public Fire Safety is primarily concerned with plan reviews of new facilities and on-site inspections where the Fire Marshal is the responsible fire prevention authority. It also includes enforcement of codes pertaining to cargo tanks for transportation of flammable liquids.

Analysis and Development—This element consists of six components: (1) approval and listing services, (2) fireworks/explosives, (3) fire extinguishers, (4) flammable fabrics, (5) flammable liquids, and (6) vapor recovery.

Administration

This program provides technical, administrative and executive support services.

ANALYSIS AND RECOMMENDATIONS

The budget request of \$2,659,099 is a reduction of \$235,990 or 8.2 percent from current year estimated expenditures. Table 1 summarizes the program changes:

Table 1
State Fire Marshal
Summary of Program Requirements
Proposed Changes

| | 1978-79 | 1979-80 | Percent Change |
|--|-------------|-------------|----------------|
| Program I—Public Fire Safety | | | |
| A. Enforcement | \$3,528,943 | \$3,427,074 | -2.9% |
| B. Analysis and Development | 358,742 | 132,121 | -63.2 |
| Program II—Administration | | | |
| A. Administration distributed to Program I | (502,634) | (514,335) | +2.3 |
| Totals, Programs | \$3,887,685 | \$3,559,195 | -8.4% |
| Less: Reimbursements | 980,096 | 895,096 | -8.7 |
| Less: Federal Funds..... | 12,500 | 5,000 | -60.0 |
| Net Totals (Budget Request) | | | |
| Personnel-Years..... | \$2,895,089 | \$2,659,099 | -8.2% |

OFFICE OF THE STATE FIRE MARSHAL—Continued

Reimbursements from the Employment Development Department in the form of federal PWEA Title II funds (\$109,000 in 1977-78) have been eliminated in the current and budget year due to completion of the inspection contract for local high rise facilities. Federal grant funds from the National Fire Prevention Control Administration are projected to decline from \$12,500 in the current year to \$5,000 in the budget year.

The three major changes in the budget for the State Fire Marshal are: (1) an increase of \$41,000 to implement a new jail inspection program (Chapter 1018, Statutes of 1978), (2) a reduction of \$393,787 to eliminate "low priority" programs, and (3) continuation of program cuts implemented under Section 27.1 and Section 27.2 of the Budget Act of 1978.

Jail Detention Inspection

Chapter 1018, Statutes of 1978, requires the State Fire Marshal, or his authorized representative, annually to inspect each jail or place of detention, unless the chief of the local fire department or district indicates that such inspection will be conducted by the local jurisdictions. The law also requires enforcement of certain regulations and standards, and submission of inspection reports. An appropriation of \$41,000 was provided in the enabling legislation to fund the first year of inspections. Because the enabling legislation was not effective until January 1, 1979, only one-half of the appropriated funds will be required in the current year. The unexpended funds of approximately \$20,500 will be reflected as current year budgetary savings and returned to the General Fund. The Budget Bill contains \$41,000 for continuing this activity in the budget year.

The State Fire Marshal's office estimates that approximately 200 to 300 additional inspections per year will be required as a result of the new legislation. In addition, a program will be initiated to train local inspecting officials and detention facility personnel in fire safety standards for these facilities.

We recommend approval of the amount requested for this program.

Reduction of "Low Priority" Programs

The budget proposes a reduction of 10.5 positions in an effort to reduce "low priority" programs. Table 2 summarizes the proposed reductions and our recommendations.

"Fires and Firemen" Publication

We recommend that reimbursements be increased to restore funding for publication of "Fires and Firemen".

The State Fire Marshal currently publishes "Laws Relating to Fires and Firemen". The publication contains excerpts from 21 codes and is updated annually. It provides one concise document containing all code sections related to Fires and Firemen. The book is sold to local fire districts and is distributed to libraries throughout the state. It is published pursuant to Section 13105.5 of the Health and Safety Code.

The budget proposes elimination of this publication service. If this publication is discontinued by the state and not prepared by some other entity,

Table 2
State Fire Marshal
Proposed Program Reductions
1979-80

| <i>Program Element (Fund)</i> | <i>Personnel- Years</i> | <i>Personal Services</i> | <i>Operating Expense</i> | <i>Total Proposed 1979-80 Budget Reduction</i> | <i>Legislative Analyst's Recommended Reduction</i> |
|--|-----------------------------|------------------------------|------------------------------|--|--|
| 1. "Fires and Firemen" Publication (General Fund)..... | — | — | \$18,000 | \$18,000 | \$18,000 |
| 2. Gasoline Vapor Recovery (General Fund)..... | 1 | \$32,758 | 7,100 | 39,858 | 39,858 |
| 3a. Building Materials Listing (General Fund)..... | .5 | 13,178 | 3,633 | 16,811 | 16,811 |
| b. Building Materials Listing (Reimbursement)..... | 3 | 66,633 | 18,367 | 85,000 | — |
| 4. Fire Extinguisher Service (General Fund)..... | 2 | 68,791 | 16,848 | 85,639 | 85,639 |
| 5. City and County Facilities (General Fund)..... | 1 | 27,140 | 8,424 | 35,564 | — |
| 6. State Board of Fire Services (General Fund)..... | 1 | 32,757 | 6,600 | 39,357 | 39,357 |
| 7. District Offices (General Fund)..... | 2 | 54,280 | 19,278 | 73,558 | 73,558 |
| Total | 10.5 | \$295,537 | \$98,250 | \$393,787 | \$273,223 |

present users will be required to review the 21 different codes for possible changes to fire related codes. In many instances the full text of these codes is not readily available to local fire authorities due to the small size of the organizations. Consequently, discontinuing this publication will inhibit the ability of local fire authorities to have up-to-date information on the codes they are required to enforce.

Because of the relatively low cost of this publication (\$12 per copy) in relation to the total cost of the 21 codes involved, and its value to fire authorities we believe the publication should be continued. However, the full cost of the document should be recovered from sale proceeds. Biennial rather than annual updating would also reduce costs. We believe that the department should increase the purchase price sufficiently to make this publication self-sustaining. On this basis we recommend that reimbursements in the budget be increased to fund at least biennial publication of "Fires and Firemen." However, if the Fire Marshal determines that revenues from the sale of this publication will not be sufficient to recover 100 percent of the costs, it should be discontinued.

Gasoline Vapor Recovery System Evaluation

The Fire Marshal currently is required by statute to inspect gasoline vapor recovery systems. This system is required for gasoline filling stations to improve safety and reduce air pollution. The equipment usually attaches to the pump nozzle to form a seal between the nozzle and the fill neck on an automobile, thus preventing gasoline vapor from escaping to the atmosphere. The Fire Marshal inspects the installed equipment to insure the equipment is functioning properly.

The budget proposes a reduction of \$39,858 in the amount provided for

OFFICE OF THE STATE FIRE MARSHAL—Continued

the Gasoline Vapor Recovery program. The proposed reduction would eliminate evaluation of this equipment and inspection of installed equipment. *We agree that the proposed reduction will have little impact on the State Fire Marshal's overall prevention program, and we recommend approval.* However, the Health and Safety Code should be amended to relieve the State Fire Marshal of this responsibility. Because the budget proposes several other reductions in staff, it may not be possible for the State Fire Marshal to absorb the Vapor Recovery System workload pending the passage of legislation. The department should report the status of the proposed legislation during hearings on the Budget Bill so that the reduction is implemented at the same time the responsibility is terminated.

Building Material and Construction Listing

We recommend that reimbursements to Item 112 be increased by \$85,000 to restore reimbursement funding for the Building Material and Construction Listing.

The Health and Safety Code requires the State Fire Marshal to prepare and publish listings of construction materials, equipment, and methods of construction which are in conformance with fire and panic safety standards. This listing provides enforcement authorities, architects, engineers and other interested persons with a reliable source of information regarding items which meet the minimum requirements established by the Fire Marshal. The manufacturers pay an application fee (\$50) and a listing fee (\$35) established in the code. Copies of the listing are distributed at cost of printing to persons submitting requests.

The budget proposes to eliminate this program element, thereby reducing the item by \$101,811. Table 3 shows that the net General Fund cost for this program is \$16,821, based on estimated reimbursements of \$85,000 from application and listing fees. In previous years, reimbursements have exceeded program costs so that no General Fund money was needed. Fees were last increased in 1969.

Table 3
Building Material and Construction Program
1979-80

| | |
|--|-----------|
| Personal Services (3.5 positions) | \$79,811 |
| Operating Expense | 22,000 |
| Subtotal | \$101,811 |
| Less: Reimbursement (estimated application and listing fees) | -85,000 |
| Net General Fund costs | \$16,811 |

Elimination of the listing would make plan checking by the State Fire Marshal and other checking authorities more cumbersome. For example, in 1977, the Fire Marshal reviewed 2,177 plans. In the absence of the listing, each plan checker would have had to evaluate laboratory tests each time an unfamiliar product was included in a building plan or specification. This cumbersome method of verifying product fire ratings would delay approvals for plans submitted for review. In turn this would proba-

bly delay bidding and thus result in the building owner paying higher construction costs. Therefore, we recommend that this listing be continued on a reimbursement basis, and to the extent necessary, the current fee schedule be increased through legislation to assure full reimbursement funding of this program.

Fire Extinguisher Service

The Fire Marshal is responsible for adopting standards and issuing regulations to control the sales and servicing of portable fire extinguishers. Pursuant to the Health and Safety Code, the Fire Marshal (1) approves tests of portable fire extinguishers, (2) issues licenses for businesses engaged in the services of portable fire extinguishers, (3) issues certificates of registration to persons performing such services, and (4) enforces the provisions of regulations and standards.

The budget proposes a reduction of \$85,639 for two positions and related operating expense from amounts currently budgeted for the inspection and investigation functions of these four elements. The department proposes to eliminate inspection and investigation functions with the exception of those relating to new licensees. In 1977-78 fiscal year 490 inspections and investigations were conducted. Under the proposed budget reduction, no more than 50 inspections or investigations would be conducted.

The proposed reduction should not have an adverse impact because the department's testing, licensing, and certification program elements will continue to monitor the portable fire extinguisher industry. Therefore, we recommend approval of the proposed reduction of \$85,639.

City and County Facilities

We recommend the budget be augmented by \$35,564 to restore funding for aid to local fire departments and districts.

The Health and Safety Code states, "The State Fire Marshal shall aid in the enforcement of all laws and ordinances and any rules and regulations adopted under the provisions of this chapter relating to fires or to fire prevention and protection." On occasion, a local fire department or district may not have the expertise to evaluate a particular fire related matter. In such instances, the State Fire Marshal is available to assist these local entities.

In the 1977-78 fiscal year the department provided assistance to local fire authorities in 341 instances. Approximately 90 percent of this assistance was to small departments or volunteer departments. The budget proposes a reduction of \$35,564 for one position and related operating expense by eliminating this service. In the future these departments will presumably have to seek assistance from other departments, rather than from the State Fire Marshal's office.

The proposed reduction is inappropriate if the Fire Marshal is to adequately meet his responsibilities in this area. The expertise and knowledge of the State Fire Marshal's office should be available to the local fire departments and districts to aid in the performance of their duties. The State Fire Marshal is the one central fire enforcement authority in the state. Continuation of this program will assure that local districts will have

OFFICE OF THE STATE FIRE MARSHAL—Continued

the impartial authority of the State Fire Marshal available to aid enforcement.

State Board of Fire Services

The State Board of Fire Services consists of the following 15 members: the State Fire Marshal, the State Forester, the Supervisor of the California Fire Service Training Program, the Chief of the Fire and Rescue Division, Office of Emergency Services, a representative of the insurance industry, four fire chiefs, four fire service labor representatives, one representative from city government and one representative from county government. The board is charged with the responsibility of conducting studies and making recommendations and reports to the Governor and the Legislature concerning minimum standards with respect to fire prevention and protection. With the exception of the State Fire Marshal, the board also hears appeals when a person believes that the State Fire Marshal has incorrectly applied regulations. The decision of the board is binding upon the State Fire Marshal.

The budget proposes a reduction of \$39,357 for one position and related operating expense. This reduction would eliminate the professional staff support currently available to the board. Clerical assistance would still be provided.

The proposed reduction will have a minimal impact on the overall departmental enforcement program. The board members will have to devote more time and effort to the board by doing their own staff work. This should represent a marginal increase in staff workload. The proposed reduction in the Fire Marshal's budget is reasonable and we recommend approval.

District Office Reduction

The budget proposes a reduction of \$73,558 by closing the Oroville and Merced district offices. Two positions, budgeted at \$54,280, and related operating expenses of \$19,278 would be eliminated. The workload related to these district offices would be absorbed by the surrounding offices. The additional travel expense and travel time would also be absorbed.

The department indicates that one position is capable of conducting 400-450 inspections per year. The proposed reduction of two positions will, therefore, transfer the responsibility for 800 to 900 annual inspections to surrounding district offices. Because of the enlarged area covered by the remaining district offices, the level of service would have to be reduced.

On the average, inspections are presently conducted on an annual basis. The department proposes to implement the budget reduction by inspecting certain facilities less frequently. Discretionary inspections such as those covering state-owned buildings would be conducted less frequently so that on the average buildings would be inspected every 14 to 18 months. Inspections which are currently required on an annual basis (such as schools) would be continued at the existing rate. This reduced level of inspections is reasonable and we recommend approval of the requested reduction.

Budget Reductions—Section 27.2—Budget Act of 1978

The budget indicates that \$115,000 for 4.6 positions has been eliminated from the budget in accordance with the Section 27.2 of the Budget Act of 1978. The Governor's Budget indicates that the positions related to the reduction will be identified during legislative hearings. Consequently, we do not have adequate information to evaluate the proposed budget reduction. This information should be made available prior to budget hearings.

**State and Consumer Services
FRANCHISE TAX BOARD**

Items 113 and 114 from the
General Fund

Budget p. 204

| | |
|--|--------------|
| Requested 1979-80 | \$68,462,662 |
| Estimated 1978-79..... | 65,138,521 |
| Actual 1977-78 | 59,225,157 |
| Requested increase \$3,324,141 (5.1 percent) | |
| Total recommended reduction | \$484,000 |

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|------------------|---------|--------------|
| 113 | Support | General | \$68,437,662 |
| 114 | Local Assistance | General | 25,000 |
| | Total | | \$68,462,662 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|---|--------------------------|
| | <i>Analysis page</i> |
| 1. Excess Income Tax Over Withholding. Recommend legislation to reduce excess income tax over withholding resulting from lag in indexing adjustments to withholding tables. | 153 |
| 2. <i>Senior Citizens' Property Tax Assistance. Reduce Item 113 by \$484,000.</i> Recommend deletion of 33 personnel-years due to overestimate of property tax assistance program claims. | 163 |

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is responsible for administration of the Personal Income Tax Law, Bank and Corporation Tax Law, the Senior Citizens' Property Tax Assistance program, and the Political Reform Audit program. The board consists of the Director of Finance, the Chairman of the State Board of Equalization and the State Controller. An executive officer is charged with administrative responsibilities imposed on the board, subject to supervision and direction from the board.

FRANCHISE TAX BOARD—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$68,462,662 from the General Fund for support of the Franchise Tax Board in 1979-80. This is an increase of \$3,324,141 or 5.1 percent above estimated expenditures during the current year. Table 1 compares the personnel-years and expenditures in the current and budget years. The department's largest activity, the Personal Income Tax (PIT) program, shows a 1.6 percent increase in staffing and a 4.4 percent increase in expenditures. The Senior Citizens' Property Tax Assistance program shows a 23 percent increase in staff and a 20 percent increase in expenditures, primarily reflecting increased workload due to Chapter 569, Statutes of 1978 (AB 3802).

Table 1
Franchise Tax Board
Summary of Program
1977-78 through 1979-80

| | <i>Personnel-Years</i> | | | <i>Expenditures</i> | | |
|--|------------------------|----------------|----------------|---------------------|----------------|----------------|
| | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> |
| I. Personal Income Tax..... | 1,776.1 | 1,747.7 | 1,776.3 | \$42,712,240 | \$45,135,000 | \$47,134,000 |
| II. Bank and Corporation Tax..... | 646.6 | 668.0 | 667.2 | 14,967,805 | 16,057,000 | 16,591,700 |
| III. Senior Citizens' Property Tax Assistance..... | 134.9 | 211.8 | 260.0 | 2,628,416 | 3,953,000 | 4,743,000 |
| IV. Contract Work..... | 79.0 | 54.2 | 57.9 | 1,738,530 | 1,061,788 | 1,189,719 |
| V. Political Reform Audits..... | 83.0 | 96.3 | 99.5 | 1,956,296 | 2,396,562 | 2,485,603 |
| VI. Legislative Mandates..... | — | — | — | 7,278 | 25,000 | 25,000 |
| VII. Administration— | | | | | | |
| Distributed..... | (259.0) | (235.0) | (238.0) | (4,803,291) | (4,604,000) | (4,780,000) |
| Total..... | 2,719.6 | 2,778.0 | 2,861.3 | \$64,010,565 | \$68,628,350 | \$72,169,022 |
| Reimbursements.... | | | | 2,829,112 | 1,093,267 | 1,220,757 |
| Political Reform Act | | | | 1,956,296 | 2,396,562 | 2,485,603 |
| General Fund..... | | | | 59,225,157 | 65,138,521 | 68,462,662 |

Section 27.1 and 27.2 Reductions

As a result of Sections 27.1 and 27.2 of the 1978 Budget Act, the department deleted 73.8 personnel-years (2.6 percent), for a savings of \$990,000, and reduced operating expenses and equipment by \$1.1 million (4.9 percent). At this time, these reductions are distributed uniformly across all programs. The final distribution of these reductions will depend upon the outcome of proposed changes in procedures, the results of which will not be known until the end of the current year.

I. PERSONAL INCOME TAX

The Personal Income Tax program administers the Personal Income Tax and the Income Tax Withholding Law. Table 2 displays the resources utilized in the program's four elements.

Table 2
Personal Income Tax Program
Expenditure by Program Element
1977-78 through 1979-80

| | <i>Personnel-Years</i> | | | | <i>Expenditures (000)</i> | | | |
|--------------------------------------|------------------------|----------------|----------------|----------------------------|---------------------------|----------------|----------------|----------------------------|
| | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> | <i>Percentage Increase</i> | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> | <i>Percentage Increase</i> |
| Self-Assessment and Prepayments..... | 876.2 | 856.6 | 880.7 | 2.8% | \$24,351 | \$25,908 | \$27,160 | 4.8% |
| Audits | 501.2 | 492.1 | 496.0 | 0.8 | 9,292 | 9,697 | 10,100 | 4.2 |
| Filing Enforcement..... | 60.2 | 63.0 | 63.0 | 0.0 | 1,529 | 1,545 | 1,600 | 3.6 |
| Collections..... | 338.5 | 336.0 | 337.0 | .3 | 7,541 | 7,985 | 8,274 | 3.6 |
| Total | 1,776.1 | 1,747.7 | 1,776.7 | 1.7% | \$42,712 | \$45,135 | \$47,134 | 4.4% |

The activities of the self-assessment and prepayments element include (a) disseminating information to taxpayers, including 14 million booklets and over 50 million tax forms, (b) administering the \$9.1 million withholding tax contract with the Employment Development Department and (c) processing the estimated 10.1 million returns submitted by taxpayers. Audit activities include (a) the verification of computations on all returns filed and (b) desk audits and field audits of over 700,000 returns. The filing enforcement element utilizes information from a variety of sources to identify approximately 140,000 persons who appear not to have met their filing requirement. The collections element attempts to collect amounts due from approximately 500,000 taxpayers.

Unique Approach to the 1979-80 Budget

The 1979-80 budget for the Franchise Tax Board (FTB) reflects an important change from the budgeting procedures of prior years. In the past, the FTB's budget-year request has been based on (a) estimated workload in the budget year and (b) actual production rates from the prior fiscal year. Thus, if this approach had been used for the budget year, the 1979-80 budget would reflect the workload estimated for 1979-80 and actual production rates realized in the 1977-78 fiscal year.

In view of the reductions imposed by Sections 27.1 and 27.2 of the 1978 Budget Act, the department initiated changes in its procedures in an attempt to improve production rates. The department indicates it did not request increased resources to handle projected workload growth because of the lack of information on the effect of these procedure changes on productivity. Definitive results on the effect of these changes will not be available until some time after the end of the current fiscal year.

The department has prepared an estimate of the increase it would have requested in the budget year based on a typical 3 percent growth in workload and historical production rates. This estimate, which is shown in Table 3, can be viewed as a "worst case" budget increase if the procedure changes being tested in the current year are not effective in increasing productivity. The FTB has stated that if these results indicate that critical services cannot be provided within the existing budget, it will request increased funding through a deficiency augmentation. Thus, it is possible that the FTB may be underfunded.

FRANCHISE TAX BOARD—Continued

Table 3
Personal Income Tax Program
Potential Staffing Increase for Typical Workload Growth

| | <i>Personnel- Years</i> | <i>Expenditures^a</i> |
|---------------------------------------|-----------------------------|---------------------------------|
| Self-assessment and prepayments | 31.2 | \$385,000 |
| Audits | 24.2 | 299,000 |
| Filing Enforcement | 1.2 | 15,000 |
| Collections | <u>24.2</u> | <u>299,000</u> |
| Total | 80.8 | \$998,000 |

^a Distribution estimated by Legislative Analyst

The estimates shown in Table 3 reflect staffing levels necessary to process *all* of the work which results from a 3 percent increase in the number of returns. In our judgment, however, not all of this workload is mandatory. For example, desk audits, collections and filing enforcement can be considered optional in that they can be delayed or ignored. However, these activities tend to produce revenues in excess of costs, and there are potentially serious consequences if such work is not processed over an extended period of time. These "optional" activities are estimated to involve approximately 37 personnel-years and \$457,000.

Potential Consequences of FTB Understaffing

Under Sections 19062 and 19062.11 of the Revenue and Taxation Code, the Franchise Tax Board (FTB) is required to pay interest on PIT overpayments not refunded within 90 days after the return is required to be filed. Thus, if the FTB does not mail its refunds by July 15, the state must pay interest at 6 percent per year from April 15. In 1977-78, the FTB completed its refunds by approximately May 30. The department has stated that it believes it will complete processing of the 1978 income year returns by June 30, 1979. Failure to meet the 90 day deadline could increase state costs significantly.

New Workload from 1978 Tax Reduction Act

The FTB has requested staff increases to handle the workload increase from enactment of Chapter 569, Statutes of 1978 (AB 3802). Chapter 569 provided for:

- (1) partial indexing of the taxable income brackets beginning with the 1978 income year;
- (2) full indexing of the standard deduction, low-income credit and personal and dependent credits, beginning with the 1979 income year;
- (3) a one-time increase in the personal credit for the 1978 income year;
- (4) a once-in-a-lifetime exclusion of \$100,000 on the gain from the sale of a personal residence;
- (5) a new tax credit for the elderly; and
- (6) the extension of eligibility for the renters' tax credit to recipients of public assistance.

Table 4 displays the increase by program element due to Chapter 569

for both the current and budget years.

Table 4
Personal Income Tax Program
Chapter 569 Workload Increase

| | 1978-79 | | 1979-80 | |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|
| | Personnel- Years | Expendi- tures | Personnel- Years | Expendi- tures |
| Self-Assessment and Prepayments | 6.6 | \$271,000 | 21.1 | \$505,000 |
| Audits/Math Verification..... | 2.1 | 24,000 | 3.1 | 35,000 |
| Total | 8.7 | \$295,000 | 24.2 | \$540,000 |

As indicated in Table 4, the costs associated with Chapter 569 are primarily within the self-assessment element. As a result of the expanded eligibility for the renters' credit, the board will receive an additional 200,000 returns. The indexing features will require the annual preparation and distribution of new employee withholding tax tables at a cost of \$114,000. Indexing will also require annual changes in the FTB computer programs, forms, instructions and training. We recommend approval of the requested positions and expenditures.

Implementation of Indexing Will Increase Over Withholding

We recommend that legislation be enacted which requires the Franchise Tax Board to adjust its withholding tables annually to reflect the anticipated effects of income tax indexing for the purpose of preventing excess over withholding.

As indicated above, Chapter 569, Statutes of 1978 (AB 3802), provided for partial indexing of the Personal Income Tax Law. "Indexing" under Chapter 569 involves automatic annual adjustments to the taxable income brackets, the standard deduction, the personal and dependent credits, and the low-income credit. These adjustments are intended to prevent, at least in part, inflationary increases in income from being taxed at higher marginal tax rates. Indexing adjustments for a particular income year are based on the percentage change in the California Consumer Price Index (CPI) from June of the prior year to June of the applicable income year.

The Franchise Tax Board's procedures for implementing Chapter 569 will result in a substantial increase in the over withholding of state income taxes. This increased over withholding, which we estimate could be as much as \$200 million in the 1979 income year, will occur because the Franchise Tax Board has interpreted Chapter 569 to prohibit indexing adjustments based on *anticipated* CPI changes. Thus, because the *actual* June-to-June CPI change is not available until the middle of the applicable income year, the withholding tax tables cannot be adjusted to reflect these changes until the following year. For example, the indexing adjustments applicable to income earned during 1979 will not be reflected in withholding tables until January 1980. Thus, amounts withheld during 1979 will be based on tax schedules applicable to the 1978 income year.

If inflation rates continue to be high (say, 6 percent or more), thereby requiring significant annual adjustments to the rate schedule, FTB's withholding tables will substantially overstate estimated tax liabilities each

FRANCHISE TAX BOARD—Continued

year. Although the taxes over withheld will be refunded when returns are filed, those taxpayers who have not anticipated this over withholding (and requested compensating adjustments on their W-4 forms) will involuntarily forego the use of these funds during the income year, and will in effect be making an interest free "loan" to the state.

In order to minimize over withholding due to this adjustment lag, we are recommending that legislation be enacted to require the Franchise Tax Board to adjust its income tax withholding tables based on the anticipated June-to-June CPI change applicable to that income year. There are three basic approaches which we believe, at least on technical grounds, would be appropriate means to "anticipate" the rate of inflation for a given year:

1. *Use of a projected CPI change.* The advantage to this approach is that generally it should provide the best approximation of the actual rate of inflation. However, the major disadvantage is that there may be considerable disagreement, on a policy level, as to where the responsibility for projecting the CPI change should be placed (for example, in the Department of Finance, in another existing agency or commission, or in a newly-created entity).

2. *Use of Actual Prior-Year CPI Change.* This would remove any discretion from the determination of an "anticipated" rate of inflation. In a period of relatively stable price changes, it should also provide for a reasonable approximation of the actual rate of inflation in the applicable income year. However, where there are significant changes in the price level from year to year (due to generally unstable economic conditions or dramatic changes in specific factors influencing prices) this approach could result in substantial differences between the "anticipated" and actual rates of inflation.

3. *Use of a Constant Statutory Adjustment Factor.* This approach also would eliminate discretion in determining the adjustment factor, plus it would provide for a stable annual adjustment to the withholding tables, minimizing the potential for substantial *under* withholding of tax liabilities. On the other hand, of course, it would not reflect significant fluctuations in the actual inflation rate from year to year.

Overall, we believe that the third approach—use of a constant statutory adjustment factor—would be preferable because it would be the easiest and least costly to administer, while substantially reducing the potential for excess over withholding under indexing. Based on the current trend in inflation, we would suggest assuming a minimum CPI change of about 6 percent. To further insure against the risk of *under* withholding, we also would suggest that legislation to implement this adjustment provide for a *reduction* in the statutory factor in years when the *actual prior-year* CPI change falls below 6 percent.

IRS Enjoys Decreased Error Rates

Preliminary results from the Internal Revenue Service indicate a substantial decrease in the errors detected by their math verification audits in the 1977 income year. In the 1977 filing season, the IRS math verification

process found errors in 10.3 percent of the returns filed. In the 1978 filing season, errors were found on only 5.8 percent of the returns, a reduction of 44 percent. The percentage decline in errors was greater for the short form returns (58 percent) than for the long form returns (33 percent).

The reason for the decline has not yet been identified. The IRS made changes in the organization of its basic income tax return forms (forms 1040 and 1040A), the most prominent of which was a change to a front-to-back, top-to-bottom process. On the revised forms, sources of income are listed and totaled, followed by all adjustments to income, adjusted gross income, tax table income, tax, etc., with the last lines on the back page for refunds or the amount due. The FTB uses a different format, which involves performing various calculations on the back side of the form, and transferring the results to the front side.

Recent statutory changes also affected the federal tax forms for the 1977 income year. The federal Tax Reduction and Simplification Act of 1977 provided for a "zero bracket amount," which was built into the tax tables, in lieu of the standard deduction. The tax tables now allow taxpayers who do not itemize deductions to determine their tax liability directly from adjusted gross income.

The FTB has informed us that it is reviewing the federal experience to determine its relevance for FTB's forms. The 1977-78 results indicate that FTB made tax changes on 18.7 percent of PIT returns. It is not clear if the FTB and the IRS use the same definition of math verification errors. In the budget year, the FTB estimates the cost of math verification at approximately \$2 million.

The Franchise Tax Board's Taxpayer Services

In the supplemental language report on the 1978 Budget Bill, we were requested to examine the desirability of expanding taxpayer services provided by the Franchise Tax Board, with specific reference to the Department of Motor Vehicles (DMV) pilot program of extended office hours.

Taxpayer assistance currently provided by the Franchise Tax Board falls into three basic categories: (1) a toll-free telephone system, (2) district offices and (3) correspondence. The following sections review (1) the activities and services provided in each of these categories, (2) the changes which the board has made in delivery of these services (3) the preliminary results of the DMV pilot program and (4) the expansion of the overall level of service provided by the Franchise Tax Board.

The Toll-Free Telephone System

Since March 1978, the Franchise Tax Board has operated a toll-free telephone system for residents of California. The telephone center is located at the board's central office at Aerojet Center, near Sacramento. Services are available from 8 a.m. to 5 p.m., Monday through Friday. During 1977-78, this toll-free system handled nearly 750,000 telephone calls concerning personal income taxation.

The Franchise Tax Board classifies its phone calls by the purpose of the call. Table 5 displays this classification for the 1977-78 year. It should be noted that, because the system was not operating statewide, the total number and relative proportions will be different in the first full year of

FRANCHISE TAX BOARD—Continued

operation (1978-79).

Table 5
Franchise Tax Board
Toll-Free Telephone System
By Purpose of Call
1977-78

| <i>Subject of Telephone Call</i> | <i>Number of Calls</i> | <i>Percent of Total</i> |
|--|----------------------------|-----------------------------|
| Filing Enforcement..... | 19,786 | 2.6% |
| Billings, Tax Change and Tax Due Notices | 45,225 | 6.1 |
| Refund Status | 85,859 | 11.5 |
| General Information | 497,442 | 66.8 |
| Forms Requests | 54,083 | 7.3 |
| Payments and Collections | 17,754 | 2.4 |
| Claims and Audit Proposed Assessments..... | 18,222 | 2.5 |
| Forms requested—Message Recorded | 6,386 | 0.8 |
| Total | 744,757 | 100.0% |

The general information category includes explanation of the law and assistance with forms. The one-half million general assistance calls accounted for two-thirds of total calls. Requests for forms were responsible for approximately 8 percent of the calls, 0.8 percent of which were handled by a prerecorded response. Approximately 86,000 calls (11 percent) concerned tax refunds. Audits, collections, filing enforcement and billings accounted for 100,000 calls, approximately 13 percent of the total.

District Offices

The Franchise Tax Board maintains 16 district offices throughout the state, and two out-of-state offices. Taxpayers can visit these offices to obtain assistance from 8 a.m. to 5 p.m. In addition, the offices are open for service on the Saturday preceding the personal income tax filing deadline (usually April 15). During 1977-78, approximately 580,000 persons received service by visiting a district office. Table 6 classifies these visits by purpose.

Table 6
Personal Income Tax Program
District Office Visits

| <i>Purpose of Visit</i> | <i>Number of Visits</i> | <i>Percent of Total</i> |
|---------------------------|-----------------------------|-----------------------------|
| General Assistance..... | 531,468 | 91.0 |
| Computer Collections..... | 47,877 | 8.2 |
| Filing Enforcement..... | 4,433 | .8 |
| Total | 583,778 | 100.0% |

The general assistance category includes assisting in tax return preparation, answering questions, and explaining various official notices. It does not include contacts in which only a form is provided without additional assistance or service. As shown in Table 6, general assistance was the principal reason for visiting the district office. In previous years, the dis-

strict offices provided a larger share of taxpayer services. The 1978-79 budget indicated a decrease of 44 personnel-years in district offices for taxpayers services. These positions were transferred to the headquarters office with the implementation of the toll-free telephone system.

Correspondence with Taxpayers

The Franchise Tax Board received nearly 300,000 pieces of correspondence during 1977-78. Table 7 provides a breakdown of this correspondence by subject of inquiry.

Table 7
Personal Income Tax Program
Taxpayer Correspondence
1977-78

| <i>Subject of Letter</i> | <i>Number of Letters</i> | <i>Percent of Total</i> |
|--|------------------------------|-----------------------------|
| Returned Warrants | 6,229 | 2.1% |
| Filing Enforcement | 125,949 | 42.5 |
| State Disability Insurance | 3,203 | 1.1 |
| Collections | 17,318 | 5.8 |
| Miscellaneous (Refunds, Billings, General Information) | 82,555 | 27.9 |
| Audits (Notice of Tax Change) | 22,670 | 7.7 |
| Returns Filed With Correspondence | 29,927 | 10.1 |
| Collection letters/telephone calls | 8,532 | 2.9 |
| Total | 296,383 | 100.0% |

As shown in Table 7, the filing enforcement element generates a substantial portion (42 percent) of all correspondence. This usually results from FTB letters to taxpayers indicating that a return has not been filed but appears to be due. Approximately 30,000 letters accompanied tax returns sent to the FTB. Collection matters resulted in 25,000 letters and phone calls, usually in response to an FTB letter.

The FTB attempts to respond to correspondence promptly, because experience indicates that delays can be expected to generate additional taxpayer correspondence. This results in additional workload and complexity, as the first letter generally must be located before a response to subsequent correspondence is possible.

Trends in Taxpayer Services

The Franchise Tax Board has made a number of changes in recent years in order to improve taxpayer service levels. "Service" is defined by no single criterion, but rather reflects a number of concerns. Among these are providing (1) uniform access to service for persons anywhere in the state, (2) technically accurate information, (3) timely responses to requests for forms and booklets, and (4) a minimum of difficulty for taxpayers in obtaining service.

Based on a test conducted during 1977, the FTB has concluded that, as a means of providing service to taxpayers, the centralized telephone system is superior to a decentralized system. In addition, FTB experience indicates that telephone contacts are a more effective means of providing taxpayer assistance than district office contacts. As a result, the Franchise Tax Board has given greater emphasis to the toll-free telephone system by

FRANCHISE TAX BOARD—Continued

(1) listing the toll free number in telephone directories throughout the state, (2) prominently displaying the toll-free numbers in taxpayer instruction booklets, (3) not listing the district office telephone numbers in the instruction booklets, and (4) publicizing the availability of the toll-free telephone service through the news media.

The reductions in personnel and operating expenses imposed by Sections 27.1 and 27.2 of the 1978 Budget Act also have contributed to the FTB's increased emphasis on the toll-free telephone system. District office managers now operate under a policy that prohibits the use of auditors for providing general assistance to taxpayers. Auditors are called to the counter only to provide assistance in technical matters, and signs are posted prominently at district offices informing taxpayers of the availability of service by telephone.

The FTB also has terminated its itinerant field office program. Under this program, the FTB opened temporary offices in various parts of the state to provide services to taxpayers who were a long distance from district offices. Residents were informed of the availability of this service through local news media. The toll-free telephone network is now considered a more efficient means of providing services to remote areas than the itinerant field office program.

To provide some offset to the decreased level of personal service available through district offices, the FTB is encouraging greater utilization of its Volunteer Tax Assistance Program (VTAP). Under this program, the FTB will provide technical assistance and training to organizations willing to provide volunteers. Such organizations typically include groups of senior citizens, retired persons or students. The FTB will inform taxpayers using the toll-free system of the availability of personal assistance from volunteers in their local area. The IRS also utilizes and provides technical assistance to such tax volunteers.

Future Improvements in Taxpayer Services

The FTB has not yet had statewide experience with the centralized telephone system during the peak income tax filing period, January through April. It is just now beginning to develop information which will allow it to evaluate and, where possible, increase the effectiveness of this system. The FTB has established a procedure to test the accessibility of the toll-free system as measured by waiting time and frequency of "no-available-line" conditions. It is also seeking improved response time from the telephone company so that it can better match the number of telephone lines to the volume of calls.

Extended Hours: Preliminary DMV Results

Chapter 516, Statutes of 1977, required the Department of Motor Vehicles (DMV) to conduct a two-year pilot program to determine the feasibility of using flexible office hours in field offices as an alternative to the normal business hours of 8:00 a.m. to 5:00 p.m. The department is testing several variations of extended office hours. These include (1) providing services Tuesday through Saturday, with offices closed Sunday and Monday, (2) providing services 11 hours a day (7:00 a.m. to 6:00 p.m.), four days

a week, and (3) providing the standard nine hours of total service, but at nonnormal hours on two days each week (for example, 7:00 a.m. to 4:00 p.m., or 10:00 a.m. to 7:00 p.m.).

According to DMV, preliminary results indicate:

- Normal office hours (8:00 a.m. to 5:00 p.m., Monday through Friday) were the single most preferred (35 percent) choice of office hours by service users.
- Approximately 25 percent of respondents preferred services available on Saturday, and an equal percentage preferred weekday evenings.
- The majority of those preferring varied hours would not prefer varied hours if costs to taxpayers increased.

In terms of utilization, overall workload was lower during varied office hours than during normal hours. This may have been due to lack of awareness that some DMV offices were open during these nonnormal hours.

The DMV study also included a survey of employee reaction to the varied office-hour program. The report indicates that a majority of employees are opposed to the varied hours program. Most employees (82 percent) working during these hours did not volunteer to do so. Among the problems cited were (1) difficulty in finding child care and (2) decreased personal time to spend with spouses who are working normal hours. The department has only begun to develop information of the costs of the varied office hours program. Preliminary results indicate that ongoing costs result from (1) employee overtime and (2) increased use of utilities in offices.

The DMV results may not be completely applicable to the Franchise Tax Board. First, some DMV services must be provided "in person," including drivers' tests and vehicle registration under certain conditions. The FTB generally does not have to deal in person to provide most forms of assistance. Second, DMV workload is more uniformly distributed throughout the year, while FTB's workload is highly cyclical. Third, individuals generally have no choice but to deal with DMV for the services it provides, but they may, in many cases, seek taxpayer assistance from sources other than the FTB (they, of course, have no choice regarding certain matters, such as filing a tax return).

At this time, we have no basis for recommending that the hours of taxpayers services be extended. Until more experience and cost data can be developed regarding the toll-free telephone system, the costs of alternatives to the existing system cannot be reasonably determined. We believe that the information which the FTB is developing during the current fiscal year will provide a basis for evaluating alternatives in the future.

The concept of extending the hours of taxpayer services should be evaluated within the larger context of increasing the level or improving the delivery of taxpayer services. Thus, we intend to ask the FTB to evaluate the extension of the hours of its toll-free telephone service during the peak PIT filing period as an alternative to increasing the number of telephone operators. Under current procedures, increased services would most likely be provided by increasing the telephone staff on duty between 8 a.m. to 5 p.m.

The benefits of taxpayer services are not easily quantified. The Fran-

FRANCHISE TAX BOARD—Continued

chise Tax Board operates under the assumption that providing a higher level of service will encourage taxpayer compliance and reduce errors on income tax returns. While this assumption is not unreasonable, no precise relationship between service levels, compliance and accuracy of returns has been established.

Tax Audit Effectiveness Criteria

In the supplemental language report on the 1978 Budget Bill, this office was instructed to "prepare a definition of standard tax audit effectiveness criteria" and report our findings in the Analysis of the 1979-80 Budget. We intend to present a supplemental analysis on this subject at the legislative hearings on this item.

Federal Administration and Collection of State Taxes

The State and Local Fiscal Assistance Act of 1972 (P.L. 92-512), as amended by the Tax Reform Act of 1976 (P.L. 94-455), authorizes the Secretary of the Treasury to enter into agreement with any state to administer and collect state income taxes for any state meeting specified requirements. Under the 1976 amendment, Congress specified that the costs would be borne entirely by the federal government. States would have to agree to conform substantially to federal law, with certain exceptions, in one of two ways. The state tax would have to be based on either (1) federal taxable income, or (2) federal tax liability. The final regulations implementing the federal laws were published in December 1978.

The issue of federal conformity has been addressed in numerous studies. The generally recognized *advantages* of federal conformity are (1) increased taxpayer convenience and (2) administrative cost savings. Frequently cited *disadvantages* of conforming to federal law include (1) decreased state sovereignty in the important policy area of taxation, (2) potential state fiscal problems caused by changes in federal tax law, and (3) changes in existing state income tax burdens. Prior to the enactment of the federal laws authorizing federal administration of state income taxes, California voters on two occasions defeated proposed constitutional amendments permitting federal income tax conformity.

In view of (1) the federal government's willingness to assume state tax administration costs and (2) the heightened concern over government costs and tax burdens resulting from Proposition 13, the Legislature may wish to reexamine the advantages and disadvantages of federal conformity and federal collection of the state income tax.

The following sections review briefly the federal specification for an eligible state income tax, and the procedures a state must follow to initiate federal collection.

Qualified State Taxes

The federal collection act permits a choice of two state taxes, based on either federal taxable income or the federal tax liability. Both methods *require* and *permit* various adjustments to the federal income or tax base. For example, for a state income tax based on federal taxable income, four adjustments to federal taxable income are *required*:

- (1) subtracting the amount of interest received on U.S. obligations;
- (2) adding an amount equal to the net state income tax deduction;
- (3) adding an amount equal to the taxpayer's net tax exempt interest income, and
- (4) adding an amount equal to sales tax deductions, if the state allows a sales tax credit.

In addition, three additional adjustments are *permitted*:

- (1) a state may impose its own minimum tax on tax preferences;
- (2) a credit may be allowed for taxes paid to other states or their political subdivisions, and
- (3) a credit may be allowed for any general state sales tax.

Utilizing federal taxable income as the base would appear to offer the greatest flexibility to the state because the state would be free to establish and modify its own tax rate structure.

The latitude provided to the state to set its own minimum tax on tax preferences and to provide a general state sales tax credit would appear to allow considerable flexibility to the state to achieve its tax policy objectives.

What a State Must Do

To initiate the federal collection of state income taxes, a state must conform its law to the federal collection statute, and then file a notice of election to invoke the federal collection of state taxes. The Treasury will require an opinion from the state Attorney General that such conformity is constitutional. Based on previous legal opinions on this subject, California would need a vote of the people to authorize prospective federal conformity. Within 90 days of the filing the notice of election, the Treasury must notify the state if it does not qualify. If the state is qualified, the Treasury must enter into agreement with the state to collect the state income tax. The agreement would be effective on the first January 1 more than one year after the notice of election is filed. States retain the right to withdraw from the federal collection program at any time.

Any decision in this area would have major ramifications for the state. The development of adequate information on the alternatives and consequences would require a commitment of substantial staff resources. If the Legislature were interested in having such information developed, we would suggest that a special study (to be conducted by a disinterested party or organization) be authorized and funded through concurrent resolution.

II. BANK AND CORPORATION TAX PROGRAM

The Bank and Corporation Tax program administers the Bank and Corporation Tax Law, which is estimated to yield revenue of \$2.5 billion in the budget year. Table 8 summarizes the activities of this program by element.

Table 8 indicates that the Bank and Corporation Tax program will remain essentially unchanged in the budget year in terms of total staff. The average annual growth in bank and corporation returns is 3.5 percent per year, and this growth rate is more uniform than the growth in personal

FRANCHISE TAX BOARD—Continued

Table 8
Bank and Corporation Tax Program
Summary by Program Element
1977-78 through 1979-80

| | <i>Personnel-Years</i> | | | <i>Expenditures</i> | | |
|----------------------------------|------------------------|----------------|----------------|---------------------|----------------|----------------|
| | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> |
| Self-Assessment and Prepayment | 161.9 | 168 | 167.2 | \$3,144,728 | \$3,471,000 | \$3,558,000 |
| Audits | 325.9 | 328 | 328.0 | 8,367,531 | 8,899,000 | 9,215,700 |
| Exempt Corporation | 31.2 | 34 | 34.0 | 656,536 | 736,000 | 762,000 |
| Filing Enforcement | 8.9 | 23 | 23.0 | 196,160 | 376,000 | 389,000 |
| Collections | 118.7 | 115 | 115.0 | 2,602,800 | 2,575,000 | 2,667,000 |
| Administrative-Distributed | (60.8) | (56) | (56.0) | (1,077,313) | (1,097,000) | (1,125,000) |
| Total | 646.6 | 668 | 667.2 | \$14,967,805 | \$16,057,000 | \$16,591,700 |

income tax returns. For the budget year the increase is estimated at approximately 5 percent based on the increased corporate formations filed in the Secretary of State's office. The document processing workload is less dominant in this program than in the Personal Income Tax program. The self-assessment program element (which includes return processing) for the Bank and Corporation Tax requires approximately 25 percent of the total program personnel-years while the audits element requires approximately 50 percent of the personnel-years. In contrast, the Personal Income Tax program shows almost the reverse, utilizing 50 percent of its personnel-years in the self-assessment element and 28 percent in audits.

III. SENIOR CITIZENS' PROPERTY TAX ASSISTANCE LAW

The department administers the Senior Citizens' Property Tax Assistance program, which consists of three elements as shown in Table 9. Homeowners and renters who are 62 years or over, or who are under 62 and totally disabled, may receive property tax assistance payments if their household incomes do not exceed \$12,000. In addition, homeowners 62 years or over with incomes not above \$23,200 may postpone their property taxes through this program. (These programs are discussed in greater detail under Items 424-426.)

Table 9
Senior Citizens' Property Tax Assistance Program
1977-78 through 1979-80

| | <i>Personnel-Years</i> | | | <i>Expenditures</i> | | |
|----------------------------------|------------------------|----------------|----------------|---------------------|----------------|----------------|
| | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> | <i>1977-78</i> | <i>1978-79</i> | <i>1979-80</i> |
| Homeowners' Assistance | 75.1 | 123.5 | 120.3 | \$1,497,566 | \$2,363,000 | \$2,382,000 |
| Renters' Assistance | 30.7 | 66.8 | 114.2 | 612,188 | 1,183,000 | 1,865,000 |
| Postponement | 11.6 | 3.5 | 3.5 | 169,917 | 54,000 | 54,000 |
| Administration—Undistributed ... | 17.5 | 18.0 | 22.0 | 348,745 | 353,000 | 442,000 |
| Total | 134.9 | 211.8 | 260.0 | \$2,628,416 | \$3,953,000 | \$4,743,000 |

Chapter 569 Creates Significant New Workload

Chapter 569, Statutes of 1978, increased the number of eligible persons in the homeowners' program and, more significantly, in the renters' program. Chapter 569 extended eligibility for both of these programs to

totally disabled persons under 62 and raised the income limits in the renters' programs from \$5,000 to \$12,000. Eligibility for the totally disabled will result in an estimated 75,000 additional claimants under the homeowners' program and 250,000 additional claimants under the renters' program. The increased income limits will result in an additional 225,000 claimants in the renters' program.

Estimate of New Staff Too High

We recommend that Item 113 be reduced by 33 personnel-years and \$484,000 to reflect lower-than-estimated total program participation in the current year.

The budget proposes an increase of 94.4 personnel-years and \$1,384,000 in the budget year to process the 550,000 additional claims. This includes continuation of the administratively authorized increase of 32.8 personnel-years and approximately \$481,000 in the current year. Table 10 shows how the increase is distributed among four functions.

Table 10
Senior Citizens' Program
Proposed Staff Increase Due to Chapter 569

| <i>Function</i> | <i>Proposed</i> | |
|---------------------------|------------------------|----------------------|
| | <i>Personnel-Years</i> | <i>Expenditures*</i> |
| Document Processing | 37.8 | \$554,200 |
| Claimant Assistance | 48.8 | 715,500 |
| Audits | 4.0 | 58,600 |
| Administration | 3.8 | 55,700 |
| Total | 94.4 | \$1,384,000 |

*Distribution estimated by Legislative Analyst

Table 10 indicates the importance of taxpayer assistance for the senior citizens' program. Relative to the income tax program, the senior citizens' program entails a much greater frequency and amount of contact between the department and claimants. The 550,000 increased claims will involve an estimated 275,000 telephone calls for assistance plus 225,000 contacts at district offices. In contrast, an increase of the same size in personal income tax returns would result in an estimated 38,000 phone calls and 33,000 district office contacts.

We agree that the department needs some additional staff to process the new claims. However, the actual participation in the property tax assistance programs has for several years been less than originally estimated. Last year's budget (after adjustment for similar overestimates of participation in the prior year) provided staffing in the current year for approximately 455,000 claims under the three program elements. Preliminary figures indicate that about 365,000 total claims actually will be filed this year, 20 percent below the original estimate. This reduction in workload has *not* been matched by a reduction in staff. As a result, the existing staff should be able to process some of the new workload. Thus, we recommend a reduction of 33 personnel-years and \$484,000 to reflect the reduction in estimated current-year workload by 90,000 claims.

FRANCHISE TAX BOARD—Continued**Postponement Program Enters Third Year**

The Senior Citizens' Property Tax Postponement program enters its third year with an estimated 12,000 claimants. This program, which is jointly administered by the Franchise Tax Board and the State Controller, is discussed in greater detail under Item 425.

IV. CONTRACT WORK

The department provides data processing services to other state and federal agencies as a means of maximizing the utilization of its data processing facilities. All costs are recovered through reimbursements or fees, and departmental overhead borne by the General Fund is reduced accordingly. The budget shows 3.7 personnel-years at a cost of \$85,600, which will be recovered through reimbursements.

V. POLITICAL REFORM AUDIT PROGRAM

Under the Political Reform Act of 1974, the Franchise Tax Board is responsible for conducting audits of lobbyists, candidates, campaign committees and elected officials meeting criteria specified in the act.

As required by law, all amounts appropriated for administration of the Political Reform Act are budgeted in one separate Budget Bill item and distributed to the appropriate departments. For our analysis of the Franchise Tax Board's activities under this program, see Item 372.

VI. LEGISLATIVE MANDATES

The budget includes \$25,000 for reimbursement of local mandated cost resulting from Chapter 238, Statutes of 1974, as amended by Chapter 1286, Statutes of 1978. These acts require local governments to provide to the Franchise Tax Board the names of owners of substandard housing. Under specified conditions, the FTB is required to disallow the deduction of certain expenses of such owners.

ADMINISTRATION

The administration program provides executive direction, fiscal and personnel services, statistical research program planning and review, supply services and maintenance. Table 11 summarizes personnel years and costs under this program, which are distributed to the operating programs.

Table 11
Franchise Tax Board
Administration

| | 1977-78 | 1978-79 | 1979-80 |
|-----------------------|-------------|-------------|-------------|
| Personnel-years | 259 | 235 | 238 |
| Expenditures | \$4,803,291 | \$4,604,000 | \$4,780,000 |

The budget proposes 4.6 personnel-years in temporary help and \$68,000 to handle the support services for new positions requested in the budget year. This amounts to approximately 4 percent of the proposed new positions in its operating programs. The budget shows a current-year increase

of 1.6 personnel-years for positions administratively established in the current year. We recommend approval.

**State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES**

Items 115, 117, 120 and 125 from General Fund; Item 113, General Fund transfer to Service Revolving Fund; Item 121 from the Service Revolving Fund—other activities; Item 122 from the Service Revolving Fund—printing; Item 123 from the State School Building Aid Fund; and Item 124 from the Deferred Compensation Plan Fund

Budget p. 214

| | |
|--|---------------|
| Requested 1979-80 | \$162,049,110 |
| Estimated 1978-79..... | 152,412,612 |
| Actual 1977-78 | 137,150,609 |
| Requested increase \$9,636,498 (6.3 percent) | |
| Total recommended decrease | \$795,514 |

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|---|---|-------------|
| 115 | Department of General Services. For direct support of department operations. | General | \$5,049,310 |
| 117 | Communications Division. For support of Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976. | General | 170,747 |
| 120 | Department of General Services. Provides authority whereby funds appropriated from the General Fund or other funds for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund which finances General Services car pool and reproduction services | General Fund transfer to Service Revolving Fund | N/A |
| 121 | Department of General Services. For support in form of revenues from agencies receiving products or services other than printing. | Service Revolving Fund; other activities | 124,432,590 |
| 122 | Office of State Printing. For support in form of revenues from agencies receiving printing services | Service Revolving Fund, printing | 30,722,242 |
| 123 | Office of Local Assistance. For support of State School Building Aid Program | State School Building Aid | 468,675 |

DEPARTMENT OF GENERAL SERVICES—Continued

| | | | |
|---|---|------------------------------|-----------------|
| 124 | Insurance Office. For support of deferred compensation insurance plan administered by the office for state employees as authorized by Chapter 1370, Statutes of 1972. | Deferred Compensation Plan | 165,286 |
| 125 | Communications Division. For reimbursing local agencies in implementing Emergency Telephone Number program as authorized by Chapter 443, Statutes of 1976. | General | 1,040,260 |
| Subtotal of department's items included in this Analysis. | | | (\$162,049,110) |
| Department's items analyzed elsewhere | | | |
| 116 | Office of State Architect. For acquiring art for state buildings as required by Chapter 513, Statutes of 1976 (Item analyzed on page 143). | General | 1,393,100 |
| 118 | Office of State Architect. For direct support of specified plan checking services (Item analyzed on page 143). | Architecture Public Building | 2,491,786 |
| 119 | Office of State Architect. For support of operations (Item analyzed on page 143). | Architecture Revolving | 7,278,050 |
| Note ^a | Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by physically handicapped. | General | 162,508 |
| Note ^b | Department of General Services. For maintaining, protecting, and administering state parking facilities. | General | 570,859 |
| Note ^c | Department of General services. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by state. | General | 1,125,000 |
| — | Office of Minority Business Enterprise. For support of operations. | Federal | 100,000 |
| Total expenditures budgeted | | | \$200,819,737 |

^a Government Code (Section 4454) (continuing appropriation)

^b Government Code (Section 14678) (continuing appropriation)

^c Government Code (Sections 15850-15865) (continuing appropriation)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Acquisition of works of art. Reduce Item 121 by \$1,393,100.* Recommend reduction if recommendation to delete acquisition funds under Office of State Architect (Item 116) is accepted. 170
2. *Building and grounds. Reduce Item 121 by \$60,000.* Recommend deletion of five positions to maintain janitor-supervisor ratio. 170
3. *Double-budgeting. Reduce Item 115 by \$273,238.* Recommend reduction of General Fund appropriation for Capitol complex expenses. 171

- | | |
|--|-----|
| 4. <i>Equipment purchase. Reduce Item 122 by \$30,000. Recommend deletion of equipment purchase in Office of State Printing.</i> | 171 |
| 5. <i>Peripheral parking. Reduce Item 115 by \$239,176. Recommend deletion of General Fund support and transfer of cost to Motor Vehicle Parking Facilities Fund.</i> | 172 |
| 6. Home storage permits. Recommend department report on its review of home storage permits. | 172 |
| 7. Motor Vehicle Self-Insurance program. Recommend control section be added to require legislative appropriation of claim payments in excess of \$75,000. | 173 |
| 8. Motor Vehicle Self-Insurance program. Recommend department present justification for level of reserve balances. | 173 |
| 9. <i>Working capital. Reduce Item 115 by \$4,536,896; increase Item 121 by \$4,536,896; and add control language for transferring \$1,595,589 from Service Revolving Fund to General Fund to repay working capital appropriated in prior years.</i> | 175 |
| 10. Rate structure. Recommend Department of General Services present justification for current rate schedules for printing and procurement services. | 175 |
| 11. Office copiers. Recommend control language to transfer \$1.6 million to General Fund from Service Revolving Fund to repay loan. | 177 |
| 12. <i>Office copiers. Add Item 115.1 for \$1.2 million. Recommend separate item be added to provide a \$1.2 million loan from Service Revolving Fund to department for copier purchase program.</i> | 177 |
| 13. Office copiers. Recommend Control Section 25.1 to prohibit leasing copiers, unless cost justified. | 178 |

GENERAL PROGRAM STATEMENT

The Department of General Services exists to improve the overall efficiency of state government operations by (1) performing certain management and support functions as assigned by the Governor and specified by statute, (2) providing central services to operating departments more economically than they can provide individually for themselves, and (3) establishing, maintaining and enforcing statewide standards and developing and implementing improved statewide policies and procedures.

ANALYSIS AND RECOMMENDATIONS

Table 1 presents a summary of total department expenditures, by source of funds, for the three-year period ending with fiscal year 1979-80. The department is funded by direct support appropriations, revolving fund appropriations, and reimbursements. Direct support refers to monies appropriated specifically to support General Services' operations. Revolving fund appropriations and reimbursements permit the department to expend specified amounts from revenues it earns by providing services and products to customer agencies. Table 1 shows that 93.7 percent of department costs is supported from revenues earned while 7.4 percent of the costs is funded by direct support.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 2 illustrates the allocation of staff among department functions over the three-year period ending June 30, 1980. As the table indicates, 3,923 positions are proposed for the budget year—a net decrease of 93.6 positions. The most significant staff changes are:

1. An increase of 18.4 positions in the buildings and grounds division for establishment of an area office to service buildings in Santa Ana.
2. A decrease of 78 positions in the buildings and grounds division to reflect a 10 percent service level reduction in custodial service.
3. An increase of 3.5 positions proposed in administrative hearings division for increased workload.
4. An increase of two positions in the insurance office for increased workload related to deferred compensation.
5. A decrease of 4.5 positions in the local assistance division to reflect reduced workload in the State School Building Aid program.
6. A decrease of 5 positions in records management division to reflect elimination of forms management program.
7. A decrease of 5.3 positions in the Office of State Printing, resulting from operating efficiencies of new equipment.
8. A decrease of 2 positions in the administration division to reflect termination of the Capitol area plan monitor unit.

Table 3 presents total expenditures by program element during the three-year period ending June 30, 1980. It shows total expenditures of \$200,819,737 for 1979-80, which is an increase of \$12,899,868 (6.9 percent) above the total expenditures for 1978-79.

Table 1
Department of General Services
Total Expenditures by Source of Funds
1977-78 through 1979-80

| <i>Source of Funds</i> | <i>Actual 1977-78</i> | <i>Estimated 1978-79</i> | <i>Proposed 1979-80</i> | <i>Percent of Total</i> |
|--|---------------------------|------------------------------|-----------------------------|---------------------------------|
| Direct Support: | | | | |
| General Fund..... | \$8,812,432 | \$9,826,429 | \$11,553,694 | |
| State School Building..... | 941,619 | 690,851 | 468,675 | |
| Architecture Public Building Fund | 2,530,545 | 2,369,940 | 2,491,786 | |
| Deferred Compensation Plan Fund | 115,660 | 120,368 | 165,286 | |
| Federal Funds..... | 90,971 | 100,000 | 100,000 | |
| Totals | <u>\$12,491,227</u> | <u>\$13,107,588</u> | <u>\$14,779,441</u> | 7.4% |
| Revolving Funds and Reimbursements: | | | | |
| Service Revolving Fund, miscellaneous..... | \$128,693,937 | \$137,705,147 | \$148,040,004 | |
| Service Revolving Fund, printing .. | 25,389,809 | 30,027,623 | 30,722,242 | |
| Architecture Revolving Fund | 8,120,922 | 7,039,689 | 7,278,050 | |
| Reimbursements | 69,376 | 39,822 | — | |
| Totals | <u>\$162,274,044</u> | <u>\$174,812,281</u> | <u>\$186,040,296</u> | 92.6% |
| Totals | <u>\$174,765,271</u> | <u>\$187,919,869</u> | <u>\$200,819,737</u> | 100.0% |

Table 2
Department of General Services
Staff by Programs
1977-78 through 1979-80

| <i>Operating Unit</i> | <i>Filled positions 1977-78</i> | <i>Authorized positions 1978-79</i> | <i>Requested positions 1979-80</i> | <i>Percent of Total</i> |
|--|---------------------------------|-------------------------------------|------------------------------------|-------------------------|
| I. Property management services | 1,670.9 | 1,612.1 | 1,551.3 | 39.5% |
| A. Architectural consulting and construction | 318.9 | 303.0 | 304.5 | |
| B. Buildings and grounds | 1,190.6 | 1,146.7 | 1,084.4 | |
| C. Long-range facilities planning | 11.1 | 11.0 | 11.0 | |
| D. Real estate services..... | 76.8 | 77.9 | 77.9 | |
| E. Space management | 73.5 | 73.5 | 73.5 | |
| II. Statewide support services | 2,277.5 | 2,306.4 | 2,275.6 | 58.0% |
| A. Administrative hearings | 67.6 | 72.0 | 72.0 | |
| B. Communications..... | 292.1 | 291.8 | 291.8 | |
| C. Fleet administration | 155.0 | 154.8 | 159.5 | |
| D. Insurance services | 16.2 | 16.0 | 18.0 | |
| E. Legal services | 19.7 | 19.3 | 19.3 | |
| F. Local assistance..... | 36.8 | 26.4 | 16.7 | |
| G. Management services office | 290.8 | 275.5 | 273.5 | |
| H. Office services | 248.8 | 254.9 | 254.9 | |
| I. Procurement..... | 194.0 | 195.0 | 191.1 | |
| J. Records management..... | 38.8 | 45.6 | 30.6 | |
| K. Security and protection | 303.0 | 311.5 | 311.5 | |
| L. State printing | 595.5 | 623.9 | 618.1 | |
| M. Small business, procurements and contracts | 13.8 | 13.6 | 12.7 | |
| N. California office of minority business enterprise | 5.4 | 6.0 | 5.9 | |
| III. Administration | 101.0 | 98.1 | 96.1 | 2.5% |
| Totals..... | 4,049.4 | 4,016.6 | 3,923.0 | |
| Percent change | 0.6% | -0.8% | -2.3% | 100.0% |

Table 3
Department of General Services
Total Expenditures by Program
1977-78 through 1979-80

| <i>Program</i> | <i>Actual 1977-78</i> | <i>Estimated 1978-79</i> | <i>Proposed 1979-80</i> |
|--|-----------------------|--------------------------|-------------------------|
| I. Property management services | \$63,999,951 | \$64,771,924 | \$70,228,676 |
| A. Architectural consulting and construction | 12,582,289 | 11,019,782 | 12,848,288 |
| B. Buildings and grounds | 23,764,156 | 25,908,209 | 26,428,988 |
| C. Facilities planning development..... | 345,949 | 397,333 | 399,469 |
| D. Real estate services..... | 2,991,605 | 3,322,267 | 3,490,516 |
| E. Space management..... | 2,149,660 | 2,371,618 | 2,590,696 |
| F. Building standards commission | 72,370 | 66,323 | 69,195 |
| G. Building rental account..... | 20,603,044 | 20,163,339 | 23,114,016 |
| H. Property acquisition act | 1,318,573 | 1,297,000 | 1,125,000 |
| I. Physically handicapped plan checking .. | 103,759 | 162,508 | 162,508 |
| J. State historical advisory board..... | 68,546 | 63,545 | — |
| II. Statewide support services | 107,930,455 | 119,175,946 | 126,733,352 |
| A. Administrative hearings..... | 2,369,491 | 2,329,782 | 2,526,919 |
| B. Communications | 21,213,794 | 24,112,310 | 26,844,849 |
| C. Fleet administration | 12,174,867 | 12,118,068 | 12,874,942 |
| D. Insurance services..... | 789,309 | 708,451 | 693,913 |
| E. Legal services..... | 672,112 | 651,889 | 680,834 |

DEPARTMENT OF GENERAL SERVICES—Continued

| | | | |
|--|-------------|-------------|-------------|
| F. Local assistance | 970,392 | 717,712 | 496,107 |
| G. Management services office | 7,093,742 | 7,297,777 | 7,459,303 |
| H. Office services | 8,146,072 | 7,959,011 | 8,304,796 |
| I. Procurement | 19,595,469 | 22,476,411 | 23,807,306 |
| J. Records management | 1,301,266 | 1,569,081 | 1,697,003 |
| K. Security and protection | 7,100,768 | 7,257,652 | 7,467,424 |
| L. State printing | 25,389,809 | 30,027,623 | 30,722,242 |
| M. Small business procurements and contracts | 359,008 | 380,585 | 386,174 |
| N. California office of minority business enterprise | 145,175 | 154,028 | 158,771 |
| O. Motor vehicle parking facility | 609,181 | 593,220 | 570,859 |
| P. Motor vehicle insurance | — | 322,346 | 2,041,910 |
| III. Administration | 2,819,354 | 2,931,739 | 2,817,449 |
| IV. Emergency telephone number | | 1,040,260 | 1,040,260 |
| Totals | 174,765,271 | 187,919,869 | 200,819,737 |
| Percent increase | 3.8 | 7.5 | 6.9 |

I. PROPERTY MANAGEMENT SERVICES

The property management services program consists of nine separate program elements which relate to state ownership, use or regulation of real property. The elements and their related expenditures are listed in Table 3. The architectural consulting and construction, physically handicapped plan checking and state historical advisory board elements are covered by our analysis of Items 116, 118, and 119 which make separate appropriations from the General Fund, Architectural Public Building Fund and Architecture Revolving Fund, respectively.

Delete Acquisition of Works of Art

We recommend that funds for the acquisition of works of art be deleted (reduce Item 121 by \$1,393,100, Service Revolving Fund).

In our analysis of the Office of State Architect (OSA) (Items 116, 118, and 119) we discuss the lack of information as to how the requested funds would be spent, as well as the fact that the buildings slated to house the art works will not be occupied for 18 months or more. For these reasons, we recommend that the proposed art for state buildings program be deferred.

If our recommendation under the OSA is adopted, Item 121 should be reduced by \$1,393,100 as a technical adjustment.

Buildings and Grounds Division

We recommend deletion of five janitor-supervisor positions for a savings of \$60,000 (reduce Item 121, Service Revolving Fund).

The Buildings and Grounds division provides custodial, maintenance and groundskeeping services for state buildings. The level of janitorial service provided for state buildings is based upon service level categories established by the federal government. The Buildings and Grounds division currently provides service at level six and bases its staffing needs on workload standards necessary to attain this level of service.

In the budget year, the department has proposed changing the service level from level six to level eight, thereby reducing the level of custodial

service by approximately 10 percent. To implement the proposal, the department has proposed the deletion of 77 janitors and 1 janitor-supervisor for a savings of \$662,000.

Table 4 illustrates the historical relationship between janitors and janitor-supervisors, as shown in the Wages and Salary Supplement. The comparison illustrates the relatively constant ratio between janitors and supervisors. The figures for the proposed 1979-80 budget show that the deletion of 77 janitors and only 1 supervisor would reduce this ratio below historical levels. In order to maintain the ratio between janitors and janitor-supervisors consistent with recent experience, we recommend the deletion of five supervisors for a savings of \$60,000. This would leave the department with a ratio of slightly more supervisors for each 100 janitors than is authorized for the current year.

Table 4
Buildings and Grounds Division
Ratio of Janitors to Janitor-Supervisors—1975-76 to 1979-80

| Year | Supervisors | Janitors | Ratio |
|---|-------------|----------|-------|
| 1975-76 (actual) | 76.2 | 681.4 | 8.94 |
| 1976-77 (actual) | 76.0 | 681.7 | 8.97 |
| 1977-78 (actual) | 76.0 | 674.1 | 8.87 |
| 1978-79 (authorized) | 79.0 | 709.6 | 8.98 |
| 1979-80 (proposed) | 76.00 | 632.6 | 8.32 |
| 1979-80 (Leg. Analyst recommendation) | 71.00 | 632.6 | 8.91 |

Double-budgeting Capitol Complex Costs

We recommend reduction of \$273,238 to delete double-budgeting of Capitol complex rent (reduce Item 115, General Fund).

In the annual Budget Act, the Legislature appropriates General Fund money to General Services for custodial and groundskeeping services for the entire Capitol complex. At the same time executive branch offices occupying space on the first floor of the Capitol, such as the Governor's office, the Controller's office and the Department of Finance, are charged rent on a per-square-foot basis at the current General Services rate. This charge includes custodial and other services. As a consequence, the cost of the first floor space is budgeted both in the General Fund appropriation to General Services, as well as in the budgets of the executive branch agencies. To avoid double-budgeting, we recommend a reduction of the General Fund appropriation (Item 115) by \$273,238 for the Capitol complex.

II. STATEWIDE SUPPORT SERVICES

The Statewide Support Services program consists of 15 separate program elements. The elements and their related expenditures over the three year period ending June 30, 1980, are listed in Table 3.

Defer Equipment Purchase

Recommend deletion of \$30,000 for high-lift storage system in the Office of State Printing (reduce Item 122, Service Revolving Fund).

The State Printer requests \$30,000 for a high-lift storage system at the state printing plant. We recommend deletion of this amount unless ade-

DEPARTMENT OF GENERAL SERVICES—Continued

quate justification for the system is submitted. The high-lift storage concept involves utilizing warehouse floor space more effectively by increasing shelf height. The implementation of the high-lift concept requires a substantial investment in specialized equipment such as high-strength shelving and adjustable forklifts. Before installing a warehouse-wide high-lift system, the department should document increased warehouse needs and the cost effectiveness of the equipment purchases.

General Fund Subsidy of Peripheral Parking

We recommend deletion of \$239,176 in General Fund support for peripheral parking, and recommend transfer of operating costs to Motor Vehicle Parking Facilities Fund (reduce Item 115, General Fund).

The purpose of the state's peripheral parking program is to replace parking spaces eliminated by new downtown office construction with parking developed in airspace leased from Caltrans beneath the W-X freeway in Sacramento. The Department of General Services provides approximately 670 parking spaces for motorists who are serviced by leased Regional Transit buses. The motorists who use the peripheral parking lot are charged \$6 a month for the parking space and bus shuttle combined. These revenues (\$48,240 maximum) do not cover the full cost of the peripheral parking program.

In the 1978-79 budget, the department received \$258,129 for subsidizing peripheral parking operating costs. This total included \$123,129 in direct General Fund support and \$135,000 remaining from funds appropriated by Chapter 1108, Statutes of 1977, to the Capitol area plan. The funding from Chapter 1108 ends in the current year. The department is requesting \$239,176 in the budget year to continue subsidizing the peripheral parking operating expenses. The full amount would come from the General Fund.

The peripheral parking lot is the only parking lot whose operating costs are being directly subsidized. When the program was initiated, it was thought that this subsidy was necessary to encourage commuters to participate. Since all parking lot spaces are now sold and commuter acceptance has been achieved, the rationale for General Fund support is no longer persuasive, and we recommend that it be terminated. We believe the operating costs of the peripheral parking are more appropriately charged to the user-supported Motor Vehicle Parking Facilities Fund.

Home Storage Permits

We recommend the department report to the fiscal committees during the budgetary hearings on the results of the department's statewide review of home storage permits including (1) the total number of permits statewide, (2) a listing by agency or department, of permits approved and disapproved, (3) savings realized from the reduced vehicle usage, and (4) the impact of reduced vehicle usage on the department's plans for future vehicle purchases.

Pursuant to the State Administrative Manual, all state agencies are required to maintain home storage permits for vehicles under their jurisdiction. Management Memo 78-16, issued June 22, 1978, instructed all state agencies that:

All home storage permits shall be sent to the Department of General Services for review and approval. (Current as well as proposed permits are included.)

As of January 1, 1979, the department has received 2,175 applications for home storage permits. Of these, 870 applications have been disapproved and 1,305 have been approved. However, the total of 2,175 permits does not represent all passenger vehicles being utilized statewide for home storage purposes. This is because some agencies (Caltrans, for example) have not complied with the administration's directive.

A critical review of home storage permits by the department is necessary to ensure the Legislature that vehicles are utilized in a manner that is both cost-effective and consistent with overall state policy.

Motor Vehicle Self-Insurance Program

The State Motor Vehicle Self-Insurance program was administratively established within the insurance office of the Department of General Services effective July 1, 1977, thereby allowing commercial insurance previously purchased from the private sector to be dropped. As implemented, the department acts as the insurance company in that it collects premiums from user agencies, investigates accidents and settles claims. The major difference between the office of insurance and a private carrier is that the "profit" is retained by the state instead of the company.

Our review of the program has indicated: (1) the need for legislative review of the claims payment process and (2) that the department is accumulating reserve balances larger than needed for future payment of claims.

Legislative Review

We recommend that a control section be added to require legislative appropriation of claims in excess of \$75,000 from the State Motor Vehicle Insurance Account.

The program provides for the adjusting, investigating and settling of claims which arise from accidents involving state vehicles. The individual state insurance adjuster is given considerable latitude and authority to determine the degree of negligence, the amount of damage and the appropriate settlement.

Presently the claims manager or insurance officer has authority to pay individual claims up to \$2,000. Larger claims require the approval of the director of the department or the designated assistant director before payment can be made. Thus, claims may be investigated, settled and paid, regardless of their magnitude, without being reviewed by anyone outside the Department of General Services.

Prudent fiscal management dictates some external oversight of the payment process. We believe the department should be required to seek legislative authorization to pay claims in excess of \$75,000.

Reserve Balance

We recommend that the Department submit to the Legislature for its consideration during hearings on the department's budget items the justification for accumulating reserves in excess of estimated payments.

DEPARTMENT OF GENERAL SERVICES—Continued

The program operates on a self-sufficient self-supporting basis through the State Motor Vehicle Insurance Account. The department charges premiums to agencies based on their prior accident experience. These premiums are designed to cover expected current loss payments, provide administrative support and build a reserve for future claims payments. As Table 5 illustrates, the reserve in the fund is expected to grow rapidly, to a level of almost \$4 million in 1982-83. To build the reserves, the department imposes a surcharge on the rates.

The department states that the reserve for future claims payments is based on insurance industry estimates of payment schedules. Aggregate losses are generally paid 30% the first year, 30% the second year, 18% the third year, 12% the fourth year and 10% the fifth year. The loss schedule may well be appropriate for commercial insurance companies. However, we question the necessity of an accumulated \$4 million reserve when, in the last six years of commercial insurance, the average yearly loss payments were \$1,902,465.

Table 5
Summary of Estimated Reserve Balance in the State Motor Vehicle Insurance Account

| | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 |
|-----------------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Balance Forward..... | — | \$2,108,959 | \$2,860,175 | \$3,340,696 | \$3,634,713 | \$3,760,366 |
| Income..... | \$5,219,181* | 2,395,890 | 2,523,449 | 2,654,345 | 2,793,196 | 2,939,372 |
| Estimated Claims | | | | | | |
| Paid..... | -270,925 | -1,236,918 | -1,606,983 | -1,897,881 | -2,175,840 | -2,259,275 |
| Administration..... | -200,614 | -407,774 | -434,927 | -462,447 | -491,703 | -522,804 |
| Other* | -2,638,683 | — | — | — | — | — |
| Reserve Balance | \$2,108,959 | \$2,860,157 | \$3,340,696 | \$3,634,713 | \$3,760,366 | \$3,917,659 |

* First year income was based on previous level of premiums paid to commercial insurance carrier. The amount shown as "other" has been rebated to user agencies.

Working Capital

The Department of General Services operates primarily on a business basis, providing services and products to customer agencies at a price intended to cover costs. Almost all of its operating expenses are financed with revenues paid into the Service Revolving Fund by the agencies it serves.

Working Capital from General Fund. When the Service Revolving Fund (SRF) was created, working capital was needed for General Services to use in meeting its initial operating expenses during the period before revenues were received. It was appropriated to the SRF from the General Fund. On numerous occasions since then, additional General Fund appropriations have been made to the SRF in order to provide adequate cash, equipment and inventories for working capital. By January 1976, a total of \$7,353,877 had been appropriated to the SRF from the General Fund.

Advance Payments System. Prior to 1972-73, the department relied mainly on cash advances from its customers to satisfy most of its working capital needs. Under this approach, funds were transferred to General

Services from the various agencies on the basis of forecasted dollar purchase volumes. General Services continues to utilize prepayments to satisfy working capital needs.

Surcharge Approach. During 1972-73, General Services secured Department of Finance approval to initiate a plan designed to provide the working capital it needs by adding a surcharge to the rates it charges customers. The surcharges were to be phased out once an adequate amount of working capital has been accumulated. General Services reports that most of its divisions have achieved their working capital goals, with the notable exception of the Office of State Printing and the Office of Procurement.

Repayment of General Fund Appropriation. In the 1976-77 Analysis, we recommended that the Legislature direct General Services to use funds collected from surcharges to repay the full amount that was previously appropriated to the SRF from the General Fund. The Legislature accepted this recommendation. The department has since repaid \$1,221,392 of the \$7,353,877. The department plans to repay the remaining \$6,132,485 as soon as the working capital goals of every division have been met.

Return Working Capital to General Fund

We recommend:

1. *Deleting the department's General Fund support item (eliminate Item 115, in the amount of \$4,536,896) and augmenting its appropriation from the Service Revolving Fund (Item 121) by a corresponding amount.*

2. *That control language be added to the department's Service Revolving Fund item (Item 121) appropriating an additional \$1,595,589 from that item for transfer to the General Fund by July 1, 1979, in order to repay prior year General Fund appropriations to the revolving fund to support General Services' working capital requirements.*

When the department implemented a surcharge rate system in order to augment its working capital, it did not terminate the advance payments system. Thus, the department accumulates working capital from both sources. As a result, the amount of working capital available to the department is greater than the amount identified in the working capital display.

When both sources of working capital are taken into account, it appears that the department's access to working capital is more than adequate to meet its needs. Consequently, there is no justification for postponing the full repayment of General Fund moneys that were appropriated in prior years. Therefore, we recommend the immediate repayment to the General Fund by (1) deleting the department's General Fund support item and (2) adding control language to transfer the balance owed to the General Fund by July 1, 1979.

Justify Rates for Printing and Procurement Services

We recommend that the department present justification to the fiscal committees during the budgetary hearings for the current level of rates set by the Office of State Printing and the Office of Procurement.

As discussed above, the department has not been successful in achieving the stated working capital goals for all divisions using the surcharge.

DEPARTMENT OF GENERAL SERVICES—Continued

We believe the surcharge approach is justified because it requires the department's customers to pay the full cost of the services they receive. If the surcharge does not produce adequate working capital it indicates that the rates are set too low and do not reflect the total cost of a division's activities. This appears to be the case in two department offices. The Office of Procurement has collected rate surcharges since 1972-73, but based on department projections, this division will not have adequate working capital until at least 1990. Similarly, the department indicates that an indefinite period of time is needed before the Office of State Printing will attain its working capital objective through the surcharge on rates.

We believe that the department's policy decision to price procurement and printing services at less than 10 percent of private competitive rates causes the true cost of these services to be understated. To clarify this issue we recommend the department submit a report justifying the rates set for each division which would include all costs associated with the service including operating expenses, working capital needs and administrative overhead.

Office Copier Purchase Program

Prior to 1976, the state was leasing almost all of the office copiers it was using (over 2,500). Because, in practically every instance, it is to the state's economic advantage to buy rather than rent these copiers, the Legislature added Item 159.1 to the Budget Act of 1976, providing a \$3 million dollar General Fund loan for implementing a copier purchase program. The Governor reduced the \$3 million appropriation to \$1 million in signing the budget.

Subsequently, General Services implemented a copier purchase program, using the \$1 million in loan funds to buy copiers for agencies having no funds available for this purpose. Under this program, the agencies lease-purchase these copiers from General Services over a three-year period. Upon final payment, title of the copier is transferred to the using agency. General Services uses revenue from the lease purchase payments to buy additional copiers. The General Fund loan (principal plus 6 percent interest) is to be entirely repaid by June 30, 1986.

Deletion of Funds Provided by Legislature Reduces Savings by \$2.5 million

In the 1977 and 1978 Budget Bills, the Legislature attempted to provide additional amounts for the copier purchase program. The Governor, however, deleted all but \$0.6 million of these amounts, as reflected in Table 6.

Table 6
Loan Funds for Copier Purchase Program
1976-77—1978-79

| <i>Fiscal Year</i> | <i>Amounts Appropriated by Legislature</i> | <i>Amounts Deleted by Governor</i> | <i>Amounts Authorized</i> |
|--------------------|--|--|-------------------------------|
| 1976-77 | \$3,000,000 | \$2,000,000 | \$1,000,000 |
| 1977-78 | 2,000,000 | 1,400,000 | 600,000 |
| 1978-79 | 2,000,000 | 2,000,000 | — |

We estimate that, had the Governor not deleted funds appropriated by the Legislature for the program, the state would have realized additional savings of \$2.5 million during fiscal years 1976-77 through 1978-79.

General Fund Loan Should Be Repaid Immediately

We recommend that control language be added to Item 121 (Service Revolving Fund) providing for appropriating an additional transfer of \$1.6 million to the General Fund by July 1, 1979, for repaying amounts appropriated previously from the General Fund for financing the copier purchase program.

As indicated in Table 6, loan funds totalling \$1.6 million were provided from the General Fund to finance the copier purchase program. Because the department now appears to have access to more working capital than it requires, we are recommending that it repay the loan in full by July 1, 1979.

\$1.2 Million Loan Recommended

We recommend that a separate item be added to the Budget Bill to provide a \$1.2 million loan from the Service Revolving Fund for purchasing office copiers (add Item 115.1).

In order to discourage the leasing of copiers, except when justified on the basis of cost, the Legislature added Control Section 25.1 to the 1978 Budget Bill. Control Section 25.1 prohibits the Director of General Services from approving a copier lease until he has advised the Legislature as to why the copier should be leased rather than purchased.

Because most of the additional funds proposed by the Legislature for copier purchase have been deleted by the Governor, the state continues to lease copiers which it should buy. In complying with the provisions of Control Section 25.1, the Director of General Services has identified a number of copiers that should be acquired in order to save the state money, but cannot because funds to purchase them are not available.

In January 1979, General Services reported that:

1. 2,503 copiers are owned by the state (or are in the process of being purchased).
2. 207 copiers are being leased and should continue to be leased because purchase would not be cost-effective.
3. 211 copiers are being leased, but should be purchased.

According to information provided by General Services, purchasing these 211 copiers would (1) result in net annual savings to the state of approximately \$450,000 and (2) require an expenditure of \$1.9 (\$1.2 million more than the \$0.7 million which General Services expects to have available for making such purchases from revenue received under its copier lease-purchase program).

We therefore recommend a \$1.2 million loan in order for the department to fully implement the copier purchase program. Because General Services' access to working capital is more than sufficient to satisfy its requirements, we are recommending that the loan be made from the department's Service Revolving Fund, rather than from the General Fund.

DEPARTMENT OF GENERAL SERVICES—Continued

Policy on Leased Copiers

We recommend that Control Section 25.1 be modified to expressly prohibit the state from leasing office copiers, unless cost justified.

In order to ensure that copiers are leased *only* when cost-justified, we recommend that Control Section 25.1 be modified to *expressly prohibit* the state from leasing a copier unless it is economically justified to do so. This provision, coupled with the \$1.2 million Service Revolving Fund loan, should provide both the incentive and the financing required to complete the purchase of those copiers which the state should not lease.

Specifically, we are recommending that Control Section 25.1 be amended to read as follows:

“The Director of Finance shall prohibit the leasing of any office copy machine unless the Director of General Services certifies that it is to the state’s economic advantage to lease rather than purchase it. Any lease so certified may not be approved, unless 30 days prior to its approval the Director of Finance submits to the Chairman of the Joint Legislative Budget Committee, or his designee, an explanation of the basis for determining that purchase is not economically feasible, or not sooner than such lesser time as the chairman of said committee or his designee, may in each instance determine.”

III. ADMINISTRATION

The administration program contains executive management, fiscal and personnel functions which support the department’s line programs. The department also provides, on a reimbursement basis, accounting, budgeting and personnel services to a number of smaller state entities.

IV. EMERGENCY TELEPHONE NUMBERS—LOCAL ASSISTANCE (Item 125)

Under this program, General Services reimburses local public agencies for their costs in implementing emergency number telephone systems.

Chapter 1005, Statutes of 1972 (AB 515), requires local public agencies to establish within specified guidelines emergency telephone systems to enable an individual to contact emergency services, including medical service, and police and fire protection, by dialing “911.” The act required that the communications division of General Services promulgate state-wide standards for such systems.

Subsequently, Chapter 443, Statutes of 1976 (AB 416):

1. Established a tax on intrastate telephone calls beginning November 1977 to fund emergency telephone systems mandated by Chapter 1005.
2. Created a State Emergency Telephone Number Account in the General Fund to receive the tax proceeds.
3. Created within General Services an Advisory Committee on the State Emergency Telephone Number.
4. Required that local governments be reimbursed for costs of installing and operating emergency telephone systems.
5. Appropriated \$1,222,000 from the General Fund for reimbursable expenses incurred by local governments and General Services until the tax proceeds become available.

Chapter 352, Statutes of 1978 (SB 1457), extended various specified time requirements for implementing the 911 emergency telephone number program. It also directed our office to submit to the Legislature by April 1979 a report evaluating the 911 system and containing recommendations relative to (1) the cost of final plans, (2) disputes between local agencies and the state concerning state reimbursement of incremental costs, (3) alternative methods for reimbursing local agencies and (4) the feasibility of adjusting the maximum surcharge rate on intrastate telephone calls for fully funding 911 system costs.

**Department of General Services
OFFICE OF STATE ARCHITECT**

Item 116 from the General Fund, Item 118 from the Architecture Public Building Fund and Item 119 from the Architecture Revolving Fund

Budget p. 215

| | |
|---|--------------|
| Requested 1979-80 | \$11,162,936 |
| Estimated 1978-79..... | 9,409,629 |
| Actual 1977-78 | 11,251,467 |
| Requested increase \$1,753,307 (18.6 percent) | |
| Total recommended reduction | \$1,393,100 |

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|---|------------------------------|--------------|
| 116 | Office of State Architect/Art in Public Buildings | General | \$1,393,100 |
| 118 | Office of State Architect/Structural Plan Checking | Architecture Public Building | 2,491,786 |
| 119 | Office of State Architect/Architectural Consulting and Services | Architecture Revolving | 7,278,050 |
| | Total | | \$11,162,936 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Acquisition of Works of Art. Delete Item 116, a reduction of \$1,393,100 from the General Fund. Recommend deletion of funds for works of art in public buildings.* 180
2. *Office of State Architect—Architecture Revolving Fund, Item 119. Recommend that approval of the Office of State Architect budget be withheld until the office provides a detailed schedule for completion of projects for which it is responsible. The schedules should include all currently funded projects and projects included in the 1979-80 Budget Bill.* 182
3. *Regulations for Accommodating Physically Handicapped* 184

OFFICE OF STATE ARCHITECT—Continued

Persons in Public Buildings. Recommend that the Office of State Architect not implement its "regulations for the accommodation of physically handicapped persons in buildings and facilities used by the public" until the regulations have been approved by the Legislature.

GENERAL PROGRAM STATEMENT

The Office of State Architect (OSA) provides two basic services. First, OSA provides a full spectrum of architectural and engineering services similar to those provided by large private architectural firms, and operates a construction inspection service for all state projects as required by law.

Second, OSA functions as a policing agency to assure compliance with (1) the physically handicapped building accessibility law, (2) the Field Act for school buildings (earthquake safety), and (3) the hospital seismic safety code.

In addition, the OSA provides staff assistance to the Building Standards Commission and the state's Historical Advisory Board. The OSA is also responsible, with the assistance of the Arts Council, for the acquisition of works of art for display in state buildings.

OSA is reimbursed for all of its direct and overhead expenses in connection with each job. The architectural and engineering service activities are financed from the Architecture Revolving Fund (Item 119). Funds appropriated by the Legislature for specific projects are deposited and assessments for services provided are then made against each project account. Consequently, the actual volume of work for the office is dependent, for the most part, upon the level of capital outlay appropriations by the Legislature.

ANALYSIS AND RECOMMENDATIONS**Acquisition of Work of Art for Public Buildings**

We recommend deletion of Item 116, for acquisition of works of art, a savings of \$1,393,100.

Item 116 provides \$1,393,100 for allocation by the Department of Finance to the Department of General Services for acquisition of works of art for public buildings. Chapter 513, Statutes of 1976 established a program for acquiring works of art in *state buildings* subject to a Budget Act appropriation to the Department of Finance for allocation to the State Architect. In contrast, the Budget Bill language would appropriate the proposed amount for art in public buildings, and this would be available for allocation to the *Department of General Services*. If funds are provided for the art in state building program, the Budget Bill Language should be modified to reflect the requirements contained in the enabling legislation.

The amount proposed in the Budget Bill includes (1) \$1,300,500 for works of art, of which \$51,000 would provide models of proposed art work and \$1,249,500 would be for works of art, and (2) \$92,600 to fund salaries, wages/benefits and operating expenses and equipment for four new state positions. Of the amount proposed for works of art, \$759,000 is for new

state buildings in San Jose and Long Beach plus Sacramento office buildings 1A, 1B, 1C and 3. Of these facilities only the Sacramento site 1A building is under construction, and construction funds for Sacramento office buildings 1C and 3 have not been appropriated. The 1A building is not scheduled for completion until August 1980, and the other buildings will not be completed until after 1980-81. The need to commission art work for these facilities at this time has not been demonstrated. We recognize that some works of art may require a long lead time. However, such work is not critical to the completion or occupancy of the building, and the OSA has not justified funding these projects in the budget year.

The remaining amount for art work would be expended for sites that have not yet been selected. The department has indicated that actual project sites will be selected through a process involving OSA site inspection, department approval and local community review. As a consequence, there is only limited information regarding the proposed location for the works of art and no information regarding the art work to be accomplished. Thus, the Legislature does not have an adequate basis on which to evaluate the proposed expenditure of \$1,393,100.

Previously Funded Program. Chapter 513 requires the State Architect and the Arts Council to submit an annual report to the Legislature concerning the art in state building program. The OSA recently released a report on the \$700,000 program funded in the Budget Act of 1977. This report indicates that \$520,000 was spent for art work, \$100,000 reverted to the General Fund because one art project was not undertaken and \$80,000 was required for administration of the program.

The reported use of funds differs from what was described to the Legislature last year. During hearings on the 1977-78 Budget Bill, the Legislature was informed that \$650,000 of the proposed program would be used to provide 51 projects throughout five statewide regions and the remaining \$50,000 would be used for program administration. According to the annual report, however, the program spent \$520,000 on 24 art projects rather than \$650,000 for 51 art projects. Moreover, administrative costs exceeded the budget by \$30,000—a 60 percent overrun.

The 1978-79 Budget Bill requested \$730,000 for art in state buildings. This amount was subsequently deleted by the Legislature and no funds were provided for the program in the Budget Act of 1978.

Given the uncertainty over how the 1979-80 funds will be spent, the time required before some of the recipient buildings will be ready for occupancy, and the financial difficulties facing both state and local governments in the second year of Proposition 13, we believe the proposed art in state building program should be deferred.

OFFICE OF STATE ARCHITECT—Continued

Architecture and Engineering Services

The budget for OSA Architecture Revolving Fund activities identifies four major categories of services. These categories and the anticipated construction value of each are identified in Table 1.

Table 1
Architectural and Engineering Services
Categories and Estimated Construction Value

| | Actual 1977-78 | Estimated 1978-79 | Proposed 1979-80 | Percent Change from Current Year |
|---|-------------------|----------------------|---------------------|-------------------------------------|
| Basic architectural and consulting ^a | \$39,819,749 | \$37,500,000 | \$39,342,105 | +4.9% |
| Contract architect program ^a | 38,000,790 | 48,452,720 | 50,019,559 | +3.2 |
| Construction services ^a | 77,201,057 | 82,238,832 | 84,511,902 | +2.8 |
| Disaster services (hours) | 3,221 | 3,255 | 3,239 | -0.5 |

^a Estimated value of construction.

Section 27.2, Budget Act of 1978

The Governor's Budget indicates that 208.9 positions will be available to support these OSA activities. This is 24.1 positions less than those authorized in the current year. The department has indicated that staff reductions will be made during the current year under the provisions of Section 27.2, Budget Act of 1978. However, no information is available detailing which positions have been deleted or the impact of such reductions on the OSA service functions. However, because OSA can contract with private architectural firms to accomplish building design work, these reductions should not adversely affect the state's capital improvement program.

Delays in Project Design

We recommend that approval of Item 119, support of Office of State Architect from the Architecture Revolving Fund, be withheld until the Office of State Architect (OSA) provides a detailed schedule for completion of projects for which OSA is responsible. The schedule should include all currently funded projects and projects included in the 1979-80 Budget Bill.

Throughout our analysis of the capital improvement program included in the Budget Bill, we have pointed out many delays in projects under design by OSA. These delays result in significant construction cost increases. The increased cost is related to several factors beyond OSA's control, but a large share of this increase is related to the lengthy design periods required in the office. For example, the Department of Motor Vehicles is requesting reappropriation of working drawing funds for five projects even though OSA has had preliminary planning funds for these projects for seven to ten months. Preliminary planning for such projects should not require more than two months.

The same situation is occurring for most other agencies with projects under design in this office, as is evident from the projects requested for reappropriation under the Section 10 series of the Budget Bill. This section contains reappropriation requests for the Departments of Parks and Rec-

reation, Corrections, the Youth Authority, and the Employment Development Department, etc. In contrast, the California State University and Colleges, University of California, and California Community Colleges (agencies which are not required to use OSA) are not requesting the reappropriation of any funds appropriated in the 1978 Budget Act. In fact, the only reappropriation requests by these agencies are for retention of funds for California State University and College projects currently under construction.

It is essential that OSA carefully schedule the projects for which it is responsible and determine which projects will be designed by OSA staff and which projects will be designed by private architects under contract to the state.

Because the OSA does not have the flexibility to adjust to fluctuations in workload as readily as a private firm, the Legislature established a "valley" workload floor by incorporating specific language in the Budget Act of 1972. OSA was directed to reduce its "in-house" staff capability to a workload volume of \$25 million by June 1973. This has been raised annually to compensate for inflation. Any workload in excess of that volume is to be contracted for with private architectural firms. Consequently, reductions in "in-house" design staff should not effect the state's capital improvement program because the design work can be contracted. However, if OSA is to manage the design of the state's capital improvement program effectively, it must anticipate and schedule the projects to be designed "in-house" and the projects to be designed under contract.

The State Architect has indicated that OSA is developing a schedule for completion of projects, and it should be available prior to budget hearings. In addition, the architect is reevaluating current procedures in an attempt to streamline and expedite projects.

We believe that the project schedule and procedure changes are essential if the state's capital improvement program is to proceed in a timely and economical manner. Approval of the OSA support and operations budget should be withheld until this information is available for review.

School House and Hospital Structural Code Compliance Program

Item 118 from the Architecture Public Building Fund (\$2,491,786), together with \$1,320,098 which is continuously appropriated from the Structural Revolving Fund, supports the OSA plan checking and construction inspection activities related to public schools and hospitals in the state.

The OSA does not perform any design work under this program. Rather, it checks plans developed by others for conformance to code requirements. After it approves the plans, OSA inspects and monitors construction programs to assure compliance. For this service OSA receives a fee based on a percentage of the estimated construction costs under the School House program. Under the Hospital program the OSA is under contract to the Office of Statewide Health Planning and Development. Under the contract, the OSA charges for direct cost plus overhead, which is paid by the Office of Statewide Health Planning and Development from fees charged based on a percent of estimated construction costs.

Table 2 shows the current estimated trend in school house and hospital

OFFICE OF STATE ARCHITECT—Continued

construction and the resulting budgetary impact on the OSA plan checking program.

Table 2
Structural Code Compliance
Workload Funding and Staffing Changes

| | <i>Actual</i> <i>1977-78</i> | <i>Estimated</i> <i>1978-79</i> | <i>Proposed</i> <i>1979-80</i> | <i>Percent Change</i> <i>from</i> <i>Current Year</i> |
|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|---|
| Construction Value | | | | |
| Public schools | \$473,300,000 | \$653,400,000 | \$685,496,842 | +4.9% |
| Hospitals | 133,600,000 | 285,120,000 | 299,125,895 | +4.9 |
| Total | \$606,900,000 | \$938,520,000 | \$984,622,737 | +4.9% |
| Total program expenditures | \$3,416,989 | \$3,625,864 | \$3,811,884* | +5.1% |
| Production personnel-years | 98.3 | 95.6 | 95.6 | — |

* Includes \$2,491,786 (Item 118) from the Architecture Public Building Fund and \$1,320,098 from the Structural Revolving Fund.

The construction values summarized in Table 2 reflect a reduced construction effort in both public schools and hospitals when the construction value is adjusted for inflation. Construction costs are expected to increase by about 10 percent in 1979-80. However, as shown in Table 2, the anticipated increase in construction values covered by the plans to be checked increases by only 4.9 percent. A more dramatic reduction is evident when comparing actual 1977-78 data against estimated 1977-78 data in the Governor's 1978-79 Budget. This comparison reveals that actual construction value of plans checked by OSA was 20.3 percent less than the estimate for public schools and 52 percent below the estimate for hospital buildings. The Governor's Budget indicates that this unit has been reduced by one position.

Section 27.2, Budget Act of 1978

As discussed under OSA's Architectural and Engineering program, the Governor's Budget reflects a substantial reduction in positions without any explanation. For the Structural Code Compliance unit the reductions are from 109 positions reported in the Governor's 1978-79 Budget to 95.6—a deletion of 13.4 positions. Of these only one is specifically mentioned in the Governor's Budget. The department has indicated that the remaining 12.4 unidentified positions are in response to Section 27.2, Budget Act of 1978. Based on the substantial reduction in plan checking workload, the remaining positions should adequately continue this service function.

Physically Handicapped Plan Checking

We recommend that the OSA not implement its "regulations for the accommodation of physically handicapped persons in buildings and facilities used by the public" until the regulations have been approved by the Legislature.

The OSA is in the process of establishing regulations for accommodating physically handicapped persons in public buildings. The regulations are being developed pursuant to authority granted the State Architect under Government Code Section 4450 et seq., and the Health and Safety Code

Section 19955 et seq. The regulations pertain to new construction and alterations. The OSA schedule indicates that the final public hearings on these regulations will be in May 1979, and the regulations will be fully enforceable by July 1979.

These regulations can have a significant impact on construction costs, particularly for alteration projects. Because of this, we believe the Legislature should have an opportunity to review the regulations before they are promulgated, and be assured that they reflect legislative intent. The legislation authorizing the development of these regulations indicates that (1) the standards adopted by the State Architect shall be used as minimum standards to assure that public buildings are accessible to the handicapped, and that (2) buildings constructed prior to November 1968 comply when alterations, structural repairs or additions are made, but that this requirement applies only to the area of specific alteration, structural repair or addition and is not to be construed to mean the entire structure or facility.

The regulations proposed by the State Architect contain the following two paragraphs related to existing buildings and facilities:

- (1) "When an entire building or facility, or a major portion thereof, is remodeled, altered or repaired, the entire building or facility, including all floors and levels shall be made accessible to and usable by the physically handicapped, to the extent that would be required for a new building or facility unless specifically exempted by other portions of these regulations.
- (2) "When any portion less than a major portion of a building or structure is remodeled, altered or repaired, only the specific area involved must fully comply with these regulations. This means that the primary entrance to the building and the primary path of travel to the specific area involved must be accessible to and usable by a handicapped person. Also, key facilities serving the area such as toilet rooms, drinking fountains, telephones, bath facilities, etc., must fully comply with these regulations."

These requirements could result in substantial alterations costs for existing buildings and may have the effect of making alterations projects unfeasible because it would be too costly to adhere to a strict interpretation of the regulations. In fact, although the regulations are not enforced, we understand the State Architect is currently reviewing proposed projects under the assumption that the regulations will be adopted. Some projects have been delayed because of the OSA review. In at least one case, this delayed a fire and life safety project at the University of California because adequate funds were not available to include the OSA interpretation for handicapped accessibility. This particular project was ultimately undertaken after the OSA received assurance that the University would seek funding for the handicapped accessibility portion. However, the lengthy delay caused by the OSA review resulted in inflated construction costs to the state. Similar problems will occur in the future.

The federal government also requires that buildings be made accessible to the handicapped where federal funds are involved. The federal requirements, however, are not as severe as the proposed OSA regulations. Thus,

OFFICE OF STATE ARCHITECT—Continued

a project that alters facilities to be accessible to the handicapped in accordance with federal regulations may not be approved by the OSA. The net result would be a delay in the project, a delay in providing accessibility to the handicapped and increased construction costs. Because of this, we believe it is essential that the Legislature review the proposed regulations.

State Historical Advisory Board

The State Historical Advisory Board is located within the OSA, and staff support is provided by OSA. The board consists of representatives of state agencies, county/city governments, professional organizations and building contracting officials. Anticipated 1978-79 expenditures for this function are \$63,545. The Governor's Budget eliminates the support funds and indicates that the OSA will absorb the board's minor continuing workload requirements.

The Historical Advisory Board was established in 1975 to provide alternative building regulations for the rehabilitation, preservation, restoration (including related reconstruction), or relocation of buildings or structures designated as historic buildings. These alternatives to building regulations have been established and the continuing workload requirement will be mainly related to interpretation of or minor modifications to the regulations. The OSA has adequate professional staff to provide the marginal ongoing workload related to this activity. The reduction in the Governor's Budget should not have an adverse effect on this program.

**State and Consumer Services Agency
INTERGOVERNMENTAL PERSONNEL ACT ADVISORY
COUNCIL**

| | |
|--|---------------|
| Items 126-127 from federal funds | Budget p. 238 |
| <hr/> | |
| Requested 1979-80 | \$1,564,000 |
| Estimated 1978-79..... | 1,563,000 |
| Actual 1977-78 | 1,395,354 |
| Requested increase \$1,000 (0.1 percent) | |
| Total recommended reduction | None |
| <hr/> | |

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|---|---------|--------------------|
| 126 | Program support and grants to state agencies. | Federal | \$680,306 |
| 127 | Grants to local agencies. | Federal | 883,694 |
| | Total | | <u>\$1,564,000</u> |

GENERAL PROGRAM STATEMENT

The Intergovernmental Personnel Act Advisory Council was created by executive order in 1975 to administer the state's federally funded program for improving personnel management in state and local government un-

der the federal Intergovernmental Personnel Act (IPA). The council's five members are appointed by the Governor and serve without compensation. A staff of 6.5 positions (4.5 professional and 2 clerical) provides administrative support.

Under this program, financial assistance in the form of federal grants is awarded on a matching basis for approved projects. Competing projects are evaluated on the basis of various specified criteria, such as the applicability or benefit to other government agencies. Projects approved by the council are then submitted to the Secretary of the State and Consumer Services Agency for concurrence.

According to the council's staff, approximately one-third of the proposed projects receive funding under the program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes appropriations in the amount of \$1,564,000 from federal funds in 1979-80 for support of the Intergovernmental Personnel Act program. The amount provides (1) \$204,471 for program administration, (2) \$475,835 for grants to state agencies and (3) \$883,694 for grants to local agencies. This represents virtually the same level of expenditure as anticipated during the current year.

The council reports that during the 1978 calendar year 34 projects were awarded grants totaling \$1,454,633, and matching funds of \$1,917,846 were budgeted by the requesting agencies for a total cost of \$3,372,479. The amounts awarded were 43 percent of the total budgeted costs of the approved projects.

State and Consumer Services Agency

STATE PERSONNEL BOARD

Item 128 from the General Fund and Item 129 from the Cooperative Personnel Services Revolving Fund

Budget p. 239

| | |
|--|--------------|
| Requested 1979-80 | \$21,105,397 |
| Estimated 1978-79..... | 20,452,843 |
| Actual 1977-78 | 17,270,279 |
| Requested increase \$652,554 (3.2 percent) | |
| Total recommended reduction | \$5,957,380 |

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|---|--|--------------|
| 128 | State Personnel Board (SPB). For direct support of board's operations. | General | \$19,626,727 |
| 129 | Local government services. For support in form of revenues for services provided. | Cooperative Personnel Services Revolving | 1,478,670 |
| | Subtotal of board's items included in this analysis. | | \$21.10 |

STATE PERSONNEL BOARD—Continued

| | |
|---|---------------------|
| Reimbursements (to various SPB programs for services to state and other governmental agencies). | 2,269,511 |
| Federal funds (reimbursement of personnel services SPB provided to Liberian Government). | 24,488 |
| Total expenditures budgeted. | <u>\$23,399,396</u> |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

| | <i>Analysis page</i> |
|---|--------------------------|
| 1. <i>Recruitment. Reduce Item 128 by \$50,000. Recommend deleting funds for recruiting bilingual employees.</i> | 190 |
| 2. <i>Printing. Reduce Item 128 by \$20,000. Recommend eliminating excess printing funds.</i> | 190 |
| 3. <i>Contracts. Reduce Item 128 by \$5,000. Recommend deleting funds for unspecified contracts.</i> | 190 |
| 4. <i>Equipment. Reduce Item 128 by \$47,642. Recommend reduction of funds for unnecessary equipment.</i> | 190 |
| 5. <i>Facilities Operations. Reduce Item 128 by \$20,405; increase Item 129 by \$7,038; reduce reimbursements by \$936. Recommend correcting budgeting errors</i> | 191 |
| 6. <i>Personnel Services. Recommend SPB not charge state agencies for personnel services.</i> | 191 |
| 7. <i>Data Relative to Compensation Surveys. Recommend \$128,561 proposed for survey workload be expended only if the SPB provides survey data to enable the Legislature to evaluate negotiated compensation increases.</i> | 191 |
| 8. <i>Red Circle Rates. Recommend Control Section 26.8 be restored prohibiting funds appropriated by the Budget Act from being used to pay above maximum salary range following termination of a career executive assignment (CEA).</i> | 194 |
| 9. <i>Red Circle Rates. Recommend SPB propose legislation to provide for employee terminated from CEA to be placed in the civil service rank to which the employee would have advanced if the CEA position had not been accepted.</i> | 194 |
| 10. <i>Jobs Program. Reduce Item 128 by \$1.5 million. Recommend transfer of funds to Department of Rehabilitation. (Recommend corresponding increase to Item 281.)</i> | 196 |
| 11. <i>Jobs Program. Recommend total language prohibiting payment of payroll costs unless employer pays at least half of such costs.</i> | 197 |
| 12. <i>Jobs Program. Reduce Item 128 by \$4,321,371. Recommend deleting funds for jobs program.</i> | 197 |

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body of five members appointed by the Governor for 10-year staggered terms. On the basis of constitutional and statutory authority, the board adopts state civil service rules and regulations.

The state civil service system is administered by a staff of approximately 670 employees under direction of an executive officer appointed by the board. The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health and civil defense employees, to ensure compliance with federal requirements.

The board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments. Pursuant to the Welfare Reform Act of 1971, responsibilities were assigned to the COD program for creating jobs for welfare recipients in state and local governments and supplementing welfare grants for the recipients' salaries.

The board also is responsible for coordinating affirmative action and equal employment opportunity efforts within state and local government agencies in accordance with state policy and federal law.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$23,399,396 for 1979-80, which is an apparent decrease of \$1,648,505 below the \$25,047,901 total expenditures estimated for the current year. The major portion of this difference, however, is attributable to a technical error which resulted in estimated current year costs and reimbursements of the public employment and affirmative action program being overstated by \$1.4 million. (We discuss this error below in our analysis of the "jobs program.")

Programs and Resources

The SPB conducts seven programs. Table 1 presents a summary of resources for each of these programs for the three-year period ending June 30, 1980. For the 1979-80 fiscal year, total staff is expected to decline by 54.4 positions. This decline in staff is attributable mainly to the expiration of approximately 40 limited-term positions effective June 30, 1979.

Table 1
State Personnel Board
Summary of Resources Expended by Program

| | <i>Actual</i> <i>1977-78</i> | | <i>Estimated</i> <i>1978-79</i> | | <i>Proposed</i> <i>1979-80</i> | |
|--|-----------------------------------|---------------|------------------------------------|---------------|-----------------------------------|---------------|
| | <i>Personnel-</i> <i>Years</i> | <i>Budget</i> | <i>Personnel-</i> <i>Years</i> | <i>Budget</i> | <i>Personnel-</i> <i>Years</i> | <i>Budget</i> |
| Departmental services.. | 306.5 | \$6,766,073 | 332.8 | \$7,488,482 | 304.5 | \$7,154,570 |
| Policy and standards..... | 117.1 | 2,965,152 | 109.3 | 2,778,019 | 99.4 | 2,768,089 |
| Appeals | 20.9 | 557,912 | 39.7 | 1,033,706 | 41.1 | 1,070,977 |
| Personnel development | 35.1 | 1,201,498 | 40.4 | 1,355,221 | 43.6 | 1,479,242 |
| Public employment and affirmative action .. | 57.3 | 7,375,459 | 49.8 | 9,659,994 | 38.8 | 8,367,580 |
| Local government serv- ices | 94.9 | 2,132,849 | 106.4 | 2,624,921 | 96.9 | 2,534,450 |

STATE PERSONNEL BOARD—Continued

| | | | | | | |
|--|---------|--------------|---------|--------------|---------|--------------|
| Management services: | | | | | | |
| Undistributed ¹ | 3.2 | 368,673 | 0.3 | 107,558 | - | 24,488 |
| Distributed to other programs..... | (136.8) | (4,358,692) | (136.3) | (4,439,971) | (136.6) | (4,357,717) |
| Less: "Undistributed Section 27.2 position reductions" per Budget Act of 1978..... | - | - | -5.2 | - | -5.2 | - |
| Totals..... | 635.0 | \$21,367,616 | 673.5 | \$25,047,901 | 619.1 | \$23,399,396 |

¹ Represents resources expended by the SPB in providing personnel services to the Liberian government under contract with the United States government. The board is reimbursed fully by the U.S. government for providing these services.

Recruitment Funds Not Necessary

We recommend deletion of \$50,000 budgeted for recruiting bilingual employees (reduce Item 128, General Fund).

The operating expense and equipment category contains \$50,000 to contract for recruiting services aimed at bringing Spanish-speaking/Spanish-surnamed applicants into the state civil service. We have been informed that because of the hiring freeze and the anticipated decline in the number of state civil service positions during the budget year, the board does not plan to spend these funds. Therefore, we recommend that this amount be deleted.

Printing Expenses Overbudgeted

We recommend that the budget be reduced by \$20,000 to correct overbudgeting for printing (reduce Item 128, General Fund).

The SPB has budgeted \$38,000 for having examination applications printed during the 1979-80 fiscal year. We have determined that the board will spend only about \$17,000 for having the same volume of examination applications printed in the 1978-79 fiscal year as it plans to have printed in the 1979-80 fiscal year. The board is unable to justify budgeting at the higher level. By adjusting the \$17,000 current year expenditure for an anticipated price increase, \$18,000 would be an appropriate amount to budget for this purpose. We therefore recommend a reduction of \$20,000.

Contracts Not Identified

We recommend that the budget be reduced by \$5,000 to eliminate funds for unspecified contracts (reduce Item 128, General Fund).

The board's budget support documents indicate \$5,000 budgeted for "contracts not identified." We believe that the purpose of such proposed expenditures should be identified for the Legislature. Because SPB staff was unable to do so, we recommend that the \$5,000 be deleted.

Equipment Not Necessary

We recommend deletion of \$47,642 requested for purchasing equipment (reduce Item 128, General Fund).

Included in the 1979-80 budget is \$47,642 for the purchase of equipment items listed in Table 2. The board has been unable to show that purchase

of these items is in the state's financial interest. Therefore, we recommend deletion of the funds.

Table 2
Equipment Items Not Cost-Justified
1979-80 Fiscal Year

| <i>Description of Equipment</i> | <i>Budgeted</i> |
|---|-----------------|
| Platemaker (device for making masters for duplicating machine) | \$20,000 |
| Automatic collator (to replace manual process) | 11,542 |
| Electric fork lift | 8,000 |
| Computer inquiry devices (2) | 5,000 |
| "Blanket cleaners" (4) (devices for cleaning duplicating equipment) | 1,600 |
| Time stamp perforator | 1,500 |
| Total | \$47,642 |

Budgeting Errors for Facilities Operations

We recommend that (1) the General Fund be reduced by \$20,405 (reduce Item 128), (2) the Cooperative Personnel Services (CPS) Revolving Fund be increased by \$7,038 (augment Item 129) and reimbursements be reduced by \$936.

In reviewing the board's budget support data, we have identified budgeting errors with respect to its facilities operations which resulted in its (1) General Fund costs being overstated by \$20,405, (2) CPS Revolving Fund costs being understated by \$7,038 and (3) reimbursement costs being overstated by \$936. Our recommendation would eliminate these technical errors.

SPB Should Not Charge State Agencies for Personnel Services

In our *Supplemental Analysis Item 119 (Budget Bill for 1978-79)*, State Personnel Board, dated May 26, 1978, we noted that the board, through the use of interagency agreements, had been providing an increased level of personnel services to certain state agencies on a reimbursement basis. We recommended that this practice be discontinued because:

1. The board's control responsibilities could be compromised as a result of its providing staff to assist "customer" agencies in resolving issues requiring SPB approval.
2. Increased levels of service would be available only to those agencies able to pay for them.
3. Workload of this type should be justified and budgeted in the normal manner.

The Legislature adopted our recommendation by adding control language to Item 119 of the 1978 Budget Act which restricted the board's ability to increase its staff through the use of interagency agreements.

The administration, however, has deleted this control language from the board's General Fund support item in the 1979-80 Budget Bill.

Supplemental Language Suggested in Lieu of Restoring Control Language

We recommend that supplemental language be added, directing the SPB not to charge state agencies for personnel services.

We have been advised by SPB executive staff that the board does not

STATE PERSONNEL BOARD—Continued

intend to resume its prior practice of providing personnel services to state agencies on a reimbursement basis. For this reason, we do not believe it is necessary to add the control language restricting the board's use of reimbursements to the 1979 Budget Bill. However, in order to ensure that the Legislature's intent in this matter is understood clearly, we recommend adding supplemental report language as follows:

"The board shall not provide personnel services, except for those services relating to training, to any other state agency on a reimbursement basis."

DEPARTMENTAL SERVICES PROGRAM

The departmental services program has the responsibility for (1) recruiting, selecting and placing qualified candidates in state jobs; (2) maintaining the state position classification plan; and (3) providing personnel consultation and services to state agencies.

The budget includes a reduction of 28.3 personnel years in this program in the budget year. The reduction is attributable to the:

1. Expiration of 14 limited-term positions funded under Title II for conducting examination-related projects and collective bargaining transition tasks.
2. Elimination of 10 limited-term positions added in the current year for processing additional workload. However, because of the hiring freeze, the additional workload did not materialize, and the positions were not filled.
3. Elimination of 5 positions from SPB field offices in San Francisco and Los Angeles in an effort to reduce lower priority programs.

POLICY AND STANDARDS PROGRAM

This program involves (1) policymaking relative to the state classification and pay plan, (2) evaluating employee selection procedures, (3) monitoring personnel transactions to ensure conformance with classification requirements, (4) conducting salary surveys, (5) planning an orderly transition to collective bargaining for state employees, and (6) assisting individuals in gaining access to information about themselves contained in state records, under provisions of the state Information Practices Act.

The budget shows a decrease of 9.9 positions in this program in the budget year. The decrease consists of:

1. A reduction of 4.3 positions allocated from the management services program due to a redistribution of overhead expenses.
2. Expiration of 3.3 limited-term positions funded in the current year under an Intergovernmental Personnel Act grant for developing a grievance tracking system.
3. Expiration of 2.3 limited-term positions funded under Title II during the current year for conducting a bilingual pay study.

SPB Should Provide Data for Legislative Decision Making Relative to Employee Compensation

We recommend restoration of control language to the SPB General Fund support item (Item 128) allowing the expenditure of \$128,561 for 4.6

analyst positions and one clerical position only if the board continues its compensation surveys to provide data to enable the Legislature to evaluate negotiated compensation increases.

Traditionally, state civil service salaries and benefits have been adjusted on the basis of (1) SPB surveys of salaries and benefits received in nonstate employment, (2) salary and benefit increase recommendations contained in the board's annual report to the Governor and Legislature, (3) budget action by the Governor and Legislature and (4) allocation by the board of funds appropriated for salary increases on a class-by-class basis.

Chapter 1159, Statutes of 1977 (SB 839), which became operative July 1, 1978, provides for a formal, bilateral employee relations system for most state civil service employees. Under its provisions, the Governor or his designee is required to "meet and confer in good faith" with employee organizations which have been selected by a majority of employees within individual bargaining units in an effort to reach agreement relative to "wages, hours and other terms and conditions of employment." Such agreements are to be formalized in memorandums of understanding. Any provision in such a memorandum requiring the expenditure of funds (for example, negotiated salary or benefit increases) is subject to approval by the Legislature. Mediation is required if the parties are unable to reach agreement.

The Public Employment Relations Board (PERB) is responsible for (1) determining appropriate bargaining units (that is, designating the specific civil service classifications which are to be combined in separate units for representation by individual employee organizations) and (2) conducting elections to determine which, if any, of the competing employee organizations will serve as the exclusive bargaining agent for each such unit. (The PERB is presently engaged in the unit determination process, and it is not clear at this time when this process will be completed.)

Under Chapter 1159, the SPB will continue to adjust salaries of state civil service employees who (1) are designated as "management," "supervisory," or "confidential" employees or (2) are not in bargaining units represented by exclusive bargaining agents.

Chapter 1159 ~~repealed~~ Government Code Section 18850.3, which required that the SPB submit a report each January to the Governor and Legislature containing its recommendations for adjusting the compensation of civil service employees. The board's recommendations were intended to align civil service salaries with prevailing nonstate salary rates.

Chapter 1159 provides that state employee compensation increases negotiated by representatives of the Governor are subject to approval by the Legislature. Consequently, adequate comparative data must be readily available to the Legislature so that it can make informed decisions regarding the appropriateness of such increases. In order to encourage the board to continue its existing compensation survey, the Legislature added the following control language to Item 119 of the Budget Act of 1978:

"... provided, that \$128,561 of the funds specified in category (a) is authorized for 4.6 analyst positions and one clerical position which positions may only be used for the purpose of continuing the conduct of the State Personnel Board's compensation surveys to provide data to enable

STATE PERSONNEL BOARD—Continued

the Legislature to evaluate compensation increases negotiated by the Governor or his representative.”

This control language, however, has not been included in the 1979-80 Budget Bill. We continue to believe that compensation survey data will be needed by the Legislature in assessing compensation increases negotiated on behalf of state workers. Therefore, we recommend that control language appearing under Item 119 in the 1978 Budget Act be added to the Budget Bill.

“Red Circle Rates”

We recommend:

1. *Restoring Control Section 26.8, which prohibits funds appropriated by the Budget Act from being used to pay an employee above the maximum current salary range following termination of a career executive assignment (CEA).*

2. *That the SPB propose legislation to provide for an employee terminated from a CEA to be placed into the civil service rank to which he or she would have been expected to advance had the employee remained in regular civil service, instead of accepting the CEA.*

The Government Code (Sections 18546-7) authorizes the “career executive assignment” (CEA) program, which permits the appointing power to promote state employees having permanent civil service status into “high administrative and policy influencing positions” in accordance with SPB procedures. An employee receiving such an assignment retains his permanent civil service status and his assignment may be terminated without cause by the appointing power upon 30 days notice. Over 500 CEA positions presently exist within the state service.

Government Code Section 18860 provides for “red circle rates”. Under that provision, the SPB may authorize an employee in a civil service class having a minimum of 10 years state service to be paid above the maximum step in his job class pursuant to being demoted as result of reductions in force or “other management initiated changes.”

Effective June 20, 1976, the SPB began applying this red circle rate policy to the CEA classes. This meant that an employee terminated from a CEA who had at least 10 years state service would receive a red circle rate unless the termination was voluntary or based on unsatisfactory performance.

In response, the Legislature added Control Section 26.8 to the Budget Act of 1977, which prohibited payment of state funds for this purpose. Employees who accepted CEA appointments during the period when the SPB rule was operative were exempt from this prohibition because it could be construed as a breach of contract.

This control section was not included in the 1978 Budget Bill proposed by the administration but was added by the Legislature. The control section has not been included in the 1979 Budget Bill. We continue to believe that applying the red circle policy to the CEA is not justified. Therefore, we recommend that the control language covering red circle rates again be added to the Budget Bill.

The CEA is intended as a special appointment, which the employee accepts at his own risk with the understanding that he may be removed upon short notice at the discretion of the appointing power. For this reason, we believe it inappropriate to pay an employee above the maximum step of a class he occupies pursuant to termination of a career executive assignment.

Under existing law (Government Code Section 19222) a person terminated from a CEA position has return rights to the regular civil service position he held *prior* to his CEA appointment. Therefore, termination of a CEA can result in a relatively significant salary reduction for an individual who has (1) held the CEA for an extended period or (2) advanced to higher levels within the CEA structure since leaving his regular civil service position. The current policy can also leave an employee less well off as a result of CEA service than he would have been otherwise. This may discourage some capable employees from accepting CEA appointments.

In order to minimize the salary reductions resulting from termination of CEA appointments while maintaining the policy of not paying an employee a salary above the maximum for his present class following termination of a CEA, we recommend that the SPB have legislation introduced allowing the board to place an employee terminated from a CEA at the civil service level to which he would have advanced had he not accepted the CEA. We recognize that determinations of where an individual employee would have advanced to will not always be easy. Nevertheless, we believe the board will be able to exercise judgment in this area so as to promote the objectives of such legislation.

APPEALS PROGRAM

This program involves investigating and making recommendations relative to appeals made to the SPB regarding examinations, disciplinary actions, grievances and related areas.

PERSONNEL DEVELOPMENT PROGRAM

The stated purpose of this program is to provide leadership to state agencies in the development, implementation and evaluation of their employee training programs. The program also offers central training courses and consulting services.

PUBLIC EMPLOYMENT AND AFFIRMATIVE ACTION

Under the Public Employment and Affirmative Action Program, the board provides leadership, assistance and guidance to the state's efforts in (1) achieving a state work force consisting of ethnic minorities, women and disabled persons in proportion to the appropriate resource pool and (2) employing disadvantaged persons. Program elements are (1) coordination and program development, (2) jobs program and (3) affirmative action.

The budget indicates a decrease of 11 positions in this program in the budget year. The decrease results from the expiration of (1) 8 limited-term positions funded under reimbursements from the Department of Rehabilitation for administration of an affirmative action program for disabled employees and (2) 3 limited-term positions funded under an Intergovernmental Personnel Act grant for developing a model program for employing the disabled.

STATE PERSONNEL BOARD—Continued**Jobs Program**

The jobs program, created pursuant to the Welfare Reform Act of 1971, authorizes the SPB to fully reimburse state and local government agencies for the entire payroll costs they incur in employing welfare recipients and disabled persons during their on-the-job training period. The board operates the program in cooperation with the Employment Development Department (EDD).

Under the program, the board (1) provides technical assistance in restructuring civil service jobs and removing artificial barriers to facilitate the employment of jobs program candidates and (2) negotiates contracts with state agencies (including the University of California and California State Universities and Colleges) which call for the placement of candidates in permanent jobs upon completion of their training. The EDD (1) negotiates such contracts with local government agencies and (2) refers its clients to the hiring entities.

The budget requests \$6,642,742 for the purpose of defraying payroll costs of the program participants. Included in this amount is a 5 percent (\$316,321) cost-of-living adjustment above the \$6,326,421 appropriated for this purpose in the Budget Act of 1978.

\$1.5 Million Should Be Transferred to the Department of Rehabilitation

We recommend a transfer of \$1.5 million from the SPB to the Department of Rehabilitation (reduce Item 128, General Fund, as a technical adjustment). (In our analysis of the Department of Rehabilitation, we recommend a corresponding increase in that department's General Fund appropriation (Item 281).)

The board intends to "loan" approximately \$1.5 million (of the \$6,642,742 budgeted for jobs participant payroll costs) to the Department of Rehabilitation so that the department can acquire approximately \$6 million in federal matching funds for operating its own programs. Under this arrangement the board would be committed to using the \$1.5 million, when repaid, for placing disabled persons (who are clients of the Department of Rehabilitation) under the jobs program.

We support the concept of using the \$1.5 million in General Funds to secure federal matching funds. However, we believe these funds should be included in the Department of Rehabilitation's (rather than the board's) budget because:

1. The existing arrangement conceals the state cost of matching the \$6 million in federal funds.
2. Including the funds in the department's budget would show more clearly the budget program for disabled persons and avoid the misinterpretations, errors, and distortions that now occur. (This "loan" arrangement was reflected improperly in the board's budget, causing estimated SPB expenditures and reimbursements for the current year to be overstated by \$1.4 million.)
3. The Department of Rehabilitation would be given more discretion as to how the \$1.5 million should be spent so as to achieve maximum results for its clients. (Under the present arrangement, these funds are earmarked for placing disabled clients in state jobs under the jobs program.)

For these reasons, we believe that the \$1.5 million should be transferred from the SPB to the Department of Rehabilitation.

No More Than One-Half of Job Participant Payroll Costs Should be Subsidized

We recommend that control language be added to Item 128 prohibiting funds from the item being used to pay the payroll costs of job participants unless the employer pays at least 50 percent of such costs.

The federal Work Incentive (WIN) program provides for subsidizing one-half of the payroll costs of welfare recipients placed in public and private employment during their on-the-job training periods. During the federal fiscal year ending September 30, 1980, approximately 44,000 persons are expected to participate in this program nationwide. The SPB jobs program, however, which places welfare recipients only in public employment, further supplements the WIN program by subsidizing the *entire* payroll cost during this training period. (Under the jobs program, the average cost per placement is \$6,500 and the average training period is seven months.)

We believe the jobs program should be modified to subsidize no more than 50 percent of the public employer's cost, for a number of reasons.

First, continuing to provide a greater incentive to public employers than to private employers is unwarranted, particularly at this time when public employment is declining and private employment is expanding.

Second, the federal WIN program is able to find training slots for welfare recipients in other states without providing more than a 50 percent subsidy.

Third, there is no evidence that any additional benefits result from full subsidization of payroll costs. While it may be that full subsidization occasionally achieves results that are not achievable with only a 50 percent subsidy, it seems doubtful that such benefits would be sufficient to justify the additional cost.

Fourth, given private employers' willingness to take on welfare recipients under the WIN program, it would appear that public agencies are realizing a windfall from the 100 percent subsidy.

Even if it could be demonstrated that full subsidization is necessary in order to place program participants in public jobs, it would seem logical to transfer the funds from the jobs program to the WIN program under which welfare recipients can be placed in on-the-job training slots at one-half the subsidy cost and in an expanding sector of the economy.

We therefore recommend that control language be added to Item 128 as follows:

"Provided that none of the funds specified in category (b) shall be used for defraying the payroll cost of a participant placed under the board's jobs for welfare recipients program unless the employer of the participant pays at least one-half of such payroll costs."

Proposed Budget Reduction Would Permit the Same Number of Participants to be Placed

We recommend a reduction of \$4,321,371 budgeted for placing participants under the jobs program (reduce Item 128, General Fund).

STATE PERSONNEL BOARD—Continued

The board's budget includes \$5,142,742 for reimbursing payroll costs under the jobs program (\$6,642,742 less the \$1.5 million reserved for placing Department of Rehabilitation clients). The board intends to combine this amount with matching EDD WIN funds (90 percent federal), thereby increasing the funds available for subsidizing payroll costs.

We are advised that at least \$3.5 million in EDD WIN matching funds is expected to be available during the budget year, providing a total of \$8,642,742 for reimbursing payroll costs. This amount would provide for placing approximately 1,330 participants if payroll costs were 100 percent subsidized. However, if one-half of the payroll cost is subsidized, only \$4,321,371 will be required to achieve this volume of placements. Given the \$3.5 million expected to be available in matching WIN funds, only \$821,371 would be required in the board's budget for placing 1,330 participants on a 50 percent payroll subsidization basis.

In sum, if the jobs program is modified to subsidize 50 (rather than 100) percent of the employers' payroll costs, the board's budget could be reduced by \$4,321,371 (\$5,142,742 less \$821,371) without reducing the number of participants placed under the WIN/jobs program.

If our prior recommendation for reducing this subsidy is adopted, we recommend a corresponding budget reduction of \$4,321,371 in Item 128.

LOCAL GOVERNMENT SERVICES PROGRAM

This program consists of two interrelated subprograms: (1) Merit Systems Service (MSS) and (2) Cooperative Personnel Services (CPS).

Merit System Services

Under this program, which operates on a fully reimbursable basis, the SPB approves or operates merit systems for a number of local government jurisdictions.

Cooperative Personnel Services (Item 129)

Under the CPS program, the board provides recruitment, selection and other technical personnel services to local government agencies. All program costs, except those resulting from language proficiency tests (discussed below), are financed on a reimbursement basis by revenues from local agencies for services they receive. Such revenues are paid into the Cooperative Personnel Services Revolving Fund.

The budget proposes a reduction of eight positions and \$154,321 in related expenditures from the CPS revolving fund in the 1979-80 fiscal year to reflect a declining workload.

One temporary help position and \$81,939 from the General Fund are requested in the 1979-80 fiscal year in order for the board to develop and conduct examinations for insuring the language proficiency of interpreters used in county superior courts, pursuant to provisions of Chapter 158, Statutes of 1978 (AB 2400).

MANAGEMENT SERVICES

This program consists of executive management and central support services including accounting, budgeting, mail and duplicating services. Program costs are distributed among the board's six line programs.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Items 130 and 134 from the General Fund, Item 131 from the Public Employees' Retirement Fund, Item 132 from the State Employees' Contingency Reserve Fund, and Item 133 from the Legislators' Retirement Fund

Budget p. 252

| | |
|---|--------------|
| Requested 1979-80 | \$20,440,157 |
| Estimated 1978-79..... | 16,916,393 |
| Actual 1977-78 | 12,641,162 |
| Requested increase \$3,523,764 (20.8 percent) | |
| Total recommended reduction | \$169,683 |

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|-------|--|--------------------------------------|--------------|
| 130 | Social Security Administration | General | \$93,123 |
| 131 | Retirement Administration | Public Employees' Retirement | 13,752,517 |
| 132 | Health Benefits Administration | State Employees' Contingency Reserve | 1,415,837 |
| 133 | Retirement Administration | Legislators' Retirement | 63,840 |
| 134 | Local Assistance (Legislative Mandate) | General | 5,114,840 |
| Total | | | \$20,440,157 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Building Manager. Reduce Item 131 by \$25,811. Recommend deletion of proposed building manager.* 201
2. *Accounting Supervision. Reduce Item 131 by \$24,604. Recommend deletion of additional supervisor for Refund Section.* 202
3. *Social Responsibility in Investments. Reduce Item 131 by \$13,527. Recommend deletion of proposed staff to increase monitoring of social responsibility in the PERS investment program.* 202
4. *Display of administrative costs for the Judges' Retirement System. Recommend that such costs be displayed separately in the budget as allocations from the Judges' Retirement Fund.* 204
5. *Attorney General's services. Reduce Item 131 by \$105,741. Recommend deletion of overbudgeted reimbursements for Attorney General's services.* 204

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and related benefits for over 790,000 active and retired public employees in California. The participants include state constitutional officers, members of the Legislature, state employees, most nonteaching school employees and other California public employees whose employers elect to contract for the benefits available through the system.

PERS is managed by a Board of Administration whose members are either elected by specified membership groups or appointed by the Governor. It is under the administrative jurisdiction of the State and Consumer Services Agency.

Administrative costs of the system are shared by the employees and employers and are funded, primarily, from the interest earnings on investments of the employee and employer contributions. Therefore, expenditures funded from these contributions are excluded from the state budget total.

The major PERS-administered retirement programs include a retirement, health benefits and social security program. PERS administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program which is mandatory for state employees and is available to local public workers whose employers elect such coverage. The health benefits program offers state employees, and other public employees, a number of health benefits and major medical plans on a premium-sharing basis.

The system provides and administers a number of alternative retirement plans through which the state and the contracting agencies provide their employees a variety of benefits.

Table 1 shows the actual and projected growth in the number of PERS participants, and the amount of benefits paid for the past, current and budget year.

Table 1
Selected PERS Workload Information

| <i>Detail</i> | <i>Actual 1977-78</i> | <i>Estimated 1978-79</i> | <i>Change from 1977-78</i> | <i>Projected 1979-80</i> | <i>Change from 1978-79</i> |
|--------------------------------------|---------------------------|------------------------------|--------------------------------|------------------------------|--------------------------------|
| Total number of participants | 793,583 | 832,273 | 4.9% | 855,646 | 2.8% |
| Benefit recipients | 204,660 | 227,730 | 11.2 | 231,263 | 1.6 |
| Active members | 588,923 | 604,543 | 2.6 | 624,383 | 3.3 |
| Total benefits paid (millions) | \$582.8 | \$654.6 | 12.3 | \$736.2 | 12.5 |

ANALYSIS AND RECOMMENDATIONS

Staffing and expenditures by program for the past, current and budget year are shown in Table 2.

Table 2
PERS Budget Requirements

| Programs | Staff-years | | | Expenditures (millions) | | |
|-------------------------------------|-------------|---------|---------|----------------------------|---------|---------|
| | 1977-78 | 1978-79 | 1979-80 | 1977-78 | 1978-79 | 1979-80 |
| Retirement | 421.3 | 479.0 | 486.3 | \$10.1 | \$11.3 | \$12.6 |
| Social security | 15.6 | 16.5 | 16.0 | 0.3 | 0.3 | 0.3 |
| Health benefits | 43.9 | 53.2 | 53.6 | 1.2 | 1.3 | 1.4 |
| Redesign project | 35.6 | 41.9 | 33.7 | 1.5 | 1.8 | 1.6 |
| Administration | | | | | | |
| distributed to other programs | (145.1) | (158.2) | (174.2) | (4.9) | (5.3) | (6.0) |
| undistributed | 9.6 | 9.4 | 10.8 | 0.3 | 0.3 | 0.4 |
| Legislative mandates | — | — | — | — | 2.6 | 5.1 |
| Totals | 526.0 | 600.0 | 600.4 | 13.4 | 17.6 | 21.4 |
| Reimbursements | | | | -0.8 | -0.7 | -1.0 |
| Net Totals | | | | \$12.6 | \$16.9 | \$20.4 |

Budget-Year Changes

The budget proposes 1979-80 expenditures of \$20,440,157 for support of the Public Employees' Retirement System (PERS). This is an increase of \$3,523,764, 20.8 percent above estimated current year expenditures. Nearly three-fourths of the increase—\$2,550,000—results from General Fund financing of additional retirement program costs (totaling \$2.5 million in 1978-79 and \$5.1 million in 1979-80) which the state imposed on local entities enacting Chapter 1170, Statutes of 1978 (AB 2545). This measure provided pension increases to retired school district members effective January 1, 1979. Excluding these mandated costs, the proposed increase in PERS support for the budget year is \$973,764, or 6.8 percent.

The budget proposes the addition of 60.3 positions to meet increased workload, at the cost of \$1,412,831 of which \$274,117 is funded from reimbursements. A portion of this increase is offset by a proposed reduction of eight positions and \$164,950 resulting from gradual implementation of the System Redesign Project. Table 3 summarizes these changes.

Table 3
Summary of Position and Expenditure Changes
1979-80

| Changes | Number of Positions (Staff-years) | Expenditures |
|---|--------------------------------------|--------------|
| New positions and related operating costs | 60.3 | \$1,412,831 |
| Savings from redesign project | -8.0 | -164,950 |
| Increased reimbursements | — | -274,117 |
| Net changes | 52.3 | \$973,764 |

Five of the 60.3 new positions proposed for 1979-80 will be established administratively during 1978-79 through the Section 28 process. We have reviewed the workload justification submitted by PERS in support of the 60.3 positions and recommend that all but three of the positions be approved.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**Request for New Building Manager Premature**

We recommend deletion of a proposed staff services manager I position for a savings of \$25,811 to the Public Employees' Retirement Fund (Item 131).

This new position is requested primarily to coordinate and monitor the nontechnical, administrative aspects of pre-construction activities for the new PERS administration building. This task is currently assigned to a business services officer in the PERS Business Office who spends approximately 50 hours per month on it. While PERS indicates that the workload for this task is expected to increase during the actual design and construction phases, the projected workload information, stated in general terms, does not justify establishment of a new, full-time position at this time.

In addition, state agencies authorized to construct new buildings are usually required to use the Department of General Services for pre-construction consulting, coordinating and monitoring work. PERS is exempted from this requirement. However, the legislation authorizing the new building specifically permits PERS to contract with the Department of General Services or other appropriate state agencies for any assistance with acquisition of real property and construction of its building. We believe that using the expertise available through General Services for the initial coordinating and monitoring work will be more cost-efficient.

Furthermore, the position requested by PERS for this work is that of an administrative-business manager. We do not believe this position would have the technical expertise normally required in coordinating the design and construction of a major building project such as this.

No Justification for Additional Supervisor for Refund Section:

We recommend deletion of an associate administrative analyst position for a \$24,604 savings to the Public Employees' Retirement Fund (Item 131).

This new position is requested to supervise and manage the Refund Section in the PERS Accounting Division. Upon review, however, we find that this section is currently managed and supervised by an Accountant I position. As of this writing, PERS has not adequately justified the request. It cited only a general need to upgrade the technical and liaison functions of the current supervisory position. While this might support the need to reclassify the existing supervisor position, it does not support the need for an additional position and we recommend its disapproval.

Increasing Social Responsibility Monitoring Has No Economic Benefits

We recommend deletion of a staff services manager I position for a savings of \$25,811 of which \$13,527 is to the Public Employees' Retirement Fund (Item 131), and \$12,284 is from reimbursements.

This new position is requested to monitor social responsibility in the PERS investment programs. The position's time would be divided equally between monitoring the new social responsibility criteria adopted recently by the Board of Administration of the State Teachers' Retirement System (STRS), and monitoring the social responsibility for PERS. PERS

provides investment services to STRS on contract, and would be reimbursed \$12,284 by STRS for its share of the cost of this new position.

Currently, PERS receives information on social responsibility issues from private firms at no additional cost to the participants in the system. The information from these analyses is available to the PERS investment committee and staff in making investment decisions.

According to PERS, existing PERS investment staff are able to monitor the current social responsibility criteria of the PERS Board.

Public Employees' Retirement System (PERS) states, however, that compliance with the new STRS social responsibility criteria will require additional staff. These criteria call for investigation of social injury caused by a company whose security is in the STRS investment portfolio, and specific follow-up actions, including sale of securities in cases of confirmed social injury. The new criteria also expand this review responsibility to the STRS's bond holdings.

We recommend that this request be denied, on the ground that adequate economic justification for it does not exist. In discharging their fiduciary responsibilities, the primary investment policy criteria applied by both PERS and STRS are to (1) preserve the principal and (2) maximize yield. These criteria are consistent with the primary state investment policy criterion of ". . . maximizing yield consistent with safe and prudent management." Reasonable social responsibility criteria are already considered and monitored in the investment program of the two retirement systems. Increasing the level of social responsibility—monitoring activity, as proposed by the new STRS criteria, would increase administrative costs to the system participants and could lead to a lower yield from the investment programs. This, in turn, could require higher employee and employer contributions to the system, thereby increasing General Fund costs.

Deletion of this position would call for a corresponding deletion of \$12,284 in the STRS budget (Item 135).

Redesign Project Moving Along

This project was approved in 1976 to improve the automated and manual PERS information system in order to achieve a more cost-effective and efficient operation. Funding was to be provided from the Public Employees' Retirement Fund.

Envisioned as a five-year undertaking, the project had a slow start because the hiring freeze in 1975 delayed the staffing process. After two years of operation, project implementation was behind schedule and anticipated savings were not realized.

At this writing, however, the project looks more promising. The first six of the 12 major task plans have been designed and either fully or partially implemented. Design work is underway on the next three task plans. Program costs are coming under control, and savings are finally being realized. Past, current and projected future expenditures and savings for the Redesign Project are shown in Table 4.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 4
Expenditures and Savings of the Redesign Project
(in thousands)

| | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 | Total |
|-------------------------------|---------|---------|---------|-----------|---------|---------|---------|
| Expenditures | | | | | | | |
| Projected in master plan..... | \$339 | \$1,117 | \$1,265 | \$1,343 | \$1,506 | \$513 | \$6,083 |
| Budgeted..... | 147 | 1,029 | 1,466* | 1,790* | 1,579 | | |
| Actual..... | 184 | 803 | 1,532 | | | | |
| Annual savings | | | | | | | |
| Projected in master plan..... | — | 120 | 279 | 461 | 1,245 | 2,353 | 4,458 |
| Actual..... | — | — | 183 | 400(est.) | | | |

* Reflects shift in funding of PERS' share of the Personnel Information Management System (PIMS) costs from the General Fund to the Public Employees' Retirement Fund.

Judges' Retirement System (JRS) Transferred to PERS

We recommend that in future budgets the administrative costs of the JRS be appropriated from the Judges' Retirement Fund.

Chapter 384, Statutes of 1978 (SB 688), transfers administration of the JRS, along with assigned budget and staff, from the State Controller to PERS, effective July 1, 1979.

The 1979-80 budget shows that \$50,371 in General Fund money is appropriated to PERS for administration of the JRS. Because this cost does not flow through the Judges' Retirement Fund, it is not reported in the total annual cost of the judges' retirement program. To correct this, we recommend that beginning in 1980-81 the JRS's administrative costs be appropriated from the Judges' Retirement Fund. This will provide for full disclosure of the total cost of the judges' retirement system as is currently provided for the Legislators' Retirement System (also administered by PERS). This technical recommendation would not change the source of funding, as the Judges' Retirement Fund is currently unfunded and requires annual General Fund deficiency appropriations to pay its annual retirement program costs. However, these administrative costs would be added to the unfunded liability and would be included in any future program to fund the system actuarially.

Attorney General's Services Overbudgeted

We recommend deletion of overbudgeted reimbursements for Attorney General's services in the PERS operating budget for a \$105,741 savings to the Public Employees' Retirement Fund (Item 131).

For the budget year, PERS is requesting \$257,991 to pay for anticipated legal services provided by the Attorney General. However, this amount is \$105,741 above the \$152,250 budgeted by the Attorney General for legal services to PERS (based on 3,750 hours at \$40.60 per hour). The Attorney General's estimate is based on actual records of the staff time he is planning to allocate. The PERS figure is based on 1977-78 actual and 1978-79 estimated costs, increased by an inflation factor.

We believe that the PERS estimates are overstated both for the current and budget years. We note, for instance, that actual costs for these services during the first half of 1978-79 totaled \$92,506, or only 37.5 percent of the \$246,483 budgeted for the entire fiscal year. We also note that PERS was

authorized an additional attorney position in 1978-79 and is requesting one more for the budget year which we recommend be approved. The addition of these attorneys should reduce the need for and the cost of consulting services from the Attorney General. For these reasons we recommend that Item 131 be reduced by \$105,741, to the level budgeted by the Attorney General.

Potential for PERS-STRS Consolidation

Supplemental language to the 1978-79 Budget Act required our office to report on the feasibility and efficiency of combining the administration of PERS and the State Teachers' Retirement System in our Analysis of the 1979-80 Budget Bill.

PERS and STRS administer resources of \$20.3 billion and will disperse an estimated \$1.3 billion in 1979-80. the cost of administering the two systems will be approximately \$23 million in 1979-80.

Consolidation of the two systems would result in some operating budget savings by reducing or eliminating duplicative administrative functions such as data processing and accounting. These savings would be offset in part by the additional costs resulting from planning and implementing the merger. In addition to these savings and costs, such a consolidation *could* result in significant fiscal consequences for program management (disbursement levels/resources management) in the short term. For example, if the merger caused staff disruptions which resulted in less effective review of disability claims, the loss to the state in the form of additional pension payments could be considerable, and could easily offset the net savings noted above. Unfortunately, the fiscal effects of the proposal on program management and costs are unpredictable and unquantifiable.

State and Consumer Services Agency

STATE TEACHERS' RETIREMENT SYSTEM

Item 135 from the Teachers' Retirement Fund

Budget p. 259

| | |
|--|-------------|
| Requested 1979-80 | \$7,678,994 |
| Estimated 1978-79..... | 7,273,046 |
| Actual 1977-78 | 7,211,600 |
| Requested increase \$405,948 (5.6 percent) | |
| Total recommended reduction | \$12,284 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. *Social Responsibility Monitoring. Reduce Item 135 by \$12,- 207*
284. Recommend deletion of funding for additional social responsibility monitoring in STRS investment program.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for payment of retirement benefits to public school teachers. Administratively, it became part of the Department of Education under the jurisdiction of the State Board of Education. In 1963, the system was placed under the management of a newly created State Teachers' Retirement Board and under the administrative jurisdiction of the State and Consumer Services Agency. The STRS has the following primary responsibilities:

1. To maintain a fiscally sound plan for funding approved benefits;
2. To provide authorized benefits to members and their beneficiaries in a timely manner; and
3. To furnish pertinent information to teachers, school districts and other interested groups.

The Governor-appointed members of the board include three members each from the school system and from the public. The Superintendent of Public Instruction, the State Director of Finance and the State Controller are ex-officio members of the board. In addition to having overall management responsibility for STRS, the board reviews applications for benefits provided by the system.

Administrative expenditures of the STRS are funded out of interest income from the system's investments, at no cost to the state. Therefore, these expenditures are excluded from the total state budget figure.

Funding of the benefits provided by the system is discussed under "Contributions to the Teachers' Retirement Fund" (Item 343).

ANALYSIS AND RECOMMENDATIONS

Table 1 details staffing and expenditure, by function, for the past, current and budget year.

Table 1
STRS Budget Requirements

| Functions | Staff-years | | | Expenditures (millions) | | |
|------------------------------|-------------------|----------------------|---------------------|----------------------------|----------------------|---------------------|
| | Actual 1977-78 | Estimated 1978-79 | Proposed 1979-80 | Actual 1977-78 | Estimated 1978-79 | Proposed 1979-80 |
| Records and statistics | 142.1 | 116.1 | 105.1 | \$2.7 | \$2.5 | \$2.5 |
| Member services | 72.2 | 67.6 | 70.1 | 1.6 | 1.7 | 1.8 |
| Accounting | 34.6 | 37.0 | 36.0 | 0.9 | 1.0 | 1.1 |
| Data processing | 41.2 | 41.8 | 41.8 | 1.1 | 1.2 | 1.3 |
| Management services | 23.8 | 22.0 | 21.5 | 0.7 | 0.7 | 0.8 |
| Administration | 11.6 | 10.0 | 10.0 | 0.4 | 0.4 | 0.4 |
| | 325.5 | 294.5 | 284.5 | \$7.4 | \$7.5 | \$7.9 |
| Reimbursements | — | — | — | —0.2 | —0.2 | —0.2 |
| Net Totals | | | | \$7.2 | \$7.3 | \$7.7 |

Significant Budget-Year Changes

The budget proposes \$7,678,994 for support of the STRS in 1979-80, which is an increase of \$405,948, or 5.6 percent over the estimated expenditures for the current year. This increase includes additional permanent staff for membership reporting and cash-flow accounting which are justified by workload increases. Two limited-term positions are also proposed for a two-year pilot program for rehabilitation of STRS disabilitants. If successful, this program is expected to produce significant retirement program cost-savings by returning disabilitants to the work force. Additional operating funds are requested for experience analysis and actuarial valuation, as well as for investment counseling fees and increased pro-rata charges. Budget-year staff increases are offset by deletion of the remaining staff for the Verification Project which is scheduled to terminate June 30, 1979. This will result in a net reduction of ten positions in the currently authorized STRS staff.

We have reviewed the proposed budgetary changes and recommend their approval with the exception of the following proposal.

No Need to Increase Monitoring of Social Responsibility

We recommend deletion of STRS reimbursements to the Public Employees Retirement System (PERS) for additional monitoring of social responsibility in investment services, resulting in a \$12,284 savings to the State Teachers' Retirement Fund (Item 135).

Investment services for STRS are provided by the Public Employees Retirement System (PERS) on a reimbursement basis. For the budget year, PERS is requesting an additional professional position to increase monitoring of social responsibility in both its own and STRS's investment programs. According to PERS, the new position is justified primarily by the workload expected to result from the new social responsibility criteria approved recently by the STRS Board of Administration. PERS indicates that it has budgeted \$12,284 as reimbursement from STRS for the latter's share of the cost of this proposed new position.

In our analysis of PERS, (Item 130) we recommend deletion of the position. We believe the position cannot be justified on an economic basis. If the new activity influences investment decisions, the most probable effect would be to reduce investment earnings. This, coupled with the increase in administrative costs resulting from implementation of the criteria could require higher employee and employer contributions to the system, thereby increasing General Fund costs.

If our recommendation is adopted, budgeted STRS reimbursements to PERS for investment services should be reduced by \$12,284.

Impact of Chapter 931, Statutes of 1978 (AB 2360)

This legislation advanced the due date for payment of employer's and employee's contributions to STRS from the twentieth calendar day of each month to the fifth working day of each month, effective September 1978. It also provided STRS retirees with less than 20 years of service the same cost-of-living pension increases already granted to STRS retirees with 20 or more years of credited service.

The first feature of this statute was estimated to produce additional

STATE TEACHERS' RETIREMENT SYSTEM—Continued

annual investment earnings of \$2.4 million. These additional revenues, however, were expected to be more than offset by an annual program cost of \$2.7 million for a period of 25 years to fund the pension-increase for a net unfunded annual program cost of \$300,000. Experience with this legislation to date indicates about 98 percent compliance with the new due dates. This, coupled with escalating interest rates since the date the revenue estimates were made, may result in investment earnings above the projected \$2.4 million annual level in the immediate future.

**State and Consumer Services Agency
DEPARTMENT OF VETERANS AFFAIRS**

Items 136-137 and 139-140 from the
General Fund and Item 138
from the Veterans' Farm and
Home Building Fund

Budget p. 262

| | |
|--|--------------|
| Requested 1979-80 | \$15,844,710 |
| Estimated 1978-79 | 14,835,494 |
| Actual 1977-78 | 11,959,206 |
| Requested increase \$1,009,216 (6.8 percent) | |
| Total recommended reduction | \$208,000 |

1979-80 FUNDING BY ITEM AND SOURCE

| Item | Description | Fund | Amount |
|------|---------------------------------|---------------------------|---------------------|
| 136 | Administration/Veteran Services | General | \$1,407,489 |
| 137 | Educational Grants | General | 1,541,250 |
| 138 | Administration | Farm and Home Building | (424,714) * |
| 139 | Veterans Home | General | 12,055,971 |
| 140 | Local Assistance | General | 840,000 |
| | Total | | <u>\$15,844,710</u> |

* Transferred to Item 136.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|---|--------------------------|
| 1. <i>Educational Assistance.</i> Reduce Item 137 by \$208,000. Recommend elimination of financial assistance for the education of dependents of non-California veterans killed or totally disabled, or of non-California servicemen currently missing-in-action. | 212 |
| 2. Consolidation of Laundry Services. Recommend Department of Veterans Affairs and Department of Developmental Services evaluate feasibility of Veterans' Home providing laundry services for Napa and Sonoma State Hospitals. | 213 |

GENERAL PROGRAM STATEMENT

The Department of Veteran Affairs provides services for qualified California veterans and their dependents through four major programs. Its principal aim is to help needy veterans or dependents to obtain direct federal or state aid of various kinds and to provide a hospital, nursing-home and domiciliary facility for veterans needing such services.

In addition, the department administers a loan program to enable veterans to own their own houses, farms or mobilehomes on a more economical basis than would be available to them by conventional means. This service is self-supporting and self-liquidating from regular payments made by participating veterans.

Farm and Home Loans

The Farm and Home Loans to Veterans program, also known as the Cal-Vet Loan program, provides low-interest farm, house and mobile-home loans to qualified veterans through the sale of general obligation and revenue bonds which are redeemed from the monthly payments of the participating veterans. Loans are available in amounts up to \$43,000 for a house, \$120,000 for a farm, and \$30,000 for a mobile home situated on the owner's property or \$25,500 if located in a trailer park. Unlike conventional lending institutions whose loans are secured by deeds of trust, the Cal-Vet Loan program purchases and remains the "owner" of the property until the loan is fully amortized.

Veterans Claims and Rights

The Veterans Claims and Rights program provides information to veterans and their dependents concerning the availability of federal and state benefits and assists eligible persons in obtaining them through three elements: claims representation, employment preference and county subventions. Benefits include hospital and out-patient medical and dental care, pensions, insurance, burial benefits, educational assistance, employment preference and others.

Claims Representation. This element assists California veterans seeking federal benefits by appearing on their behalf before the Veterans Administration rating boards. Assistance is given for claims involving initial ratings of service-connected disabilities and increases in existing disabilities.

Employment Preference. Honorably discharged veterans and veterans' widows receive a 10-point preference on civil service examinations, and veterans with a service-connected disability receive 15 points. This element processes applications for the preference points and certifies eligible veterans and widows to the State Personnel Board. Certification will be requested for an estimated 9,500 cases in the budget year.

County Subvention. This element administers grants to local veterans service offices, operating in 54 of the state's counties, which assist veterans in establishing their claims and rights. This year the Governor's Budget reduced the total subvention amount from \$1 million to \$840,000. This represents a reduction in state funds proportional to the reductions in this program by participating county governments.

Educational Assistance. The Educational Assistance to Veterans and

DEPARTMENT OF VETERANS AFFAIRS—Continued

Dependents program provides counseling and financial assistance to qualified dependents of veterans who were killed or totally disabled as a result of active military service. Full-time college students receive \$50 per month and high school students receive \$20 per month. In past years, financial assistance was also provided to totally disabled veterans. However, this program element was discontinued due to expansion of G.I. Bill education benefits.

Care of Sick and Disabled

The care of Sick and Disabled Veterans program operates the Veterans' Home in Yountville, which is one of the largest geriatric facilities in the country. The home maintains an 844-bed medical and nursing unit and domiciliary quarters with a bed capacity of 1,489. The home provides war veterans who are California residents with several levels of medical care (acute, skilled nursing and intermediate care), rehabilitation services and residential services. The home is licensed by the state, and its hospital is fully accredited.

Administration

General Administration provides for administrative implementation of policies established by the California Veterans Board and the department director. Fiscal, legal, personnel and other functions not specifically assigned to the other programs are included in this element.

ANALYSIS AND RECOMMENDATIONS

The proposed budget contained in Items 136-140 totals \$15,844,710, an increase of \$1,009,216 or 6.8 percent over projected expenditures in the current year.

The department's administrative support is financed by Items 136 and 139, a continuing appropriation from the Farm and Home Building Fund, federal funds and reimbursements. The amounts provided by each source are shown in Table 1. The continuing appropriation (\$7,281,970) is provided by Section 988 of the Military and Veterans Code for administrative support of the Cal-Vet Loan program, which will maintain existing loan accounts and acquire new property amounting to approximately \$799 million in the budget year.

The \$1,541,250 contained in Item 137 funds educational grants to veterans' dependents. Item 140 provides \$840,000 for assistance to county veteran service offices.

Table 1
Department of Veterans Affairs
Departmental Funding Summary

| <i>Funding</i> | <i>Estimated 1978-79</i> | <i>Proposed 1979-80</i> | <i>Change From Current Year</i> | |
|----------------------------------|------------------------------|-----------------------------|-------------------------------------|----------------|
| | | | <i>Amount</i> | <i>Percent</i> |
| General Fund: | | | | |
| Item 136 | \$1,418,508 | \$1,407,489 | -\$11,109 | -0.8% |
| Item 137 | 1,781,250 | 1,541,250 | -240,000 | -13.5 |
| Item 139 | 10,635,736 | 12,055,971 | 1,420,235 | 13.4 |
| Item 140 | 1,000,000 | 840,000 | -160,000 | -16.0 |
| Total, General Fund | \$14,835,494 | \$15,844,710 | \$1,009,216 | 6.8% |

| | | | | |
|------------------------------------|---------------|---------------|--------------|-------|
| Special Fund: | | | | |
| Item 138 | 414,546 | 424,714 | 10,168 | 2.5 |
| Continuing appropriation..... | 6,400,133 | 7,281,970 | 881,837 | 13.8 |
| Loans debt service and taxes | 703,783,380 | 799,000,000 | 95,216,620 | 13.5 |
| Total, Special Fund | \$710,598,059 | \$806,706,684 | \$96,108,625 | 13.5% |
| Federal (direct) | 5,069,075 | 5,110,863 | 41,788 | 0.8 |
| Reimbursements | 2,640,692 | 2,660,458 | 19,766 | 0.7 |
| Grand Total | \$733,143,320 | \$830,322,715 | \$97,179,395 | 13.3% |

The "direct" federal funding shown in Table 1 consists of medical and billet payments in behalf of residents at the Veterans' Home. The reimbursements include federal funds paid through the veterans to the home for "aid and attendance" and fees paid directly by the veterans.

Table 2 summarizes the department's administrative costs by program.

Table 2
Department of Veterans Affairs
Program Cost Summary

| Program | Estimated 1978-79 | Proposed 1979-80 | Change From Current Year | |
|---------------------------------|----------------------|---------------------|-----------------------------|---------|
| | | | Amount | Percent |
| Farm and Home loan | \$6,814,679 | \$7,706,684 | \$892,005 | 13.1% |
| Personnel-years | 246.3 | 246.3 | — | — |
| Veterans claims and rights..... | 1,112,631 | 1,077,766 | -34,865 | -3.1 |
| Personnel-years | 55.3 | 51.3 | -4 | -7.2 |
| Home and hospital..... | 18,651,380 | 20,157,015 | 1,505,635 | 8.1 |
| Personnel-years | 888.4 | 890.2 | 1.8 | .2 |
| General administration | (809,867) | (812,390) | (2,523) | .3 |
| Personnel-years | (32.4) | (32.4) | — | — |
| 27.2 Budget Act reduction | -5 | -5 | — | — |
| Total | \$26,578,690 | \$28,941,465 | \$2,362,775 | 8.9% |
| Personnel-years | 1,185 | 1,182.8 | -2.2 | -2 |

New Positions

Table 3 provides information on staffing and workload during the current and budget years. As the table shows, the department was authorized a total of 1,176.3 positions for 1978-79 in the 1978 Budget Act. Through administrative action, it has added 40 positions during the current year as follows:

- three for administration.

These positions, which are federally funded under Title II of the Public Works Employment Act, are developing a cost accounting system for the Veterans' Home;

- 29 in the Farm and Home loan program; and
- eight for the Veterans' Home.

For the budget year, the department is requesting permanent authorization for all of these positions, except the three federally funded positions, which are requested for one-year only.

DEPARTMENT OF VETERANS AFFAIRS—Continued

Table 3
Department of Veterans Affairs
Comparative Staffing Data
1978-79, 1979-80

| Program | Authorized Positions 1978-79 Budget | Workload and Adminis- tration Adjust- ments | Section 27.2 Budget Act Reduc- tion | Total 1978-79 | Requested Positions 1979-80 | Differ- ence |
|--|--|---|--|------------------|-----------------------------------|-----------------|
| Administration, Veteran Serv- ices, Farm and Home | 292.2 ^a | 32 | -5 | 324.2 | 315.2 | -9 |
| Veterans Home | 884.1 | 8 | — | 892.1 | 894.1 | 2 |
| Total | 1,176.3 | 40 | -5 | 1,216.3 | 1,209.3 | -7 |

^a Includes four Discharge Upgrade positions that will expire June 30, 1979, and 28 Farm and Home loan program positions limited to June 30, 1979.

In addition, it is requesting permanent authorization for: 28 Farm and Home loan positions authorized last year on a one-year, limited term basis; two new dental positions for the Veterans' Home. Four positions for the Veterans' Discharge Upgrading Project will expire June 30, 1979, and the department will eliminate five positions under Section 27.2 of the 1978 Budget Act. Thus, the department is requesting a total of 70 positions: 40 which were administratively established during the current year, 28 that would otherwise expire at the end of the current year, and 2 new dental positions.

We recommend approval of these positions.

The 57 positions for the Cal-Vet Farm and Home Loan program are needed due to increased workload. The passage of Proposition 1 and Chapter 1243, Statutes of 1978 (AB 2851), increased the amount of bond funds available, and this has generated an increase in the number of loan applications. These positions are funded by the Farm and Home Loan Fund at no cost to the General Fund. The two dental positions at the Veterans' Home are also justified on the basis of workload. The Home currently has one dentist for the 1,400-person population. Due to the elderly age of the population and the concomitantly high need for dental service, another dentist and assistant are needed. The eight positions administratively established at the Home are as follows:

1. An architect is needed to develop fire, life and safety plans as mandated by federal regulations and the State Department of Health (this is a three-year limited-term position);
2. two geriatric nursing positions are needed to meet state and federal staffing standards; and
3. five member helpers are needed for a new dormitory wing for married couples (these positions are totally reimbursed by member fees and federal funds).

Educational Assistance to Dependents of Non-California Veterans

We recommend amendments to Section 891 of the Military and Veterans Code to eliminate financial assistance for the education of dependents of (1) non-California veterans killed or totally disabled as a result of active military service, and (2) non-California servicemen currently missing in action, for a General Fund savings of \$208,000 (Item 137).

Pursuant to Sections 891-899 of the Military and Veterans Code, the department provides grants for the education of dependents of veterans killed or totally disabled as a result of active military service and of servicemen currently missing in action. High school students receive \$20 per month, and full-time college, business or trade school students receive \$50 per month. College, business or trade school students may receive up to \$2,000 per year for tuition and fees. A total of \$1,541,250 is proposed for this program in 1979-80, a reduction of \$240,000 from estimated expenditures in the current year. The reduction reflects a recent decision of the department to deny grants to students attending private schools and out-of-state schools.

Pursuant to Section 891, to be eligible for educational benefits, an individual must: (1) be a dependent of a deceased or totally disabled veteran—the veteran need not have been born in California or resided in the state (that is, be a Cal-Vet); and (2) be a native of California or have lived in California for five of the last nine years. Children who become eligible prior to age 21 may continue to receive benefits until the needed education or training is completed, up to age 27. Spouses can obtain benefits for up to 48 months regardless of age.

This is the only assistance program administered by the department that does not statutorily require Cal-Vet eligibility as a condition for participation. We see no justification for using state funds to provide educational assistance for dependents of non-California veterans. Therefore, we recommend that the eligibility criteria for this program be amended to require that the veteran be a Cal-Vet as defined by Section 980 of the Military and Veterans Code. "Veteran" means any citizen of the United States who served in the active military, naval or air service of the United States . . . and received an honorable discharge therefrom or was released from active duty under honorable conditions and who was, at the time of his entry into active duty, a native or bona fide resident of this state, or who, if a minor at such time, entered active duty while in the State of California and had lived in this state for six months immediately preceding his entry into active duty. . . ."

The department estimates that approximately 15 percent of the individuals currently receiving benefits under this program are dependents of non-California veterans. In the budget year, an estimated 528 new dependents of non-California veterans will receive benefits: 400 high school and 123 college or business school students, and five spouses. The average annual benefits to individuals within each respective category is: \$200, \$1,000 and \$1,000. Thus, elimination of education assistance to dependents of non-California veterans would result in savings of \$208,000 during the budget year.

DEPARTMENT OF VETERANS AFFAIRS—Continued

Consolidate Laundry Services

We recommend the Department of Veterans Affairs and the Department of Developmental Services determine the feasibility of having the Veterans' Home provide laundry services for the Napa and Sonoma State hospitals, and report to the Joint Legislative Budget Committee by April 1, 1980.

The department is requesting \$595,000 for new laundry equipment at the Veterans' Home in Yountville. We concur with the necessity for this expenditure because the existing equipment is obsolete and in very poor condition. Furthermore, after the new equipment is in operation, it will be possible to eliminate seven laundry finisher positions for an annual savings of \$95,000.

Preliminary discussions with the Department of Developmental Services indicate that the laundry facilities at Napa and Sonoma State Hospitals are inadequate and that the Department of Developmental Services is interested in the possibility of contracting with the Veterans' Home for laundry services.

A consolidated laundry facility would save the state duplicative costs of refurbishing or replacing the laundry equipment at the two other locations. Costs for transporting the laundry would not be a major factor because of the close geographical proximity of the three institutions. Therefore, we recommend that the two departments evaluate the feasibility of implementing this proposal and report thereon to the Joint Legislative Budget Committee by April 1, 1980.

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

Item 141 from the General

Fund

Budget p. 271

| | |
|---|--------------|
| Requested 1979-80 | \$11,436,691 |
| Estimated 1978-79..... | 11,530,803 |
| Actual 1977-78 | 10,987,682 |
| Requested decrease \$94,112 (0.8 percent) | |
| Total recommended reduction | \$69,200 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Wholesale Price Posting. Recommend legislation to eliminate wholesale price posting requirements. 218
2. Data Processing Conversion. Recommend 10 clerical positions be limited to June 30, 1980. 219
3. *Personnel Reductions. Reduce by \$69,200.* Recommend funds for personnel relocations and attrition adjustments be reduced. 219