

NATIONAL CENTER FOR STATE COURTS

Item 0460 from the General

Fund

Budget p. LJE 20

Requested 1982-83	\$14,000
Estimated 1981-82	14,000
Actual 1980-81	14,000
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$14,000 from the General Fund as California's membership fee in the National Center for State Courts. This is the same amount appropriated for the current year. Members of the center include all 50 states, four territories, and the District of Columbia. The \$14,000 fee is based on the state's population, and amounts to approximately 7 percent of the membership fees paid by the states. Membership entitles California to judicial research data, consultative services, and information on the views of the various states on federal legislation and national programs affecting the judicial system.

GOVERNOR'S OFFICE

Item 0500 from the General

Fund

Budget p. LJE 21

Requested 1982-83	\$4,929,000
Estimated 1981-82	4,929,000
Actual 1980-81	4,491,000
Requested increase (excluding amount for salary increases)—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$4,929,000 from the General Fund for support of the Governor's office in 1982-83. This amount is the same as estimated current-year expenditures. The request, however, makes no allowance for any salary or staff benefit increase that may be approved for the budget year.

The Governor's office has 87.6 authorized personnel-years in the current year. No increase is proposed for 1982-83.

Community Services Representatives

The 1981 Budget Act appropriated \$180,000 to the Employment Development Department (EDD) for eight contracted community service representatives. The Budget Act also included language directing the administration to request any funds proposed to continue the contracts with the community representatives in the budget for the Governor's

SF#5
4/26/82

Holmbeck
Acquist

Summary of GEN FUND CASE

	80-81	81-82	82-83
Admin	589	640	646
SS SC	192	177	173
	\$781K	\$817K	\$819K

26 / EXECUTIVE

Item 0510

GOVERNOR'S OFFICE —Continued

office, rather than in EDD's budget. The administration, however, has not done so. Instead, it again requests funds for the community service representatives in EDD's budget. Further, the administration states that it will comply with this legislative directive in 1983-84. This issue is discussed further in the analysis of EDD's budget (Item 5100).

If the budget for the Governor's office had included the funds requested to support these community service representatives, as the Legislature directed, it would be \$5,109,000.

Governor's Office

SECRETARY OF STATE AND CONSUMER SERVICES

Item 0510 from the General Fund

Budget p. LJE 22

Requested 1982-83	\$819,000
Estimated 1981-82.....	817,000
Actual 1980-81	781,000
Requested increase (excluding amount for salary increases) \$2,000 (+ 0.2 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Technical Adjustments. Recommend changes be made to reflect cost of supporting disabled compliance program in budgets of contributing agencies. 29
2. Additional Staff. Recommend adoption of Budget Bill language to limit terms of 6.5 positions requested for the disabled compliance program to June 30, 1983. 29
3. Implementation Plan. Recommend implementation plan of disabled compliance program activities be submitted to the Legislature by November 1, 1982. 29

GENERAL PROGRAM STATEMENT

The Secretary of State and Consumer Services provides administrative and policy direction to the following state entities:

- Department of Consumer Affairs
- Department of Veterans Affairs
- Department of General Services
- Office of State Fire Marshal
- Franchise Tax Board
- State Personnel Board
- Public Employees' Retirement System
- State Teachers' Retirement System
- Museum of Science and Industry
- Public Broadcasting Commission
- Department of Fair Employment and Housing

The secretary also administers:

1. The Intergovernmental Personnel Act (IPA) grant program for im-

DEPT. of Social & Public AG WORK REMOVED FROM
 AGCY EFF APR 1977
 AW/WH 4 5/10/82

Item 0510 3 IPA POSITIONS
 1 ELGCT ENGR POS BSC
 1 COD COORDINATOR

EXECUTIVE / 27

proving personnel management in state and local government through education and training under the federal IPA.

2. The State Building Standards Commission.
3. The Statewide Disabled Compliance Program.

The agency has 27.3 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$819,000 from the General Fund for support of the State and Consumer Services Agency in 1982-83. This is \$2,000, or 0.2 percent more than estimated current-year expenditures. Total agency expenditures, including reimbursements, are budgeted at \$1,516,000, which is an increase of \$166,000, or 12.3 percent, over current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 presents a summary of the agency's expenditures and personnel-years for the past, current and budget years. As the table shows, the Intergovernmental Personnel Act Advisory Council (IPAAC) is included in the agency's budget for 1982-83 only. The council, which terminates effective September 30, 1982, was budgeted in prior years as a separate entity.

The table shows a net increase of five positions in the budget year, for a total of 33 positions. This is an increase of 57 percent of the actual number of positions in 1980-81. Three of the new positions support the IPAAC and, therefore, would be authorized only through September 30, 1982. Another of these positions is the agency's civil rights/career opportunities development (COD) coordinator, who is funded by reimbursements from the State Personnel Board under its COD program. Although this position is not new, in the past it has not been reflected as the agency's budget. The remaining new position is an electrical engineer requested for the Building Standards Commission.

The workload, cost, and other changes proposed for the budget year are displayed in Table 2. This table shows workload changes of (1) \$41,000 for the Building Standards Commission, which represents funds for the additional engineer position requested in the budget year and (2) \$3,000, which represents the additional annual cost in 1982-83 of a receptionist added administratively during 1981-82. Our analysis indicates that both of these additional positions are justified by workload.

Table 1

Secretary of State and Consumer Services
 (in thousands)

Program	Actual	Estimated	Proposed	Change	
	1980-81	1981-82	1982-83	Amount	Percent
Administration of State and Consumer Services Agency	\$767	\$656	\$722	\$66	10.1%
State Building Standards Commission	231	334	383	49	14.7
Statewide Disabled Compliance Coordination	230	360	350	-10	-2.8
Intergovernmental Personnel Act Advisory Council	-	-	61	61	N/A
Totals	\$1,228	\$1,350	\$1,516	\$166	12.3%
General Fund	781	817	819	2	0.2
Federal Trust Fund	-	-	61	61	N/A
Reimbursements	447	533	636	103	19.3
Personnel-years	21.2	28.3	33.3	5.0	17.7

* The Intergovernmental Personnel Act Advisory Council was budgeted as a separate entity in prior years.

2 Add Pos for BSC (IPAC/HCLK)
 3 FROM ANNUALIZING NEW OSCIP
 BAL = SAL SAVINGS

SECRETARY OF STATE AND CONSUMER SERVICES—Continued

Table 2
Secretary of State and Consumer Services
Proposed Budget Changes
(in thousands)

	<i>General Fund</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Totals</i>
1981-82 Revised Budget.....	\$817	—	\$533	\$1,350
1. Workload Changes:				
a. Building Standards Commission	—	—	41	41
b. Agency receptionist function.....	—	—	3	3
2. Cost Changes:				
a. Personal services	12	—	-8	4
b. Operating expenses	16	—	-4	12
3. Other Changes:				
a. 2 percent General Fund reduction in current year only	17	—	—	17
b. 5 percent General Fund reduction in budget year	-43	—	14	-29
c. Civil rights/COD coordinator position	—	—	57	57
d. Intergovernmental Personnel Act Advisory Council.....	—	\$61	—	61
Total Proposed Changes	\$2	\$61	\$103	\$166
1982-83 Proposed Budget	\$819	\$61	\$636	\$1,516

Five Percent Reduction in Budget Base

Pursuant to the Department of Finance's directive requiring a 5 percent reduction in the General Fund portion of certain state operating budgets, the agency's budget for 1982-83 shows a baseline reduction of \$43,000. This would be achieved by:

- Increasing salary savings by \$22,000;
- Reducing operating expenses by \$7,000;
- Reducing General Fund support for the Building Standards Commission by \$14,000 (with a corresponding increase in reimbursements to the commission).

Statewide Disabled Compliance Program

The Federal Rehabilitation Act of 1973 (Sections 503-5) requires recipients of federal assistance to ensure that their personnel practices, programs and facilities are accessible to persons with disabilities, in accordance with specified guidelines. Although state agencies receiving federal financial assistance were supposed to have been in compliance with the act by June 2, 1980, it is our understanding that, for the most part, compliance with federal requirements has not been achieved by many agencies.

On June 12, 1980, the Governor issued Executive Order B-65-80, creating a central unit within the State and Consumer Services Agency to (1) direct, facilitate and monitor compliance by all state agencies with the Federal Rehabilitation Act of 1973 and (2) coordinate statewide efforts in this area with those of the Health and Welfare Agency regarding portions of the Government Code which concern disabled program recipients.

Later in 1980, the agency secretary established administratively 6.5 positions (5.5 professional and 1 clerical) to staff the new unit which was named the Office of Statewide Compliance Coordination (OSCC). The 1981 Budget Act authorized continuation of (1) the 6.5 positions and (2) a funding arrangement under which OSCC's costs are reimbursed fully by other state agencies having program responsibilities in this area. Because of uncertainty as to how long the program would be needed, the Legislature limited the terms of the 6.5 positions to June 30, 1982.

The budget proposes continuing the 6.5 positions and the existing funding arrangement. As a result, the office's costs, which are estimated at \$350,000 in the budget year, will be reimbursed entirely by other state agencies.

Compliance Program Costs Should Be Reflected in Budgets of Contributing Agencies

We recommend that, prior to budget hearings, the Department of Finance (1) identify which state agencies will provide funds to support the statewide disabled compliance unit and (2) make technical adjustments reflecting the cost of such support in the budgets of each contributing state agency.

At the time this analysis was prepared, the Department of Finance had not identified the source of funds for supporting the compliance unit's operations in the budget year. Consequently, the budgets of contributing state agencies are incomplete in that they do not indicate this cost. So that the Legislature can have a complete picture of how funds requested in the budget will be used, we recommend that the Department of Finance make the technical adjustments necessary to properly reflect this cost in the budgets of the appropriate state agencies.

Positions Should Be of Limited Duration

We recommend that the 6.5 positions requested by the OSCC be authorized for the budget year only.

Agency staff indicate that the OSCC is expected to complete its operations and be terminated by June 30, 1985, but no specific implementation plan and timetable are available to substantiate this estimate. Our analysis indicates that the 6.5 positions are justified in the budget year. It is uncertain at this time, however, how long the program will be necessary and the number and type of staff that will be needed in future years. For these reasons, we believe staffing for this program beyond June 30, 1983, should be subject to specific review and approval by the Legislature. Accordingly, we recommend adoption of the following Budget Bill language in Item 0510-001-001:

"... provided that terms of the 6.5 positions budgeted for the Office of Statewide Compliance Coordination are limited to June 30, 1983."

Implementation Plan and Timetable Are Needed

We recommend that the agency submit to the Legislature an implementation plan and schedule indicating the date by which the OSCC is expected to complete its operations.

In order to enable the Legislature to evaluate the progress and future staffing needs of the OSCC, we recommend that supplemental report language be adopted as follows:

"The State and Consumer Services Agency shall submit to the Joint

SECRETARY OF STATE AND CONSUMER SERVICES—Continued

Legislative Budget Committee by November 1, 1982, an implementation plan and schedule indicating (1) specific tasks to be accomplished by the Office of Statewide Compliance Coordination, (2) the number and type of staff the office will require in future years to complete these tasks, and (3) the date by which the office is expected to complete its operations."

Building Standards Commission

The State Building Standards Commission is the central state agency responsible for approving and publishing all building standards (except those relating to mobilehomes) proposed by state agencies. The purpose of the commission is to (1) codify all building standards into a central State Building Standards Code, (2) eliminate conflicts and duplication in the standards, (3) ensure consistency in the code and (4) hear appeals regarding the building standards. Ten commission members are appointed by the Governor in accordance with criteria specified in law. These appointees must be confirmed by the Senate. The Secretary of the State and Consumer Services Agency or her designee serves as ex officio chairman of the commission.

The budget requests that (1) two limited-term positions (one professional and one clerical) be continued on a permanent basis and (2) an electrical engineer position be authorized for the commission. Our analysis indicates that these positions are justified, based on the commission's workload.

Termination of Intergovernmental Personnel Act Program

The Intergovernmental Personnel Act Advisory Council administers the state's program for improving personnel management in state and local government pursuant to the federal Intergovernmental Personnel Act (IPA). Under this program, financial assistance in the form of federal grants is awarded to state and local agencies on a matching basis for approved projects. Because federal funding for the program has been discontinued, the program will terminate effective September 30, 1982. In the budget year, \$61,000 in federal funds and three limited-term positions (two professional and one clerical) are budgeted for the purpose of closing out the program.

Governor's Office**SECRETARY OF BUSINESS, TRANSPORTATION AND HOUSING**

Item 0520 from the General
Fund and State Transportation Fund

Budget p. LJE 24

Requested 1982-83	\$975,000
Estimated 1981-82	971,000 ^a
Actual 1980-81	826,000 ^a
Requested increase (excluding amount for salary increases) \$4,000 (+0.4 percent)	
Total recommended reduction	None

^a Excludes funding for SolarCal Council and Solar Business Office

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0520-001-001—Support		General	\$394,000
0520-001-044—Support		Motor Vehicle Account, State Transportation	581,000
Total			<u>\$975,000</u>

GENERAL PROGRAM STATEMENT

The Secretary of Business, Transportation and Housing is one of five agency secretaries in the Governor's Cabinet. The 17 departments and administrative entities under the agency's jurisdiction can be divided into four general groupings: (1) business and regulatory agencies, (2) transportation agencies, (3) housing agencies, and (4) solar energy agencies. The 17 entities are as follows:

Business and Regulatory

- Department of Alcoholic Beverage Control
- Alcoholic Beverage Control Appeals Board
- Department of Banking
- Department of Corporations
- Department of Economic and Business Development
- Department of Insurance
- Department of Real Estate
- Department of Savings and Loan
- Stephen P. Teale Consolidated Data Center

Transportation

- California Highway Patrol
- Department of Motor Vehicles
- Department of Transportation
- Office of Traffic Safety

Housing

- Department of Housing and Community Development
- California Housing Finance Agency

Solar

- SolarCal Council
- Solar Energy Conservation Mortgage Corporation

SECRETARY OF BUSINESS, TRANSPORTATION AND HOUSING—Continued

The agency is authorized 26.5 positions in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The Governor's Budget requests appropriations totaling \$975,000 from the General Fund and the State Transportation Fund to support the office in 1982-83. The budget shows this amount as being \$89,000, or 8.4 percent, less than estimated expenditures in 1981-82. When the current and budget years are put on a comparable basis, however, the request for 1982-83 is \$4,000, or 0.4 percent, more than estimated expenditures in 1981-82. (This adjustment is discussed more fully in the following section.) The proposed growth in expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year.

The agency also expects to receive \$386,000 in reimbursements during 1982-83, resulting in a total expenditure program of \$1,361,000. This amount is \$101,000, or 6.9 percent less than the level of comparable expenditures estimated for 1981-82.

Funding For SolarCal Council is Shown Separately

In the past, expenditures by the SolarCal Council have been included in the agency's budget. In the Governor's Budget for 1982-83, however, funding for the SolarCal Council is shown in a separate item. This tends to distort any comparison of the agency's 1982-83 budget with expenditures in the current or prior year.

Table 1 shows agency expenditures for the past, current, and budget years on a comparable basis by excluding expenditures for solar activities in all three years.

Table 1
Secretary of Business, Transportation and Housing
Expenditures, Excluding Solar Activities
1980-81 through 1982-83
(in thousands)

	<i>1980-81</i> <i>Actual</i>	<i>1981-82</i> <i>Estimated</i>	<i>Percent</i> <i>Change</i>	<i>1982-83</i> <i>Proposed</i>	<i>Percent</i> <i>Change</i>
Agency expenditures, as shown in the budget	\$1,663	\$1,746	5.0%	\$1,361	-22.1%
Less: SolarCal Council	302	284	-6.3	—	-100.0
Less: Solar Business Office	86	—	-100.0	—	—
Agency expenditures, restated	\$1,275	\$1,462	14.7%	\$1,361	-6.9%
Less: reimbursements	449	491	9.8	386	-21.5
Net expenditures, restated	\$826	\$971	17.4%	\$975	0.4%

Agency Staffing

Control language in the 1981 Budget Act directs the agency to sponsor legislation establishing all currently authorized positions. The agency has complied with this directive by sponsoring AB 2258, which would authorize the Governor to appoint four more officials in the agency. This would increase the number of exempt positions by eight. These positions would be filled with existing staff.

In the past, the agency has borrowed five exempt positions from four departments within the agency—Department of Transportation, Depart-

ment of Real Estate, Traffic Adjudication Board (one position each), and the Department of Housing and Community Development (two positions). Although the cost of the five positions was reflected in the agency budget as consultant expenditures, the agency was reimbursed for these costs through assessments levied on nearly all departments within the agency.

The Governor's Budget reflects the five positions in the agency staffing totals, and indicates increased expenditures from personal services funds, on the assumption that AB 2258 is enacted. According to agency staff, paying for the positions directly will save the agency \$115,000 in 1982-83 because it will no longer have to pay overhead costs to the four departments from which it borrowed positions.

Increased Operating Expenses Offset By Other Reductions

The Governor's Budget shows increases in operating expenses due to inflation totaling \$85,882. The increase in the agency's general expenses, however, was more than offset by reductions of (1) \$72,350 to reflect the termination of the Social Services Transportation Improvement Program, and (2) \$115,000 in agency overhead expenses (discussed above). The increases in the agency's general operating expenses appear to be justified.

Governor's Office

SECRETARY OF HEALTH AND WELFARE

Item 0530 from the General

Fund	Budget p. LJE 26
Requested 1982-83	\$3,354,000
Estimated 1981-82.....	4,180,000
Actual 1980-81	1,724,000
Requested decrease (excluding amount for salary increases) \$826,000 (-19.8 percent)	
Total recommended reduction	\$984,000
Recommendation pending	\$590,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Medi-Cal Reprocurement Project. Withhold recommendation on 16 positions for the procurement of the Medi-Cal fiscal intermediary contract, pending receipt of report by consultant identifying staffing needed for the project. 37
2. *Multipurpose Senior Services Project. Reduce by \$984,000.* Recommend:
 - a. Reduction of \$984,000 requested for special services funding to correct overbudgeting, for a General Fund savings of this amount. 40
 - b. Secretary report prior to budget hearings on the status of the alternative In-Home Supportive Services program. 40

SECRETARY OF HEALTH AND WELFARE—Continued**GENERAL PROGRAM STATEMENT**

The Secretary of the Health and Welfare Agency (HWA) is directly responsible to the Governor for the operations and sound fiscal management of each department and office within the agency. These departments and offices are:

- Aging Commission and Department
- Alcohol and Drug Programs
- Developmental Services
- Employment Development
- Health Services
- Mental Health
- Rehabilitation
- Social Services
- Emergency Medical Services Authority and Commission
- Health and Welfare Agency Data Center
- Office of Statewide Health Planning and Development
- State Council on Developmental Disabilities

The Secretary's office also contains six program units: administration of the developmental disabilities state plan, civil rights, multipurpose senior services project, refugee affairs, rural and migrant affairs, and services coordination for children and youth.

The 1981 Budget Act authorized 54.1 positions for the Health and Welfare Agency. During the current year, the agency administratively established 8.8 positions, bringing the total number of positions in the agency to 62.9.

ANALYSIS AND RECOMMENDATIONS

The budget purposes an appropriation of \$3,354,000 from the General Fund for support of the Secretary's office in 1982-83. This is \$826,000, or 19.8 percent, less than estimated current-year expenditures. This, however, makes no allowance for any salary or staff benefit increase that may be approved for the budget year. Total program expenditures, including those from reimbursements, are projected at \$6,342,000 in 1982-83, which is \$1,161,000, or 15.5 percent, less than estimated current-year expenditures.

Table 1 details the changes from the current year proposed for 1982-83. The major adjustments proposed in the Secretary's budget include (1) increases for personnel (\$35,000) and operating expenses (\$61,000) needed to maintain existing programs, (2) a \$54,000 General Fund increase for a new career opportunities coordinator to administer the Career Opportunities Development (COD) program within the agency, and (3) a \$590,000 augmentation to cover the cost of reprocurring the Medi-Cal fiscal intermediary contract.

The adjustments proposed in the Multipurpose Senior Services Project (MSSP) included (1) \$132,000 to maintain existing service levels, (2) contract and funding changes totaling -\$975,000, and (3) a General Fund increase of \$1,484,000 to continue purchasing special services for MSSP clients.

The agency has absorbed the 5 percent cut in state operations required by the Department of Finance by reducing \$168,000 from the Multipurpose Senior Services Project consultant and professional services—external.

The agency proposes 17 new positions for 1982-83 including three that already have been established administratively in the current year.

Table 1
Secretary of Health and Welfare
Proposed 1982-83 Budget Changes
All Funds
(in thousands)

	<i>Total</i>	<i>General Fund</i>	<i>Federal funds</i>	<i>Reim- bursements</i>
Secretary's Office (Excludes MSSP) 1981-82 Current Year Revised	\$3,133	\$2,259	\$198	\$676
1. Baseline Adjustments				
A. Increase in Existing Personnel Costs				
1. Salary adjustments	28	27	—	1
2. Benefit adjustments	7	7	—	—
Total Increase	35	34	—	1
B. Price Increase	61	61	—	—
C. Deduct Administrative Program Additions				
1. PROMIS	-631	-631	—	—
2. California Conference on Children and Youth	-121	—	-121	—
3. LTCSD	-77	—	-77	—
4. Federal definitions	-60	—	—	-60
5. Medi-Cal Reprocurement	-218	—	—	-218
6. COD Coordinator	-53	—	—	-53
Total Deductions	-1,160	-631	-198	-331
Total Baseline Adjustments	-1,064	-536	-198	-330
2. Program Change Proposals				
A. Medi-Cal Reprocurement	590	147	—	443
B. COD Coordinator	54	—	—	54
Total Program Change Proposals	644	147	—	497
Total Change	-\$420	-\$389	-\$198	\$167
Total 1982-83 Support Budget (Secretary's Office)	\$2,713	\$1,870	—	\$843
Multipurpose Senior Services Project (MSSP) 1981-82 Current Year Revised	\$4,472	\$2,023	—	\$2,449
1. Baseline Adjustments				
A. Increase in Existing Personnel Costs				
1. Salary adjustments	6	—	—	6
2. Benefit adjustments	1	—	—	1
Total Increase	7	—	—	7
B. Price Increase	125	3	—	122
C. Contract/Funding Changes	-975 ^a	-542	—	-433
Total Baseline Adjustments	-\$843	-\$539	—	-\$304
Total 1982-83 Support Budget (MSSP)	\$3,629	\$1,484	—	\$2,145
Total 1982-83 Support Budget, Secretary's Office and MSSP	\$6,342	\$3,354	—	\$2,988
Total Decrease From Estimated Current Year:				
Amount	-\$1,161	-\$826	-\$198	-\$137
Percent	-15.5%	-19.8%	-100.0%	-4.4%

^a Ch 1199/77 (AB 998) DSS Reappropriation (Item 274(i)).

SECRETARY OF HEALTH AND WELFARE—Continued**LEGISLATIVE FOLLOW-UP****Problem-Oriented Medical Information System**

The 1981 Budget Act appropriated \$631,000 from the unencumbered balance of the Special Needs and Priorities (SNAP) fund, administered by the state Department of Health Services, to the Contra Costa County Department of Health Services (CCCDHS), for the Problem-Oriented Medical Information System (PROMIS). Of this amount, \$231,000 is available to the county for a feasibility study report to develop PROMIS. The remaining \$400,000 is available to implement the system no sooner than 30 days after CCCDHS submits the feasibility study to the Joint Legislative Budget Committee.

PROMIS is a computer software package which allows hospitals to automate the organization and retrieval of patient medical records. The system is designed to centralize patient medical information, to provide a medical reference library and to advise health professionals on the appropriateness of various medical procedures through its medical knowledge data base. Currently, CCCDHS maintains records manually, and stores patient information by hospital department rather than by centralized patient history files to which all departments have immediate access.

PROMIS has been implemented in several hospitals and medical centers around the country. None of the current users, however, serves as large and diverse a clientele as CCCDHS. The feasibility study will address the fiscal implications and the technical, organizational and informational capabilities of PROMIS for a large public health delivery system. CCCDHS advises that the system has the potential to help contain hospital costs by reducing duplicate functions, administrative delays and unnecessary procedures. CCCDHS expects to complete the feasibility study by June 1982.

Long-Term Care Systems Development Project

In 1980, the federal Department of Health and Human Services (DHHS), awarded grants totaling \$1.5 million to 15 long-term care systems development projects across the country. The Health and Welfare Agency (HWA) was awarded \$115,000 from Title IV-C of the Older Americans Act for such a project. An additional \$323,437 in state resources was made available to supplement the DHHS grant. In January 1981, the Long-Term Care Systems Development Project (LTCSDP) was established in the HWA.

The LTCSDP is intended to study current methods used to deliver care to those in need of prolonged health, social and rehabilitative services, and to propose recommendations for changing and improving those methods. The DHHS identified four major goals for the projects supported with Title IV-C funds: (1) to develop a long-term care planning group and develop an information base, (2) to determine current service levels and inventory current resources, (3) to develop a system of service delivery with recommendations for necessary legislative and regulatory changes at all levels, and (4) to prepare a state plan for implementing the recommendations with steps for achieving a system of long-term care.

On January 8, 1982, the HWA submitted a report of its findings and

recommendations. The report includes a proposed state plan which is the centerpiece of the project's work. The proposed state plan defines long-term care and contains over 100 recommendations for changes in the way services are now provided. Among the major recommendations of the proposed state plan are proposals:

- To establish as the goal of the long-term care delivery system the maintenance of independence of aged or other functionally impaired adults who do not meet the eligibility criteria for services provided by social, rehabilitative and health services agencies.
- To adopt professional client assessment and case management as the preferred mechanisms for delivering services to clients in a long-term care system of local agency service providers.
- To create a new state department to administer a network of long-term care services with funds combined from Title XX, Social Services; Title XIX, Medi-Cal; and the Older Americans Act, Titles B and C.

The HWA indicates that during the current year the LTCSDP coordinator will follow up on issues involving the report.

SUPPORT OF THE SECRETARY'S OFFICE

Reprocurement of the Medi-Cal Fiscal Intermediary Contract

We withhold recommendation on 16 positions and \$590,000 requested by the agency to develop a request for proposal to rebid the Medi-Cal fiscal intermediary contract, pending review of the consultant's report on staffing needs.

The budget proposes 16 positions, at a cost of \$590,000 to the Health Care Deposit Fund, that will be given the responsibility to develop a request for proposal (RFP) for use in rebidding the fiscal intermediary contract currently held by the Computer Sciences Corporation (CSC). The agency has administratively established two of the positions in the current year and proposes to establish the remaining 14 positions in the budget year.

Background. The Medi-Cal Procurement Project was established in the Department of Health Services (DHS) during 1976 to select a statewide Medi-Cal fiscal intermediary through a competitive bid process. The procurement process resulted in CSC being selected as the fiscal intermediary responsible for the design, development and implementation of a statewide claims processing system. The CSC contract award was made on September 1, 1978 for approximately \$130 million. The contract period is five and one-half years, and will end in February 1984. The Medi-Cal Reprocurement Project was transferred from the Department of Health Services to the Health and Welfare Agency by interagency agreement on October 1, 1981.

Budget Proposal. The budget requests funding 16 positions as the minimum number of staff needed to complete preliminary work related to the development of the request for proposal needed to reprocure the fiscal intermediary contract. The principal task of these persons will be to develop a data library which will contain information on the operation of the current system, in an effort to document its complexity to prospective fiscal intermediary contract bidders.

Consultant Report. HWA has hired a consultant to define the scope of the RFP with respect to five issues, in order to assure an open and competitive selection process. One of the tasks assigned to the consultant is to identify the number of staff required to continue the reprocurement

SECRETARY OF HEALTH AND WELFARE—Continued

process in the budget year. The consultant's preliminary report, including recommendations for staffing levels, is expected to be completed in late March 1982. The final report is expected in May. In the interim, the agency has developed a budget change proposal (BCP) which reflects its best estimate of the minimum number of staff which will be needed to handle the RFP process. The agency acknowledges, however, that its staffing requirements could change substantially, depending on the results of the consultant's study.

Our analysis indicates that the agency will need additional positions in 1982-83 to support the reprocurement project. Because the agency's staffing requirements have not been documented as yet, however, we withhold recommendation on the 16 new positions, pending receipt of the consultant's report on the exact scope of the RFP process, including staffing levels.

MULTIPURPOSE SENIOR SERVICES PROJECT

Chapter 1199, Statutes of 1977 (AB 998), required the Health and Welfare Agency to administer a demonstration project to develop information about effective methods to:

- Prevent the premature institutionalization of older persons,
- Assist older persons to live independently by assuring optimum accessibility to social and health resources available in the community, and
- Assure the most efficient and effective use of public funds to provide such services.

The Multipurpose Senior Services Project (MSSP) is designed to achieve the goals of this statute. It is testing the effectiveness of the case management approach to delivering services to the elderly. Through MSSP, case management is integrated into the community's network of existing programs serving older persons in each of the eight MSSP sites.

Chapter 1199 was effective through December 31, 1980. Chapter 665, Statutes of 1980 (AB 565), extended MSSP through June 30, 1983.

Client Caseload Acquisition

A maximum client caseload has been assigned to each MSSP site. Each site's staffing level and budget is based on its assigned caseload. The initial target date set for each site to reach its assigned caseload was January 31, 1981. By March 31, 1981, seven of the eight sites had achieved their caseload targets. The eighth site achieved its full caseload in June 1981.

As required by the *Supplemental Report of the 1980 Budget Act*, the state MSSP unit has submitted quarterly reports on the projects. All sites have been operating at least 98 percent capacity since March 31, 1981. Table 2 summarizes each site's performance with respect to caseload acquisition and maintenance, as of October 31, 1981.

Comparison Group Formation Delayed

The state MSSP unit is forming a control group for use in comparing the current system of service delivery with the MSSP case management approach. The formation of a control group has lagged behind targeted dates. The state MSSP unit advises that this is due to at least two factors. First, control group members receive no additional services. Therefore, some service providers are reluctant to refer their clients, who are frail, to MSSP for follow-up. Second, the control group must be statistically

Table 2
Multipurpose Senior Services Project (MSSP)
Status of Client Caseload Acquisition
As of October 31, 1981

<i>MSSP Site</i>	<i>Site Became Operational</i>	<i>Maximum Client Capacity</i>	<i>Actual Caseload</i>	<i>Total Served To Date</i>	<i>Attrition*</i>	
					<i>Persons</i>	<i>Percent</i>
East Los Angeles Task Force	April 1980	200	196	232	36	15.5%
Jewish Family Services, Los Angeles	April 1980	300	366	366	77	21.0
City of Oakland	May 1980	200	198	282	84	29.8
Santa Cruz County Department of Social Services	August 1980	100	104	134	30	22.4
San Diego Area Agency on Aging	September 1980	300	295	370	75	20.3
Mt. Zion Hospital, San Francisco	May 1980	350	348	506	158	31.2
Senior Care Action Network, Long Beach	May 1980	350	338	461	123	26.7
Greater Ukiah Senior Citizens Center	July 1980	100	99	137	38	27.7

* The following reasons were cited for clients leaving the caseload: moved—117 (5 percent), deceased—335 (13.5 percent), client request—121 (5 percent), other—48 (2 percent).

comparable to the client group. This prohibits the random selection and assignment of potential participants. The control group must be drawn from the same sources as the client group—the community, hospitals and skilled nursing facilities. A special “targeted” group will be formed to permit MSSP to assure a statistically balanced distribution of “frail” clients from all sources to the control group.

The projected date for formation of the full control group is May 1982. Table 3 reflects the progress of the state MSSP unit in forming the control group, as of November 1981.

Table 3
Multipurpose Senior Services Project
Status of Comparison Group Formation
As of November 1981

<i>Source</i>	<i>Total Number Required</i>	<i>Proportion of Total</i>	<i>Actual Number Acquired</i>	<i>Proportion of Total Number Required</i>	<i>Comparison Group Acquisition Date</i>
Community	1,501	56.5%	1,501	100%	June 1981
Hospital	761	28.7	600	78.8	March 1982
Skilled Nursing Facility	203	7.6	155	76.4	March 1982
Targeted	190	7.2	—	—	May 1982
Totals	2,655	100.0%	2,256	84.9%	

Special Services

“Special services” is the term used to refer to those services which, if made available to a client, would help the client remain relatively independent but for which funding is not available through an existing source.

SECRETARY OF HEALTH AND WELFARE—Continued

General Fund money is available during the current year to each of the eight sites for the purchase of appropriate services.

In general, special services funds are used to purchase Medi-Cal "gap-filling" services. The most commonly used special services paid for under the program are nonemergency medical transportation, prescription medication which are not on the Medi-Cal formulary and medical equipment and supplies not available through Medi-Cal.

General Fund Request for 1982-83

We recommend that the amount of support requested for the purchase of special services in the multipurpose senior services project be reduced from \$1,484,000 to \$500,000 for a General Fund savings of \$984,000.

In the current year, \$2 million is available for the purchase of special services under the MSSP. This includes \$1,379,000 appropriated by the 1981 Budget Act, \$542,000 remaining from Ch 1199/77 (AB 998) and \$79,000 remaining from Item 274(i) of the 1978 Budget Act. For 1982-83, the budget requests \$1,484,000 from the General Fund to purchase special services for MSSP clients. This amount assumes that sites will spend an average of \$65 per client per month for special services.

Our analysis indicates that the amount requested for the purchase of services in 1982-83 is overbudgeted, for the following reasons.

Current Year Expenditures Less Than Projected. Experience to date indicates that the MSSP sites are relying more heavily on existing social and health services than was originally anticipated. The MSSP project originally estimated that it would spend \$87 per client per month for purchase of services during the current year. Based on expenditure trends during the current year, however, the MSSP unit now estimates that only \$35 will be spent per client. As a result, the unit now expects to spend only \$800,000 of the \$2 million available in the current year for purchase of services.

Unexpended Funds Available in 1982-83. Based on current expenditure trends, the MSSP unit projects that approximately \$500,000 of the funds remaining from Ch 1199/77 will not be expended during the current year. As a result, this amount will be carried over into the budget year and will be available for the purchase of special services during 1982-83. When added to the \$1,484,000 requested in the budget, the carry-over brings funds proposed for the purchase of services in 1982-83 to \$1,984,000.

Budget Year Expenditures Expected to Be Less Than the Amount Budgeted. The MSSP unit has informed us that its most recent projections indicate that it will spend only \$1 million for purchase of special services during the budget year, or \$984,000 less than the amount available.

For these reasons, we recommend that the General Fund request for the purchase of special services be reduced by \$984,000, leaving \$1 million available in the budget year. This will allow MSSP sites sufficient funds to purchase services at a rate of \$43 per client per month in 1982-83, an increase of 23 percent over the rate anticipated in the current year.

Alternate In-Home Supportive Services

We recommend that the agency report to the fiscal committees prior to the budget hearings on the cost and utilization of the revised alternate in-home supportive services program.

The Supplemental Language Report of the 1981 Budget Act required the Multipurpose Senior Services Project (MSSP) to report to the Legisla-

ture by December 15, 1981, on the establishment of an alternate in-home supportive services (IHSS) program for MSSP clients. The report was to include:

- The date the alternate IHSS program became effective,
- The total number of MSSP client months for which it has awarded benefits,
- A breakdown showing the portion of service provided and expenditures reimbursed under Title XX versus the portion provided under Title XIX,
- A summary of reasons for authorizing hours of service in excess of those authorized by the county.

Need for Alternate IHSS System. The IHSS program pays for basic household and personal care services in a client's home, which are provided by trained individuals. These services are among those most commonly used by MSSP clients. During January 1981, for example, 85 percent of MSSP clients used IHSS.

The alternate IHSS proposal was developed by the MSSP unit in response to site level implementation problems experienced by approximately 10 percent of the MSSP clients using IHSS. Among the problems were:

- Disputes between county welfare department (CWD) staff and MSSP case managers regarding the level of client need, and
- The inability of CWDs in some cases to locate and assign service providers within the time frames deemed appropriate by MSSP case managers.

In order to address these problems, MSSP case managers wanted the ability to: (1) provide the level of service to clients they deemed necessary when it was in excess of the award by CWD, and (2) assure prompt and uninterrupted service to the client by acquiring, when possible, a single provider for each client through the site's own channels.

Alternate System Proposed. The original specifications for the alternate IHSS system addressed the issues of client assessment, dispute resolution between MSSP sites and CWDs, the granting of supplemental hours of service and the billing of those hours. Specifically, the proposal provided that:

- The CWDs would continue to be the first contact point for MSSP clients who needed IHSS. Only in cases of unresolvable disputes over service needs would clients be transferred to an alternate system.
- Sites could bill the state MSSP unit for the full costs of the service hours awarded as determined by the site.
- MSSP would evaluate semi-annually all clients of the alternate IHSS system in order to identify needed changes in client status. MSSP would have the ability to review and, if necessary, augment the original county determination of need at that time.

Six sites indicated that they would participate in the alternate IHSS system. The other sites are co-located with CWDs and opted not to participate. The state MSSP unit estimated that the alternate IHSS program would cost \$3,581,652 for the period January 1, 1981 through November 1, 1982. The estimate was based on the average IHSS award per site, the number of MSSP clients projected to need the alternate system and the hourly wage paid by each county.

Alternate IHSS System Abandoned. The MSSP project had been in operation for 18 months when MSSP and DSS met to conclude an agree-

SECRETARY OF HEALTH AND WELFARE—Continued

ment on the alternate IHSS system in June 1981. The DSS estimated that 6 months would be required to process the agreement through its fiscal, contract and legal channels. In view of the further delays in establishing the alternate system, and with only 18 months remaining in the project, the state MSSP unit and MSSP sites concluded that the administrative problems involved in managing the alternate IHSS system outweighed any potential benefits to MSSP. As a result, the original proposal was abandoned in June 1981, and a new proposal was formulated.

Revised Alternate IHSS System Proposed. The revised alternate system modified current IHSS regulations so as to permit supplementation of awards by MSSP, without penalty to clients. Specifically, the system proposed by the MSSP unit requested that:

- DSS provide a waiver of the IHSS alternate resources regulation (30-463.33), which prevents supplementation of county awards.
- DSS act as a fiscal intermediary for individual providers under the MSSP system.
- DSS allow MSSP to pay providers at a rate higher than the minimum wage when deemed necessary.

In August 1981, DSS agreed to the first request. Further, the department advised the MSSP unit that providers could be paid more than the minimum wage under the MSSP, and DSS's approval was not required. The department declined, however, to act as a fiscal intermediary, due to anticipated budgetary and system problems which, the department believed, could potentially jeopardize the entire IHSS program. The agreement waiver of IHSS regulation 30-463.33 became effective December 1981.

Supplemental Language Report Information Not Available. The information that the MSSP unit was required by the supplemental report to submit on December 15 was not available at that time because the original alternate IHSS system was never implemented. At the time this *Analysis* was prepared, the revised alternate IHSS system had been in place for only three months. Data on the utilization of the alternate system will be available by February 1982.

Given legislative concern over the cost of the existing IHSS program, we believe the alternate IHSS program warrants close monitoring by the Legislature. This is particularly true because the alternate program will be more costly than the existing system, given the lack of any limits on maximum monthly hours of service or provider wage rates. Therefore, we recommend that the state MSSP unit report prior to the budget hearings on the cost and utilization of supplemental IHSS services including:

- The total number of MSSP client months for which it has awarded benefits under the alternate IHSS program.
- A breakdown showing the portion of service provided under Title XX funding and the portion provided under Title XIX.
- A summary of the reasons for authorizing hours of service in excess of those authorized by the county.

MSSP Control Systems

The *Supplemental Report of the 1981 Budget Act* required the multipurpose senior services project to report to the Legislature by December 1, 1981, on the development of MSSP control systems, including:

- A chronology of the systems' development,

- An explanation of the obstacles to implementation of the systems,
- The extent to which it was possible to remove the obstacles or find suitable alternatives for implementing the systems,
- The extent to which existing legislation or administrative regulations impede control systems development, and
- Recommendations for improving the state's capacity to facilitate expeditious development of the information control systems required to conduct research.

The report was submitted to the Legislature on time.

Need for Control Systems. One of the goals of the multipurpose senior services project is to generate new information for use in improving the state's existing system of providing long-term care services to elderly and disabled individuals. A total of \$4,766,000 has been budgeted over the five-year life of the project to cover the costs of the following three control systems activities:

- Installation of computer equipment at the state unit and terminals and printers at all sites, for the automated management information system.
- Compilation of data and statistical analysis, including the development of special analyses such as the determination of costs per unit of care and the development of measures indicating the quality of care.
- Development of an evaluation component, including the information and follow-up of a comparison group.

The research and information gathering needs of MSSP dictated that the control systems contain two important characteristics:

- Ease of operation by persons who are service providers with little training in the use of computers, and
- Expeditious implementation, due to the limited term of the MSSP project.

The system has met the first requirement, despite lengthy delays. It has failed, however, to meet the second requirement. At the time this *Analysis* was written, MSSP was completing the first full year of operation. While some client information is now being put into the current computer system, the system will not be fully operational until April 1982—three years after the project sought initial approval of its data processing plan from the Department of Finance. The report attributes the implementation difficulties encountered by MSSP to two factors:

- The project did not anticipate the complexity of implementing the control systems.
- Control agencies did not provide sufficient flexibility to meet the special needs of MSSP as a limited-term research project.

Administrative Delays. In implementing each of the three control systems, MSSP faced numerous administrative requirements. The table below lists some of the administrative requirements, as well as logistical problems, MSSP encountered in procuring the computer hardware for the project. The procurement of the computer hardware was critical to MSSP's ability to provide required information in a complete and timely fashion, and was important for the utilization of the other control systems.

SECRETARY OF HEALTH AND WELFARE—Continued

Table 4
Significant Dates in the Procurement of
Computer Hardware by MSSP

<i>Date</i>	<i>Activity</i>
June through November 1979	Meetings held between MSSP, the Health and Welfare Data Center (HWDC), the Department of Finance, State Office of Information Technology (SOIT), the Department of General Services and the Legislative Analyst, to discuss: (1) the data processing needs of MSSP and (2) the appropriate equipment procurement process.
February 1980	MSSP submits a feasibility study report on the procurement of computer equipment as required by the Department of Finance.
March 1980	Department of Finance grants conditional approval of the feasibility study report.
June 1980	Legislative Analyst requests revision of the feasibility study report because inadequate consideration was given to having computer equipment needs met by Teale Data Center or others.
July 1980	MSSP agreed to amend original feasibility study report reflecting decision to use Teale Data Center, instead of HWDC, as provider of computer support system.
October 1980	Initial equipment arrives on site.
November 1980 through January 1981	MSSP and the Health and Welfare Agency change locations and communications equipment procurement problems arise causing staggered installation of equipment over this period.
August 1981	Final installation of equipment after inadequate wiring and temperature control capabilities in new location cause delay in system operation.
October 1981	First client data entered into computer.
April 1982 (estimated)	All MSSP personnel at sites trained on use of terminals and complete automation of all client information achieved.

Data Implications. MSSP also encountered numerous administrative requirements and logistical problems similar to those noted above in attempting to implement the evaluation component and the communications system for the computer hardware. The control systems report notes three major consequences of these delays and implementation problems:

- The project had to resort to a manual system of compiling and manipulating client data.
- Staff's ability to efficiently coordinate the service delivery, research and management information components of the project was reduced, and
- The formation of the client and comparison groups was delayed, due to diversion of staff resources away from case and project management to control systems implementation.

Solutions eventually have been found for each of the difficulties encountered in implementing the control systems. MSSP suggests, however, that information has been lost due to delay, the added burden of the manual data gathering system and the need to modify forms and project documents to accommodate the control systems.

The control systems report makes several recommendation regarding future projects with similar goals. One of these is that projects provide for a back-up system for data collection and analysis as an automated system is developed. The report did not address legislative or regulatory changes to facilitate interaction between special projects and control agencies.

Governor's Office
SECRETARY OF RESOURCES

Item 0540 from the General
Fund

Budget p. LJE 29

Requested 1982-83	\$1,199,000
Estimated 1981-82	1,184,000
Actual 1980-81	1,078,000
Requested increase (excluding amount for salary increases) \$15,000 (+1.3 percent)	
Total recommended reduction	None
Recommendation pending	\$1,199,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Coordinated Maintenance. Recommend that the Legislature defer consideration of the Secretary of Resources' budget until a report on coordinated maintenance programs involving the Departments of Forestry, Parks and Recreation, Water Resources and Transportation has been submitted and evaluated.

46

GENERAL PROGRAM STATEMENT

The Secretary of Resources, as the administrative head of the Resources Agency, is responsible directly to the Governor for the state's activities relating to the management, preservation and enhancement of California's air, water and land; its natural, wildlife, and recreational resources; and general coordination of environmental programs. The Secretary is a member of the Governor's Cabinet.

The Resources Agency is composed of the following units: The Departments of Conservation, Fish and Game, Forestry, Boating and Waterways, and Water Resources, the Air Resources Board, California Coastal Commission, California Conservation Corps, Colorado River Board, Energy Resources Conservation and Development Commission, Santa Monica Mountains Conservancy, State Coastal Conservancy, State Lands Division, State Water Resources Control Board, and Solid Waste Management Board. Several miscellaneous programs, including certain activities in the Lake Tahoe basin, are also budgeted in the Secretary's office.

In addition, the Secretary's office: (1) is the liaison point in the administration for the San Francisco Bay Conservation and Development Commission; (2) allocates open-space subventions among cities and counties; (3) allocates money in the Environmental License Plate Fund; (4) issues the state guidelines for preparation of environmental impact reports (EIRs); and (5) designates the classes of activities exempted from the preparation of EIRs.

SECRETARY OF RESOURCES—Continued

Staffing in the Secretary of Resources' office is authorized at 25.5 person-years in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$1,199,000 from the General Fund to support the Secretary's office in 1982-83. This is an increase of \$15,000 or 1.3 percent, above the estimated current year General Fund expenditure. The proposed appropriation reflects a reduction of 5 percent (\$63,000) to the 1982-83 baseline budget, primarily in contract services. General Fund support will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total expenditures, including reimbursements, are expected to decrease by \$98,000 (7.0 percent), to \$1,303,000, primarily because a one-time federal grant received in 1981-82 is not continued in the budget year. This grant provided \$113,000 to develop a model program to expedite applications for dredge and fill permits.

Future Savings

We recommend that the Legislature defer consideration of the Secretary of Resources' budget until a report on coordinated maintenance programs involving the Departments of Forestry, Parks and Recreation, Water Resources and Transportation has been submitted and evaluated.

The *Supplemental Report of the 1979 Budget Act* requested the Resources Agency and the Department of Transportation to study the feasibility of establishing interagency contracts for maintenance. The study was to consider but not be limited to: "(1) the degree to which equipment, facilities and staff currently administered by the Departments of Forestry, Parks and Recreation, Water Resources and Transportation can be consolidated and/or coordinated and (2) the potential savings which could result from such coordination." In the supplemental report, the Legislature requested that the study be submitted by December 1, 1979, and that the savings identified by the study be incorporated into the respective departments' budget requests for 1980-81.

A report was submitted by the participating agencies on February 29, 1980—three months after the due date. The report indicated that because of time constraints the scope of the study was limited to the general feasibility of coordination and/or consolidation of maintenance activities. Although the report concluded that joint utilization of staff, equipment and facilities is feasible, it did not contain specific recommendations for consolidation of contractual agreements, nor did it identify the potential savings from consolidation. Consequently, in the *Supplemental Report of the 1981 Budget Act*, the Legislature again requested the Resources Agency and the Department of Transportation to report on the implementation of a coordinated maintenance program. The report was to include but not be limited to:

- (1) the degree to which equipment, facilities, and staff currently administered by the Departments of Forestry, Parks and Recreation, Water Resources, and Transportation have been consolidated and/or coordinated,
- (2) the anticipated savings resulting from such coordination for 1981-82 and 1982-83, and
- (3) the potential for additional coordination among participating departments as well as coordination with other departments.

The Legislature requested that the report be submitted to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1981. As of January 1, 1982, however, the final report had not been submitted.

Our analysis indicates that the coordination of maintenance activities has the potential to achieve more effective utilization of existing state facilities, equipment and staff, and should result in savings to the state. According to the initial report submitted by the agency, such coordination is feasible and can be implemented. Consequently, we recommend that the Legislature defer consideration of the Secretary of Resources' budget until the report is submitted and evaluated.

SECRETARY FOR RESOURCES—REVERSION

Item 0540-495 to the General
Fund

Budget p. LJE 29

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item requests reversion to the General Fund of the unencumbered balance of the appropriation provided by Ch. 249/77,

Chapter 249 provided \$10,000 to the Resources Agency for expenses incurred by the Geothermal Resources Study Task Force. The task force was created pursuant to Ch. 958/76 to study all aspects of the development of geothermal resources and report thereon to the Legislature and the Governor. That report has been completed, at a cost of \$7,000. The remaining \$3,000 is no longer needed and should be reverted to the General Fund.

Governor's Office

SECRETARY OF THE YOUTH AND ADULT CORRECTIONAL AGENCY

Item 0550 from the General
Fund

Budget p. LJE 30

Requested 1982-83	\$654,000
Estimated 1981-82	655,000
Actual 1980-81	617,000
Requested decrease (excluding amount for salary increases) \$1,000 (-0.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary of the Youth and Adult Correctional Agency provides coordination and policy direction for the Department of Corrections, Department of the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Correctional Industries

**SECRETARY OF THE YOUTH AND ADULT
CORRECTIONAL AGENCY—Continued**

Commission, and the Narcotic Addict Evaluation Authority. Current-year staffing consists of 11 full-time positions and 0.5 personnel-years of temporary help.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$654,000 from the General Fund for support of the Secretary of the Youth and Adult Correctional Agency in 1982-83. This is a decrease of \$1,000, or 0.2 percent, from estimated current-year expenditures. The decrease results from a 5 percent reduction to the base budget imposed on many General Fund agencies. The proposed budget will increase by the amount of any salary or staff benefit increase approved for the budget year.

The agency expects to receive \$56,000 in reimbursements from the State Personnel Board during 1982-83, bringing total proposed expenditures to \$710,000. The budget includes funds for 11.3 personnel-years.

Governor's Office

OFFICE FOR CITIZEN INITIATIVE AND VOLUNTARY ACTION

Item 0560 from the General
Fund

Budget p. LJE 32

Requested 1982-83	\$65,000
Estimated 1981-82.....	—
Actual 1980-81	105,000
Requested increase (excluding amount for salary increases) \$65,000	
Total recommended reduction	\$65,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Fee-for-Service Funding. Reduce Item 0560 by \$65,000.*
Recommend deletion of General Fund support for the office because the office can and should obtain reimbursements from other agencies to pay for the services it provides these agencies.

49

GENERAL PROGRAM STATEMENT

Chapter 1195, Statutes of 1978, which is known as the California State Government Volunteers Act, requires state agencies to maximize the involvement of volunteers in state government. The act also created the Office for Citizen Initiative and Voluntary Action (OCIVA) to succeed the Governor's Office of Volunteerism, which was established administratively in August 1977. As enacted, Chapter 1195 provided authority for OCIVA only through December 31, 1981. The sunset date, however, was deleted by Ch 405/81.

The office has four authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$65,000 from the General Fund for the Office of Citizen Initiative and Voluntary Action (OCIVA) in 1982-83. It also proposes to expend \$100,000 in reimbursements and \$16,000 in federal funds carried over from 1981-82, for a total expenditure program of \$181,000 in the budget year. This is \$36,000, or 16.6 percent, less than total expenditures anticipated in the current year. This, however, makes no allowance for any salary or staff benefit increase that may be approved for the budget year.

In prior years, OCIVA has been supported by the General Fund and grants from ACTION, the federal agency that provides financial assistance to state volunteerism offices. Because federal regulations do not allow a state volunteerism office to receive ACTION funds for more than five years, federal support for OCIVA will terminate in late 1982.

Current-Year Funding

The 1981 Budget Act provided OCIVA with a total expenditure program of \$55,397, consisting of \$30,397 from the General Fund and \$25,000 in federal funds. This level of funding was intended to maintain the office until its statutory termination date of December 31, 1981. In addition, control language was included in the Budget Act requiring the Director of Finance to revert the office's General Fund appropriation if an equivalent amount of additional federal funds is received.

Subsequent to enactment of the budget, the Legislature approved legislation extending indefinitely the authorization for OCIVA. In doing so, however, the Legislature chose not to augment the \$55,397 provided for OCIVA during the current year by the 1981 Budget Act.

The office has secured additional funding to supplement the amount provided in the 1981 Budget Act. It has received:

- \$7,000 as a General Fund allocation for employee compensation.
- \$30,000 as a General Fund loan, to be repaid in the current year.
- \$46,750 in additional ACTION funds, of which \$16,000 will be carried over into 1982-83.
- \$16,400 in federal Title II Public Works Employment Act (PWEA) funds to continue the Indochinese Refugee project.
- \$65,000 in federal Title II PWEA funds for general office support.
- \$80,000 in interagency agreements for services provided to the Departments of Mental Health and Developmental Services.

As mentioned above, the 1981 Budget Act control language requires the Director of Finance to revert the \$37,397 in General Fund support provided for the current year because the office has received \$46,750 in federal funds beyond the amount originally anticipated. This reversion leaves the office with a 1981-82 expenditure program of approximately \$217,000. The budget incorrectly indicates a current-year expenditure of \$223,000, due to double counting of most of the allocation for employee compensation.

Fee-for-Service Funding

We recommend that OCIVA be funded on a reimbursement (fee-for-service) basis, for a General Fund savings of \$65,000 (Item 0560-001-001).

The budget requests an appropriation of \$65,000 from the General Fund to support OCIVA in 1982-83.

OFFICE FOR CITIZEN INITIATIVE AND VOLUNTARY ACTION—Continued

Last year, the administration requested \$169,538 from the General Fund to support OCIVA during 1981–82. The Legislature, however, reduced OCIVA's General Fund appropriation to \$30,397 to provide half-year funding for the office. In extending authority for the office beyond the statutory termination date of December 31, 1981, the Legislature chose not to provide additional money from the General Fund for the second half of 1981–82. Presumably, the Legislature believed that the office should obtain funding for the balance of the year from sources other than a direct General Fund appropriation. In fact, the office was so successful in obtaining funds from other sources that it was able to expand its operations to the point where it is spending about 25 percent more than the Governor requested in his 1981–82 budget, and three times the amount provided by the Legislature in the Budget Act. Our analysis indicates that OCIVA can continue to operate on a reimbursable basis, and that such an approach to funding the office would be appropriate. It has the advantage of allowing those state agencies which need OCIVA's assistance in managing their volunteerism programs to contract for it, based on the value they place on that assistance. To the extent that the office provides a valuable service, other state agencies should be willing to pay for it.

On this basis, we recommend that the request for \$65,000 in support be deleted from the budget and that the office obtain financial support from those agencies desiring assistance with their volunteerism efforts. This will result in a \$65,000 savings to the General Fund.

GOVERNOR'S COUNCIL ON WELLNESS AND PHYSICAL FITNESS

Item 0570 from the General
Fund

Budget p. LJE 34

Requested 1982–83	\$103,000
Estimated 1981–82	—
Actual 1980–81	—
Requested increase (excluding amount for salary increases) \$103,000	
Total recommended reduction	\$52,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. **Legislation Required. Reduce Item 0570 by \$52,000.** Recommend funding for the January–June 1983 period be deleted from the budget, and instead be provided in legislation establishing the council.

51

GENERAL PROGRAM STATEMENT

The Governor's Council on Wellness and Physical Fitness was established by executive order in May 1980. The council serves as an information sharing network on new approaches to health, involving both state agencies and the private sector. It is authorized 2.5 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$103,000 from the General Fund for 1982-83 support of the Governor's Council on Wellness and Physical Fitness. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

In 1980-81, the council was funded administratively, with \$25,000 coming from the General Fund appropriation for the Governor's office and \$75,000 coming from the Employment Development Department (EDD) in the form of federal Title II funds. Of this amount, \$51,000 was expended by the council in that year, and \$49,000 was carried over into the current year.

During 1981-82, the council obtained an additional \$25,000 through an interagency agreement with the Department of Health Services and another \$35,000 in Title II funds, making a total of \$109,000 available to continue the council through the current year.

Legislation Required

We recommend that funding for the council after December 31, 1982, be deleted from the budget because the council has not been authorized by the Legislature, for a General Fund reduction of \$52,000. We further recommend that if the Legislature enacts legislation to authorize the Governor's Council on Wellness and Physical Fitness, any funding needed to support the council after January 1, 1983, be provided in that legislation.

The Governor's Council on Wellness and Physical Fitness was established by executive order in May 1980, and to date has been supported by reimbursements and federal funds. The Governor's Budget is requesting General Fund support for the council, beginning July 1, 1982.

The Legislature generally has followed the policy that appropriations in the Budget Act should be based on existing statutory authority, and that where legislation is needed to authorize a program, activity or agency, any necessary funds should be provided in the legislation itself. Accordingly, we generally recommend that funding for programs not authorized by law be deleted from the Budget Bill.

It would not be possible, however, to fund the council in this manner for the period July 1, 1982, through December 31, 1982. The California Constitution prohibits the Legislature from establishing an entity of state government by urgency legislation. Thus, any bill authorizing the council could not become effective until January 1, 1983, or six months after the start of the budget year.

If the Legislature wishes to continue the council, it would not make sense to shut it down on July 1, and then reestablish it on January 1. For this reason, although we believe that the Governor's office and the council have had sufficient time to propose and secure the enactment of authorizing legislation, we recommend that funding for the council be provided in the Budget Act for the first half of 1982-83. Deleting funding for the January to June 1983 period from Item 0570 would reduce General Fund expenditures in the budget by \$52,000. We also recommend that, if the Legislature enacts legislation to establish the Governor's Council on Wellness and Physical Fitness, any funds needed for the second-half of the fiscal year be provided in the legislation itself.

SOUTHWEST BORDER REGIONAL COMMISSION

Item 0590 from the Federal
Trust Fund

Budget p. LJE 35

Requested 1982-83	\$157,000
Estimated 1981-82	193,000
Actual 1980-81	258,000
Requested decrease (excluding amount for salary increases) \$36,000 (18.6 percent)	
Total recommended reduction	\$157,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Funding. Reduce Item 0590 by \$157,000.* Recommend deletion of support for the California office of the commission, because the commission has been terminated and the office has been left with no statutory duties or functions. We further recommend that these funds be used in lieu of General Fund money to support the Commission of the Californias (Item 8760).

54

GENERAL PROGRAM STATEMENT

The Southwest Border Regional Commission (SWBRC) was established by Congress under Title V of the Public Works and Economic Development Act of 1965 as a regional economic development commission. The purpose of the commission was to promote economic, cultural, and social development, as well as binational cooperation, in those regions of Arizona, California, New Mexico, and Texas which border Mexico.

The California office of the SWBRC was created by executive order in 1977 to coordinate and implement the regional commission's activities in the state. Chapter 606, Statutes of 1980, provided statutory authorization for the office. The office has five authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$157,000 in federal funds for support of the California office of the SWBRC during 1982-83. This is \$36,000, or 18.6 percent, less than estimated current year expenditures from all sources including reimbursements. This is somewhat misleading, however. The budget states that the funding requested for the office would support it only for the first nine months of the fiscal year. Thus, the budget proposes expenditures by the office at an annual rate of \$209,000—or 8.3 percent *higher* than the expenditure rate anticipated in the current year.

The federal funds requested in the budget would come from a grant from the Department of Commerce, made under Title V of the Public Works and Economic Development Act of 1965. The budget does not anticipate receipt of any reimbursements by the office in the budget year, although the office secured 46 percent of its funding from reimbursements in 1981-82.

Table 1
California Office—Southwest Border Regional Commission
Budget Summary

	<i>Staff Years</i>			<i>Expenditures (in thousands)</i>		
	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>
Expenditures						
Personal services	5.8	5	4	\$152	\$134	\$99
Operating expense and equipment	—	—	—	106	59	58
Total Expenditures	5.8	5	4	\$258	\$193	\$157
Funding:						
Federal funds				\$150	\$105	\$157
Economic Development Grant and Loan Fund				50	—	—
Reimbursements:						
Department of Social Services				27	8	—
Energy Commission				31	—	—
Employment Development Department				—	80	—
Total Funding				\$258	\$193	\$157

SWBRC Defunded, but its California Office Continues

In early 1981, the federal government notified the state that it planned to terminate all funding for the SWBRC and for its satellite state offices as of September 30, 1981. Accordingly, the Legislature refused to approve the amount provided for the California office of the SWBRC in the Budget Bill for 1981-82. Instead, the 1981 Budget Act appropriated \$45,652 from the Federal Trust Fund to support the office until September 30, 1981, when the parent commission was to be terminated. The positions authorized for the California office of the SWBRC were scheduled to be terminated on that date.

Federal funding for the SWBRC was terminated on September 30, 1981. The administration, however, chose to continue the California office beyond that date. The positions authorized for the office through September 30 were administratively reestablished on October 1, 1981, and the office continued to operate using funds received from the Employment Development Department through an interagency agreement. Subsequently, the Department of Finance authorized the California office of the SWBRC to receive federal funds in the amount of \$209,000. Of this amount, \$52,000 will be used to fund the office during the July 1, 1982-March 31, 1983 period.

Organization Change Reported

The budget for 1982-83 indicates that the California office of the SWBRC will operate under the administrative supervision of the Governor's office. A December 1981 newsletter distributed by the California office, however, states that the name of the office has been changed to the California Office of the Southwest Border Regional Conference. It also states that the office is now under the jurisdiction of the Business, Transportation and Housing Agency.

According to the newsletter, the name change reflects formation, by border state governors, of a Southwest Border Regional Conference. The conference is viewed as a successor to the SWBRC. Its purpose is to contin-

SOUTHWEST BORDER REGIONAL COMMISSION—Continued

ue binational cooperation and coordination of economic, cultural, environmental, and energy programs for the states on both sides of the border. The governors are scheduled to meet once each year to consider recommendations by the various committees of the conference which meet on a monthly basis. The California office provides staff support to the Governor and to the state's representatives on the various committees formed by the conference.

The executive director of the office indicates that the administration will propose legislation during 1982 to merge the activities of the California office with the Commission of the Californias.

California Office Should Be Terminated

We recommend deletion of the funding proposed for the California office of the SWBRC, because the commission has been terminated and the office has been left with no statutory duties or functions, for a savings of \$157,000 from federal funds (Item 0590-001-890). We further recommend that, if the proposed \$157,000 in federal funds is deleted from Item 0590, these funds be used in lieu of General Fund money to support the Commission of the Californias (Item 8760).

Our analysis indicates that continued funding for the California office of the SWBRC is no longer justified, now that the SWBRC has been eliminated.

With respect to the activities that, according to California office's December newsletter, would be undertaken in 1982-83, our analysis indicates that:

1. *The proposed duties and functions do not appear to be authorized by statute.* Government Code Sections 8050-8055 establish the California office of the Southwest Border Regional Commission, and direct the office to participate in development of project proposals of the commission. Given that the parent commission of this office went out of existence on September 30, 1981, the California office appears to be left with no statutorily authorized responsibilities.

2. *Continued funding of the office would duplicate other state activities in this area.* The Commission of the Californias, composed of governmental, legislative, and private sector representatives from California and from the border states of Mexico, is charged by statute with the responsibility of promoting economic, cultural, and social relations between California and its Mexican border states. The 1982-83 budget proposes a General Fund appropriation of \$141,000 for support of the Commission of the Californias. We are unable to differentiate the commission's statutory responsibilities from those proposed for the office in the newsletter.

For these reasons, we recommend that funding of the California office of the SWBRC be deleted. This recommendation is consistent with the Legislature's action on the 1981-82 budget. As noted above, the Legislature deleted funding proposed by the Governor for the October 1981-June 1982 period, and terminated the positions authorized for the office as of September 30, 1981. By taking this action, the Legislature expressed its intent not to fund the office beyond September 30, 1981.

This recommendation will result in savings of \$157,000. The Governor's Budget proposes an allocation of \$141,000 from the General Fund to finance operation of the Commission of the Californias in 1982-83. As noted above, the statutory responsibilities and activities of this commission are

essentially identical to the proposed activities of the California office of the SWBRC. In view of this, we further recommend that \$141,000 of the \$157,000 in federal funds be used to replace the \$141,000 General Fund allocation proposed for the Commission of the Californias (Item 8760).

This action would make available \$141,000 in General Fund and \$16,000 in federal funds to be allocated by the Legislature in other areas of need.

Governor's Office OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General
Fund and special funds

Budget p. LJE 37

Requested 1982-83	\$4,139,000
Estimated 1981-82	3,947,000
Actual 1980-81	3,202,000
Requested increase (excluding amount for salary increases) \$192,000 (+4.9 percent)	
Total recommended reduction	\$701,000

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0650-001-001—Support		General	\$3,777,000
0650-001-140—Support		Environmental License	362,000
		Plate	
0650-001-890—Support		Federal Trust	(600,000)
Total			\$4,139,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Budget Clarification. Recommend that prior to budget hearings, OPR define workload, present priorities for funding, and balance priorities with needed positions. 60
2. *Pension Investment Unit. Reduce Item 0650-001-001 by \$389,000.* Recommend deletion of funds for unit because OPR lacks statutory authority to function as investment counselors, for a General Fund savings of \$389,000. 61
3. Solar Work Institute. Recommend that prior to budget hearings, OPR report on the effect of pending federal funding reductions and the accomplishments of the Solar Work Institute. 62
4. *Energy Action in Schools. Reduce Item 0650-001-140 by \$250,000.* Recommend deletion of direct appropriation for Energy Action in Schools program because sufficient funds to support environmental education are proposed in the budget for the Department of Education. 63
5. *Agricultural Guidebook. Reduce Item 0650-001-140 by \$62,000.* Recommend deletion of funds requested to prepare the guidebook because legislation directs OPR to use existing resources for this activity. 64

OFFICE OF PLANNING AND RESEARCH—Continued**GENERAL PROGRAM STATEMENT**

The Office of Planning and Research (OPR) is responsible for conducting research and developing policy recommendations to the Governor on a wide range of topics. In addition, OPR is specifically charged with the responsibility for developing state land use policies and coordinating the planning activities of all state agencies.

Related OPR responsibilities include: (1) providing planning assistance to local governments on land use matters (2) coordinating state permit processes, and (3) acting as a clearinghouse for environmental impact reports. The Office of American Indian Coordinator, a division of OPR established by executive order, advises the Governor on matters related to the Indian community. The Office of Appropriate Technology (OAT) advises the Governor and others on the implementation of alternative technologies.

OPR has approximately 138 exempt positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of \$4,139,000, consisting of \$3,777,000 from the General Fund and \$362,000 from the Environmental License Plate Fund, for support of the Office of Planning and Research in 1982-83. This is \$192,000, or 4.9 percent, more than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increases approved for the budget year.

Total expenditures from all sources, including federal funds and reimbursements, are budgeted at \$5,784,000, which is \$1,185,000, or 17.0 percent, less than estimated current-year expenditures.

Federal Funds

The 17 percent reduction in overall expenditures results primarily from an \$863,000 decrease in federal funds during 1982-83. This decrease is due to (a) cutbacks in funding for the Energy Extension Service and (b) elimination of funding for the HUD 701 comprehensive planning grant program. These cutbacks were made in FFY 82.

Since 1977-78, the HUD 701 funds have been spread over all OPR program areas, and have been used in lieu of General Fund support. The office is not requesting additional General Fund money to offset this loss of federal funds. Nor does it request additional state funds to replace the HUD 701 funds that in the past have been provided to metropolitan councils of governments and certain local governments.

In previous analyses, we have pointed out that OPR tends to underestimate the amount of federal funds and reimbursements in preparing its budget. As a consequence, actual expenditures have usually exceeded the amounts projected in the budget. Although federal grants will not be as readily available in 1982-83 as they have been in past years, it is still possible that OPR will receive some unbudgeted federal grants. For example, OPR is applying to the Environmental Protection Agency for second-year funding to demonstrate new alternative technologies for the disposal of hazardous wastes. We do not know whether the application will be approved. Similarly, OPR may be able to increase its expenditures above the budgeted level by contracting with other state agencies to perform work on a reimbursable basis.

Program Changes

Table 1 shows the proposed changes in OPR's budget, by program and funding source. The significant changes include:

- A \$250,000 augmentation for the Energy Action in Schools program to replace funds previously received from the Department of Education as a reimbursement,
- \$62,000 in new money from the California Environmental License Plate Fund (CELPF) for preparation of a handbook on agricultural conservation,
- \$50,000 in new money from CELPF for a grant to demonstrate alternatives to the use of toxic substances for controlling pests in Golden Gate Park,
- A \$280,000 increase in reimbursements from the Department of Health Services (DHS) to establish a toxics unit in OPR (4.0 person-years),
- A reduction of \$130,000 (2.5 personnel-years) in reimbursements from the Coastal Commission for activities related to the Outer Continental Shelf and state agency coordination and assistance to local governments on coastal matters, and
- A \$178,000 decrease to achieve the 5 percent reduction required of many General Fund agencies by the Department of Finance.

In addition, OPR will absorb costs of \$50,000 in staffing the Predator Control Task Force which was established by the Governor in January 1982.

OPR Has Shifted Emphasis from Planning to Program Execution

The OPR's statutory authority provides generally that the office research and develop policy issues for the Governor, furnish technical planning assistance to local governments on land use matters, facilitate applications for state permits, provide advice on alternative technologies, and prepare the state development plan, entitled the State Environmental Goals and Policy Report.

As a staff arm of the Governor, OPR selectively attempts to influence the policies of state agencies, to modify their operations and to change the direction of certain state programs in accordance with the Governor's views. In several subject areas, such as coordinating state activities and conducting policy studies of Outer Continental Shelf problems, OPR has fulfilled a staff function.

The 1982-83 budget, however, would continue the trend, begun in recent years, whereby the office's role is undergoing a major change. The 1982-83 budget would further shift the focus of OPR's activities away from staff functions towards the execution of special projects and the implementation of programs that normally are assigned by statute to line departments.

This shift in the focus of OPR's activities has been accompanied by a change in the nature of OPR's staff. The office is no longer staffed solely with general planners. It has acquired staff with specific subject matter expertise who have the capability to perform various technical duties. Where the capability of office staff has coincided with perceived deficiencies in line program performance or with needs that cannot be met by other agencies, OPR has tended to become involved in program operations. In some cases, OPR may fill a void where action is needed. In other

OFFICE OF PLANNING AND RESEARCH—Continued

Table 1
Office of Planning and Research
Proposed Program Changes by Fund
1982-83
(in thousands)

	General Fund	Federal ^a Funds	Reimburse- ments	Special Funds	Totals
1981-82 Current Year (Revised)	\$3,746	\$1,463	\$1,559	\$201 ^b	\$6,969
A. OPR Program Changes					
1. HUD Planning Assistance.....	—	-302	—	—	-302
2. Coastal Policy.....	—	—	-130	—	-130
3. Rural Development Planning	—	-25	20	—	-5
4. Federal Lands Study	—	—	—	-10	-10
5. Century Freeway Project.....	—	—	-28	—	-28
6. Technology Policy	—	-37	—	—	-37
7. Plan Review	—	—	-24	—	-24
8. Computer Assistance	—	—	23	—	23
9. Agriculture Handbook.....	—	—	—	62	62
10. Toxics Policy	—	—	240	—	240
B. OAT Program Changes					
1. Affordable Housing Competition	—	—	-50	—	-50
2. Biofuels Study	—	—	-45	—	-45
3. Special Energy Projects	—	—	-34	—	-34
4. Energy Extension Service	—	-399	—	—	-399
5. Energy Conservation Training	—	-50	—	—	-50
6. Energy Computer Program.....	—	—	—	-58	-58
7. Wind Data Collection	—	—	—	-80	-80
8. Energy Conservation in Schools.....	—	—	-250	250	—
9. Solar Work Institute.....	—	—	-103	—	-103
10. Toxics Policy	—	-50	-108	-53	-211
11. Predator Control.....	—	—	—	50	50
C. Workload Adjustments					
1. Price Increases	111	—	-25	—	86
2. Pension Investment Unit	-11	—	—	—	-11
3. Five Percent Reduction	-178	—	—	—	-178
4. Reinstate Travel and Two Percent Re- duction	108	—	—	—	108
5. Miscellaneous.....	1	—	—	—	1
1982-83 Budget Changes	\$31	-\$863	-\$514	\$161	-\$1,185
1982-83 Proposed Budget	\$3,777	\$600	\$1,045	\$362	\$5,784

^a Excludes local assistance pass-through amounting to \$130,000.

^b Includes Environmental License Plate Fund, ERCD Special Account, and Off-Highway Vehicle Fund.

cases, it may duplicate activities performed by other entities of state government. In still other cases, OPR's presence may obscure improvements needed in the structure, staffing, or performance of line agencies.

The OPR's involvement in program operations may create other problems as well because of OPR's location in the Governor's office and the considerable influence it has within the executive branch of government.

The OPR's operational role is apparent in the following areas:

Pension Investment Unit. The Pension Investment Unit was funded during the current year to perform the staff function of completing the report of the Governor's Pension Investment Task Force and to study methods for implementing it. The unit is now acting to implement certain

recommendations in the report—a role that is more operational than research oriented. For example, a Council of Pension Trustees and Managers is being organized for the purpose of *influencing* pension trustees and managers to invest their funds in accordance with the Task Force report. In addition, the Pension Investment Unit is becoming directly involved in preparing mortgage and investment packages for specific pension funds, a function which is normally performed by brokers and investment houses.

Toxics Unit. The budget includes \$280,000 (4.0 personnel-years) in reimbursements from the Department of Health Services (DHS). OPR intends to use these funds to add new capability to (a) staff a hazardous waste facility permit assistance desk, (b) recommend changes in the state hazardous waste facility permitting process, (c) develop statewide guidelines for local hazardous waste management planning, and (d) coordinate state hazardous waste enforcement activities. In addition, the budget also continues \$325,000 in reimbursements to OAT from DHS for 7.0 personnel-years to (a) evaluate emerging waste management technologies, (b) encourage construction of alternative waste management facilities, (c) eliminate regulatory impediments to recycling, and (d) provide technical information on hazardous wastes to local governments and DHS.

The DHS is providing the additional funds so that OPR can (1) assist it in establishing regulations for processing hazardous waste permits and (2) assist applicants in applying for the necessary state and local permits. It is important that DHS secure the expertise needed to establish the regulations for processing hazardous waste permits. In granting permits, however, DHS is exercising the police power of the state. Thus it must prepare a hearing record and substantiating data to be used by the decision maker when reaching a decision on each permit. This is critical to protecting the state in the event that the permits it issues are challenged in a court of law. If OPR has done much of the permit processing work for DHS on an application, the permit decision may not withstand a court challenge unless DHS can demonstrate to the court that it has independently considered all the work done by OPR. This, however, would result in a costly duplication of work.

The office maintains that it is assisting DHS, and will not intrude on its statutory powers. The distinction between assistance and actual decision-making, however, may be difficult to maintain because OPR is part of the Governor's office and DHS is a subordinate department.

Solar Work Institute. The Office of Appropriate Technology (OAT) has undertaken several action programs that are not directly related to its mission, such as establishing a Solar Work Institute to develop a solar training manual and assisting a wide variety of organizations in solar training and employment. This function is not directly related to providing policy advice or encouraging innovative technology.

The Energy Extension Service. The OPR has also used federal funds to extend its role at the local level from being a planning contact to being a program operator. OAT's Energy Extension Service exemplifies this. The office's activities in this area are substantially the same as those of the Energy Commission in providing grants to local government for energy conservation. Here again, it is difficult to define the exact limits that OAT should observe. Nevertheless, it is clear that OAT has expanded its role to include administering assistance programs for local agencies.

Energy Action in Schools. During the current year, OAT received \$250,000 from the State Department of Education (SDE) for its Energy

OFFICE OF PLANNING AND RESEARCH—Continued

Action in Schools Program. For the budget year, OAT is requesting that the \$250,000 be appropriated directly to the office, rather than to SDE, so that it may expend the money in any way it chooses. In effect, this would transfer funding for an education program from the SDE to OAT.

Planning Functions are Declining

While OPR has become more involved in various aspects of program operations, its planning functions have diminished.

In addition to OPR's statutory authority to perform research and develop policy recommendations for the Governor, OPR is also responsible for state land-use planning and developing related policies. A key product required of OPR by the statutes is the State Environmental Goals and Policy Report. The OPR's efforts to prepare and update this report have been reduced to a minimum over the last several years.

The level of effort peaked in 1977-78 and 1978-79 when the first major update to that report—the Urban Development Strategy—was completed. This study focused on selected problems in urban areas: urban sprawl, deterioration of central cities, and the competition for tax base among local jurisdictions. This study has not received much emphasis recently, and the attention given to implementing it through current state programs has been diminishing.

The OPR's planning efforts since 1980-81 have been primarily on developing the Sierra Foothills Study which has focused on specific development and natural resource issues in the Sierra Foothills. At the time this analysis was prepared, the study was being completed. Based on our review, it seems unlikely that this report, if published, will have any significant impact on state policies affecting the foothills, particularly those concerned with fire protection. Although the Legislature in 1980-81 directed OPR, through supplemental report language, to study the existing fire suppression responsibilities of the Department of Forestry and local agencies, it appears that the Sierra Foothills Study will contain no significant recommendations on state fire responsibilities.

Balance Between Positions and Funding Needs to Be Clarified

We recommend that OPR clarify its budget prior to budget hearings to more adequately define its workload, present priorities for funding, and show how it has balanced those priorities with the needed positions and funds.

The proposed budget for 1982-83 provides for a number of significant changes in OPR staffing levels. Six existing positions would be abolished because OPR believes that incumbents are so closely associated with the current Governor that no purpose would be served by attempting to fill these positions during the final months of the Governor's administration. In addition, another group of five positions would be abolished as various short-term projects are completed. Finally, 18 positions would be abolished because of the loss of state and federal funds. These reductions would be partially offset by adding five positions for new programs, resulting in a net reduction of 23 positions in the budget year. Another 18 employees funded by contract in the current year will be eliminated in the budget year because the short-term projects on which they are working will be finished.

The OPR has not decided which specific positions will be eliminated in

1982-83. Instead the office advises that as employees leave during the final months of the administration, it will redistribute workload among the remaining staff to carry on basic programs. The OPR has not, however, indicated what these "basic programs" are, nor which specific activities will be trimmed back. Thus, OPR has not presented the Legislature with an adequate fiscal plan for the budget year.

In the event that OPR's expenditures for personal services do not decline in the first six months of the next fiscal year, as the reduction-by-attrition plan assumes they will, OPR may overexpend its budget during the first half of the year, leaving the next administration with the task of balancing the office's budget. This could require disproportionate staffing reductions during the last half of the fiscal year.

For these reasons, we believe that the Legislature should seek clarification of OPR's budget. The OPR should define its projects, priorities and workload more adequately, and document that its budget is balanced. This should be done prior to budget hearings.

Remove Funding for the Pension Investment Unit

We recommend deletion of support for the Pension Investment Unit in Item 0650-001-001 because it lacks statutory authority to function as investment counselors, for a General Fund savings of \$389,000.

The budget provides \$389,000 to continue the Pension Investment Unit in OPR during 1982-83.

In the 1981 Budget Act, the Legislature appropriated \$400,000 from the General Fund to establish a Pension Investment Unit in OPR, and adopted supplemental report language directing OPR to report to the Legislature by March 1, 1982 on (a) the accomplishments of the unit and (b) the need for legislation to authorize the unit.

Our analysis indicates that OPR's plans for the Pension Investment Unit in the budget year would shift the unit from a staff to a line function.

Last year OPR emphasized in its budget justification materials that the Pension Investment Unit would seek to implement recommendations in the Governor's Public Investment Task Force report by conducting research, preparing legislation or "in some cases helping to put together innovative pilot 'deals' allowed under existing (pension fund) law." The OPR stated that while the unit would provide pension managers with investment options, it would not attempt to directly influence the investment decisions of these managers.

Our review of the unit's activities to date indicates that the unit is placing a greater emphasis on formulating specific investment packages and working with state and local pension fund managers to make these packages acceptable to them. Moreover, the Governor will soon appoint a Council of Pension Fund Managers to review proposals developed by the unit on a selective basis. This direct involvement in the activities of public pension fund managers appears to go beyond the type of research, technical assistance, and state agency coordination that OPR is authorized by its statutes to provide.

The OPR indicates that in the event Senate Constitutional Amendment 21 is placed on the ballot and is approved by the voters in the June 1982 election, the unit will probably seek during the budget year to create some of the various venture-capital investment proposals that SCA 21 would authorize. If SCA 21 does not pass, the unit will continue to develop unspecified investment proposals for the public pension funds.

We conclude that the Pension Investment Unit now proposes to under-

OFFICE OF PLANNING AND RESEARCH—Continued

take activities that are more operational in nature, such as investment packaging for specific pension funds, and for which OPR lacks any statutory authorization. On this basis, we conclude that further funding for the unit is not justified, and recommend that the \$389,000 requested be deleted, for a corresponding savings to the General Fund. We will reevaluate this recommendation when OPR's report to the Legislature on the Pension Investment Unit becomes available in March.

Status Report on Solar Work Institute Needed

We recommend that OAT report prior to budget hearings on (1) the accomplishments of the Solar Work Institute, and (2) the impact of possible reductions in federal funding for the institute.

In 1978-79, OPR received a federal Comprehensive Employment Training Act (CETA) grant through the Employment Development Department (EDD) to cover the cost of developing a solar training manual. This responsibility was assigned to a new unit established by OAT—the Solar Work Institute. Initially, preparation of the manual was the sole focus of the institute. The manual was originally designed for use by community colleges in training persons to install solar equipment.

According to OAT, the Solar Work Institute (SWI) was conceived as an experimental project not only to facilitate training programs in the solar energy area, but also to gauge the training and career development needs of the solar energy industry. Subsequently, OAT received a second CETA grant to assist colleges in using the manual to train solar technicians. This grant, totaling \$135,000, covered the period November 1, 1979, through January 31, 1981, and funded three positions at OAT. For 1981-82, the Governor's Budget included \$70,750 in CETA funds to continue the three positions for the duration of the grant period.

In February 1981, after the budget was submitted to the Legislature but before hearings were held, OPR received a third CETA grant in the amount of \$493,680. This grant covered the period February 1, 1981, to September 1, 1982. OPR, however, failed to notify the Legislature of this change in its budget during budget hearings. Nor did the Director of Finance notify the Legislature of her intent to authorize the expenditure of these funds, as she is required to do by Control Section 28 of the Budget Act. With this grant, OAT added two additional staff positions in 1981-82 and expanded the program to include work with organized labor and small solar businesses.

According to OAT's "Annual Summary of Accomplishments", SWI has evolved into a "comprehensive consulting service, providing assistance to a wide variety of organizations in solar training and employment." This goes well beyond the "experimental" program originally envisioned, and does not appear to be consistent with OAT's statutory role.

The 1982-83 budget includes funds remaining from the third CETA grant. It shows \$259,650 being spent in the current year and \$157,000 being spent in the budget year for unspecified purposes. However, OPR recently was notified by EDD that this grant would be reduced in the current and budget years by as much as 32 percent because of a nationwide funding reduction in the CETA program. (The office indicated that the reduction might also affect the Rural Development Council which is funded by an EDD grant as well.) Such a reduction, of course, would affect OPR's total expenditures and staffing. At the time this analysis was pre-

pared, OPR was in the process of evaluating the potential impacts of such a reduction on the SWI program.

Given the uncertainty surrounding the funding for SWI, we recommend that OPR report to the Legislature prior to budget hearings on the accomplishments of the SWI program to date and any revisions to Item 0650-001-001 (h) recommended by the administration if the federal grant is reduced.

Violation of Control Section 15, Budget Act of 1981

The 1981-82 budget for OAT requested \$144,000 from the California Environmental License Plate Fund for a study of the impact of biofuels development on soil. The Legislature deleted these funds from the 1981 Budget Act.

Nevertheless, OAT hired a consultant, and is proceeding with the study during the current year, using \$45,000 obtained from the Business and Transportation Agency through an interagency agreement. Approximately \$18,000 has been encumbered to date.

According to OAT's *Summary of Accomplishments*, dated December 1981, the purpose of this study is to evaluate the "long-term effect of the development of biofuels on soil productivity in California." The final report from this study is anticipated in June 1982, and no further work is funded in the 1982-83 budget.

It appears that in undertaking this study, OAT violated Control Section 15 of the Budget Act of 1981. This section states that "no appropriation made by this act or any other provision of law may be combined or used in any manner to avoid budgeting the salary or operating expenses of any position or to achieve any purpose which has been denied by any formal action of the Legislature."

Funds for Energy Action in Schools Transferred From SDE's Budget

We recommend deletion of \$250,000 in Item 0650-001-140 for second-year funding of the Energy Action in Schools program because sufficient funds for the program are included in the budget for the State Department of Education (SDE).

During hearings on the 1981-82 budget, the Office of Appropriate Technology requested \$250,000 through the State Department of Education's (SDE) environmental education program, Conservation Education Service. OAT indicated that it would use these funds to establish the Energy Action in Schools program (EAIS).

The Legislature approved OAT's request. As a result, three positions were established during the current year to award grants, conduct workshops, and disseminate information to elementary and secondary school districts. The objective of this program is to save energy while teaching students about energy management.

The budget requests a \$500,000 appropriation for the SDE to continue the Conservation Education Service in 1982-83. It also requests a \$250,000 appropriation from the Environmental License Plate Fund to continue OAT's program. The funds would be provided directly to OAT, rather than to the SDE for allocation to OAT.

Our analysis has identified several problems with the proposal to continue the program in 1982-83 using funds appropriated directly to OAT.

1. *The statutory basis for OAT's involvement with this program is not clear.* The SDE has been given statutory authority to conduct the Conservation Education Services Program. Existing law, however, does not

OFFICE OF PLANNING AND RESEARCH—Continued

assign responsibility for environmental education to OAT.

2. *The prospective benefits from funding two administrative staffs for environmental education are not evident.* Of the \$250,000 requested by OAT, \$170,000 would be used to fund OAT's personal services and operating expenses, while the balance (\$80,000) will be used to fund seven grants to school districts. In contrast, the Conservation Education Service in SDE will provide technical assistance and awards to approximately 30 similar school districts, using one professional position costing approximately \$90,000 in the budget year. It would appear that, relative to SDE's program, OAT's program is not cost-effective.

3. *There is no programmatic basis for increasing the level of special funding for environmental education.* The OAT maintains that its program is different from those funded by SDE and private sources, because the objective of the program is to both lower the energy costs of school districts and teach students about energy management. Our analysis indicates, however, that the California Energy Commission also works with school districts in conducting energy audits. Furthermore, the CES provides grants to school districts for the same purposes as proposed by OAT.

4. *Education programs are not the responsibility of OAT.* The enabling legislation for OAT and the supporting budget materials for this request do not provide justification for OAT to conduct an education program separately from SDE.

For these reasons, we recommend that the \$250,000 requested for the Energy Action in Schools program be deleted. Approval of Item 6100-181-140 (Conservation Education Service), which we recommend, would provide \$500,000 for environmental education in 1982-83—the same level as in the current year.

Funding for Agricultural Guidebook Not Justified

We recommend deletion of \$62,000 in Item 0650-001-140 for preparation of the Agricultural Lands Conservation Guidebook required by ACR 57 because the resolution directs OPR to use existing resources for this activity and OPR has not demonstrated that additional funds are needed.

Assembly Concurrent Resolution 57/81 directs OPR to prepare a guidebook for local governments on conserving agricultural lands. The resolution specifically directs OPR to use existing funds and staff to complete the guidebook by December 31, 1982.

The budget proposes an appropriation of \$62,000 from the California Environmental License Plate Fund to fund one new staff person plus clerical support and printing costs to prepare the guidebook. The OPR indicates that because HUD 701 funds have been eliminated, an augmentation is needed to comply with the resolution.

The impact of the loss of federal funds on OPR's ability to complete the guidebook is difficult to assess because OPR has not identified specific reductions in individual programs for the Legislature. We note, however, that OPR has already completed a major portion of the task involved in preparing the guidebook—a survey of local governments' agricultural land conservation practices. We believe the office should be able to complete the remaining work using existing staff.

We recommend deletion of the funds requested because OPR has not demonstrated that additional resources are needed to complete the guidebook. This would result in a savings of \$62,000 to the California Environmental License Plate Fund.

Governor's Office
OFFICE OF ECONOMIC OPPORTUNITY

Item 0660 from the General
Fund and Federal Trust Fund

Budget p. LJE 46

Requested 1982-83	\$97,025,000
Estimated 1981-82.....	90,425,000
Actual 1980-81	61,747,000
Requested increase (excluding amount for salary increases) \$6,600,000 (+ 7.3 percent)	
Total recommended reduction	None

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0660-001-001—Support		General	\$797,000
0660-001-890—Support and Programs		Federal	96,228,000
0660-011-890—Transfer of Low-Income Home En- ergy Assistance Funds to Department of Social Services		Federal	(8,064,000)
Total			\$97,025,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Reallocation of Funds. Recommend that \$3,695,000 in Low-Income Home Energy Assistance (LIHEA) block grant funds be reallocated from weatherization to direct payments to individuals because OEO has received an additional weatherization grant in that amount. 70
2. Transfer of LIHEA funds to the Department of Social Services (DSS). Recommend that Budget Act language be added transferring 10 percent of the LIHEA block grant award to DSS. 71
3. Grant awards from the Community Services block grant. Recommend that OEO advise the fiscal committees prior to budget hearings (a) how awarding only 75 percent of the block grant will affect existing service levels and (b) if activities are reduced significantly, how will priorities for funding be determined. 74
4. Identification of carry-over. Recommend adoption of supplemental report language requiring the Department of Finance to identify, beginning in 1983-84, carry-over funds in the Community Services and the Low-Income Home Energy Assistance block grants. 75

OFFICE OF ECONOMIC OPPORTUNITY—Continued**GENERAL PROGRAM STATEMENT**

Chapter 819, Statutes of 1981, transferred the Office of Economic Opportunity (OEO) from the Employment Development Department (EDD) to the Governor's office. The OEO (1) administers the Low-Income Home Energy Assistance (LIHEA) block grant program which assists low-income persons in meeting the cost of energy, (2) gives technical assistance to local community action agencies (CAAs) funded from the Community Services block grant, (3) plans, coordinates, and evaluates programs that provide services to the poor, and (4) advises the Governor on the needs of the poor.

The 1981 Budget Act authorized 109.2 positions for the office. During the current year, however, some positions have been administratively eliminated and others have been established due to major changes in OEO programs. The budget shows a net reduction of 36.2 positions from the 109.2 positions authorized for 1981-82. This reduction is offset, however, by an increase of 150 positions which were established to administer the Low-Income Home Energy block grant. Therefore, OEO has a total of 223 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$97,202,000 from all funds for support of the office in 1982-83. This is an increase of \$5,813,000, or 6.4 percent, over estimated current-year expenditures. The proposed \$97.2 million includes \$6.2 million for administration and \$91.0 million for program expenditures. The \$6.2 million will increase by the amount of salary or staff benefit increases approved for the budget year.

The budget proposes an appropriation of \$797,000 from the General Fund for support of OEO's core administrative staff in 1982-83. This is \$10,000, or 1.2 percent, below estimated current-year expenditures for this

Table 1
Office of Economic Opportunity
Proposed General Fund Adjustments
(in thousands)

	<i>Adjustments</i>	<i>Total</i>
1981-82 Revised Expenditures		\$721
1. Restoration of Current-year Reductions		
A. Restoration of 2 percent reduction	\$16	
B. Restoration of travel reduction	1	
Total, Adjustments		\$17
2. Baseline adjustments to existing program		
A. Governor's 5 percent reduction		-\$41
B. Increase in personnel costs		
(1) Salaries and wages	\$40	
(2) Health benefits	25	
(3) Retirement	5	
(4) Merit salary adjustment	11	
Subtotal		\$81
C. Operating expenses and equipment		19
Total, Baseline Adjustments		\$59
3. Total, 1982-83 General Fund Expenditures		\$797

purpose. This decrease is the net result of the various baseline increases and the 5 percent reduction in the baseline budget required by the administration. Table 1 details these adjustments.

Table 2 shows total program expenditures for the current and budget years. The anticipated increase of \$5.8 million in the budget year is due primarily to changes in the amount of federal funds available. The budget proposes a reduction of \$17,703,000 in federal fund expenditures for the energy program. This reduction, however, is more than offset by an increase of \$23,652,000 that OEO expects to receive from the Community Services block grant.

Table 2
Total Program Expenditures and Revenues
Office of Economic Opportunity
1981-82 and 1982-83
(in thousands)

	1981-82	1982-83	Change	
			Amount	Percent
Expenditures:				
Economic and policy development	\$200	\$290	\$90	45.0%
Energy Programs	90,279	72,576	-17,703	-19.6
Administration	(6,647)	(4,165)	(-2,482)	-37.3
Programs	(83,632)	(68,411)	(-15,221)	-18.2
Special programs	205	177	-28	-13.7
Community services	—	23,652	23,652	n/a
Administration	—	(1,084)	(1,084)	n/a
Block grant programs	—	(22,568)	(22,568)	n/a
Executive and Administrative	705	507	-198	-28.1
Total Expenditures	\$91,389	\$97,202	\$5,813	6.4%
OEO administration	(7,757)	(6,223)	(-1,534)	(-19.8%)
Programs	(83,632)	(90,979)	(7,347)	(8.8%)
Revenue				
General Fund	\$807	\$797	-\$10	-1.2%
Low-Income Home Energy Assistance	85,997	72,576	-13,421	-15.6
Community Services block grant	—	23,652	23,652	n/a
Other federal funds	3,621	—	-3,621	-100.0
Reimbursements	964	177	-787	-81.6
Total Expenditures	\$91,389	\$97,202	\$5,813	6.4%

LOW-INCOME HOME ENERGY ASSISTANCE BLOCK GRANT

In accordance with Ch 1186/81 (AB 2185), OEO assumed administrative responsibility for the Low-Income Home Energy Assistance (LIHEA) block grant effective October 1, 1981. The budget shows that during 1982-83, OEO will expend \$72,576,000 from an anticipated total award of \$80,640,000 in federal funds. The remaining \$8,064,000, or 10 percent of the award, will be transferred to the Department of Social Services for use in maintaining programs previously supported with federal Title XX social services funds.

The 1981 federal Reconciliation Act (PL 97-35) authorized the LIHEA block grant, which provides direct assistance to low-income households to help them finance the cost of energy. The block grant is a continuation of the Low-Income Energy Assistance Program (LIEAP), formerly authorized by the Crude Oil Windfall Profit Tax Act of 1980.

OFFICE OF ECONOMIC OPPORTUNITY—Continued

The block grant program provides the state with more flexibility in spending federal funds than it had under the LIEAP program. Specifically, LIEAP only provided funds to help individuals defray energy costs. The block grant allows the state to (1) expend up to 15 percent of the funds for weatherization and (2) transfer up to 10 percent to support programs funded under the health or social services block grants that were authorized by the Reconciliation Act.

Federal Block Grant Requirements

Selected federal provisions and requirements governing the use of low-income energy block grant funds are as follows.

Allocation formula: California will receive the same percent of the national appropriation that it received in federal fiscal year 1981 (FFY 81) (approximately 4.6 percent).

Matching requirement: None

Application Process: The state must submit an annual application to the Secretary of the Health and Human Services and hold public hearings on how the funds will be used and distributed.

Restriction on the use of funds:

- A "reasonable" amount of the funds must be made available for emergency energy crisis intervention.
- Up to 25 percent of a state's allocation may be carried over from one federal fiscal year to the next.

Administrative expenditures:

- Up to 10 percent of the grant may be spent for administration. Any administrative costs above this level must be paid 100 percent by the state.

Transition period: Federal law does not provide for a transition period during which states *may* assume responsibility for the low-income energy program. For California to receive low income energy assistance funds during FFY 82, the state was required to implement the program starting October 1, 1981.

Other provisions:

- Households which have the lowest income and the highest energy costs in relation to income, receive higher benefits.
- The state must conduct (1) outreach activities to inform eligible households and (2) administrative fair hearings for people whose requests for benefits were denied or delayed.
- The federal Secretary of Health and Human Services (HHS) may award direct grants to the state's Indian tribes from the state's block grant allocation.

Amount Available Nationwide Under the LIHEA Block Grant

The total amount of federal funds authorized for energy assistance nationwide for FFY 82 through FFY 84 is \$1,875 million. The amount appropriated for FFY 82 in the December 1981 continuing resolution, however, is \$1,752 million, or \$123 million less than the amount authorized for FFY 82.

Block Grant Funds Available to California

Table 3 shows the estimated amount of federal funds available for low-income energy assistance to California in FFY 81 through FFY 83, as shown in the Governor's Budget. Under the continuing resolution, the block grant allocation to California for FFY 82 is \$80.6 million, or \$243,000 less than the amount available in FFY 81. Although total funds are down only slightly, block grant funds can be used to support other program activities besides payments to individuals. As a result, the block grant direct payments to individuals will decline by 22.7 percent—from \$74.8 million to \$57.8 million. There are three reasons for this decline. First, weatherization and energy crisis intervention activities are now funded out of the LIHEA block grant. Previously, these activities were supported by federal funds from the Department of Energy and the Community Services Administration. Second, \$8,064,000 was transferred from the LIHEA block grant to the Department of Social Services during FFY 82 in order to offset reductions in federal funds for social services programs. Third, Indian tribes will receive separate grants from HHS. Previously, their members received assistance as part of the state program.

In FFY 83, the budget assumes that (1) the state will receive the same award as it did in FFY 82 (\$80.6 million) and (2) funds will be allocated among expenditure categories in the same way as in FFY 82.

Table 3
Federal Funds Available to California for Low-Income Home Energy Program
Federal Fiscal Years 1981-1983
(in thousands)

	FFY 81	FFY 82	FFY 83	Change From	
	Actual	Estimated	Governor's Budget	FFY 81 to FFY 83	
				Amount	Percent
Expenditures					
OEO Administration.....	6,066	4,536	4,536	-1,530	-25.2
Direct payments to individuals	74,817	57,834	57,834	-16,983	-22.7
Weatherization	-	5,103	5,103	5,103	n/a
Energy crisis intervention	-	5,103	5,103	5,103	n/a
Transfer to Department of Social Services	-	8,064	8,064	8,064	n/a
Totals.....	\$80,883	\$80,640 *	\$80,640	-\$243	-0.3%

* Based on December 1981 continuing resolution.

The budget does not take into consideration direct awards to Indian tribes. According to HHS officials, \$629,000 of the FFY 82 allocation is being held for awards to Indian tribes within California. If the same amount is withheld in FFY 83, the amount available for state expenditures in FFY 83 would be reduced to \$80.0 million.

Impact on the State Budget

Table 4 compares estimated program expenditures for low-income energy assistance programs for state fiscal years 1981-82 and 1982-83. The table shows the amount available for 1982-83 under two different assumptions:

- The amount appropriated by the Congress for FFY 83 is the same as the amount appropriated in FFY 82.

OFFICE OF ECONOMIC OPPORTUNITY—Continued

- The amount appropriated in FFY 83 is equal to the amount authorized in the Reconciliation Act.

The Governor's Budget is based on the first of these assumptions, and thus it shows no change in program funding level during 1982-83 compared to 1981-82. If Congress appropriates funds at the level authorized for FFY 83, however, the block grant award to the state in 1982-83 would be \$84,839,000, or \$4,199,000 higher than the amount proposed in the 1982-83 budget.

Table 4
Impact of Low-Income Home Energy Assistance Block Grant on
State Budget
1981-82 and 1982-83
(in thousands)

	<i>Estimated 1981-82</i>	<i>1982-83</i>			
		<i>FFY 83: Same as FFY 82^a</i>	<i>FFY 83: Authorized Levels^b</i>	<i>Difference</i>	
				<i>Amount</i>	<i>Percent</i>
Total funding level.....	\$80,640	\$80,640	\$84,839	\$4,199	5.2%
Office of Economic Opportunity administra- tive costs	(4,536) ^c	(4,536)	(4,836)	(300)	6.6
Direct payments to individuals.....	(57,834)	(57,834)	(60,829)	(2,995)	5.2
Weatherization	(5,103)	(5,103)	(5,345)	(242)	4.7
Energy crisis intervention	(5,103)	(5,103)	(5,345)	(242)	4.7
Transfer to Department of Social Services	(8,064)	(8,064)	(8,484)	(420)	5.2

^a Assumption made in the Governor's Budget.

^b Funds are allocated among programs using the same percents proposed by the budget.

^c Chapter 1186, Statutes of 1981 (AB 2185), limited 1981-82 administrative expenditures to 5 percent of the total grant; however, its provisions did not become effective until January 1, 1982. Therefore, the 1981-82 administrative expenditures for the entire fiscal year are estimated to be 5.6 percent of the total grant.

Amount Available for Grants to Individuals Can Be Increased

We recommend that \$3,695,000 in LIHEA block grant funds be reallocated from weatherization to direct payments to individuals, because OEO has received an additional \$3,695,000 for weatherization activities from the Department of Energy.

The budget proposes that \$5,103,000 available under the LIHEA block grant be used for weatherization in 1982-83. The OEO advises us that the Department of Energy (DOE) has awarded the state a grant of \$3,695,000 for weatherization activities during calendar year 1982. These funds, which are in addition to those shown in Table 4, will become available for expenditure in February 1982.

Federal awards for weatherization have exceeded the OEO's expenditures during the past two fiscal years. In 1980-81, \$2.4 million in carry-over funds were available from the prior year. In 1981-82, the budget shows \$3,492,000 in carry-over funds is available for weatherization expenditures. Although the budget estimated that all carry-over would be expended by January 1, 1981, OEO estimates that approximately \$1.5 million is still available for expenditure.

Table 5 shows the total amounts available for weatherization during 1981-82.

Table 5
Federal Grants for Weatherization
1981-82
(in millions)

Low-Income Home Energy Assistance	\$5.1
Department of Energy grant	3.7
Carry-over	3.5
Total	\$12.3

This amount is \$4.8 million more than actual expenditures (\$7.5 million) during the prior fiscal year.

Given OEO's expenditure levels, it is unlikely that weatherization funds will be spent entirely during 1981-82. Since funds from the DOE grant are available for expenditure during the budget year, we recommend that, in 1982-83, \$3,695,000 budgeted in the LIHEA block grant for weatherization be reallocated for direct payments to individuals. This would increase the amount of funds available for direct payments to individuals while keeping the same program level proposed for weatherization.

Transfer of LIHEA Block Grant Funds to Social Services

We recommend that the Legislature adopt language in Item 0660-011-890 transferring 10 percent of the Low-Income Home Energy Assistance block grant to the Department of Social Services (DSS).

The budget proposes to transfer \$8,064,000 in LIHEA block grant funds to the Department of Social Services (DSS) in 1982-83. These funds would be used to offset a portion of the reduction in federal funding for Title XX social services. The amount proposed for transfer represents 10 percent of the LIHEA block grant funds (\$80,640,000) which the state expects to receive in 1982-83.

As noted above, there is a great deal of uncertainty over how much will be appropriated by the Congress for LIHEA block grants in FFY 83. If the appropriation is different from the amount anticipated in the budget, the amount transferred to DSS should change accordingly. The Budget Bill, however, would transfer a flat amount; it makes no allowance for increases or decreases in the amount appropriated.

In addition, the budget does not specify which programs administered by the Department of Social Services would receive the transferred funds. It is our understanding that the administration proposes to transfer the funds to social services programs. Therefore, we recommend that Item 0660-011-890 of the Budget Bill be amended to include the following language:

"For support of Office of Economic Opportunity, 10 percent of the low-income home energy block grant award to be transferred to the Department of Social Services (Item 5180-151-866), payable from the Federal Trust Fund."

COMMUNITY SERVICES BLOCK GRANT

Chapter 1186, Statutes of 1981 (AB 2185), requires the state to assume responsibility for administering the new Community Services block grant, effective July 1, 1982. The budget, however, provides for the state to assume responsibility for this block grant on October 1, 1982, the beginning of FFY 83.

OFFICE OF ECONOMIC OPPORTUNITY—Continued**Federal Reconciliation Act**

The Reconciliation Act eliminated the Community Services Administration (CSA) and authorized a block grant to states which they could use to fund and administer antipoverty programs previously funded by CSA. The act also gave the state discretion to transfer up to 5 percent of the block grant to support aging programs, energy crisis intervention under the LIHEA block grant, or the Head Start program.

Federal Block Grant Requirements

Selected federal provisions and requirements governing the use of the Community Services block grant are as follows.

Allocation formula: California will receive the same percent of the national appropriation as it received in FFY 81 (approximately 9.3 percent).

Matching requirement: None

Application process: The state must submit an annual application for funds to the Secretary of Health and Human Services. After the first year of state participation in the program, the Legislature must hold public hearings on the proposed use and distribution of the block grant funds.

Restriction on the use of funds:

- At least 90 percent of funds available in FFY 82 must be made available to community action agencies (CAAs).
- At least 90 percent of funds available in FFY 83 must be made available to eligible local agencies or nonprofit organizations. Special consideration must be given to funding existing CAAs.

Administrative expenditures: Up to 5 percent may be spent for administration.

Transition period: A state can request that the federal government administer its share of the block grant funds during all or part of FFY 82. A state can assume responsibility for administration of the block grant at the beginning of any quarter during FFY 82 by giving the federal government 30 days' notice prior to the beginning of the quarter. If a state chooses to have federal officials administer the grant, the Department of Health and Human Services can use the 5 percent available for administration to cover its costs.

Amount Available Nationwide Under the Community Services Block Grant

The Reconciliation Act *authorizes* \$389 million nationwide for the Community Services block grant in FFY 82, FFY 83, and FFY 84. This is \$125 million, or 26.4 percent, less than expenditures in FFY 81. The amount *appropriated* by the December 1981 continuing resolution for FFY 82, however, is \$348 million, or \$41 million less than the amount authorized for that year.

Block Grant Funds Available to California

Table 6 shows the estimated amount of federal funds available to California for FFY 81 through FFY 83, as shown in the Governor's Budget. For FFY 82, the budget estimates that the block grant allocation will be \$32.8 million. Of this amount, \$1.6 million is being used by the federal government for administration and \$31.2 million will be made available to CAAs.

The \$31.2 million is \$14.8 million less than *awards* made to CAAs in FFY 81. The total amount *available* to CAAs during FFY 81, however, includes \$20.2 million in funds carried over from prior fiscal years and \$11.2 in discretionary funds for special projects. Thus, total federal funds available to CAAs in FFY 81 were \$66.2 million. Consequently, the CAAs will have \$35.0 million less available to them in FFY 82 than they had in FFY 81.

For FFY 83, the budget projects that the block grant award will be \$31.5 million, or 3.9 percent less than FFY 82. As Table 6 shows, if Congress appropriates the full amount authorized, the amount of funds provided to California would increase by \$3.2 million, or 9.9 percent, in FFY 82.

Table 6
Community Services Block Grant for California
(in thousands)

	<i>Actual</i> <i>FFY 81</i>	<i>Estimated</i> <i>FFY 82^a</i>	<i>FFY 83</i>	
			<i>Governor's</i> <i>Budget</i>	<i>Authorized^b</i>
CAA allocations by federal fiscal year	\$34,801	\$31,188	\$29,959	\$34,268
Carry-over	20,170	— ^c	—	—
Subtotal	\$54,971	\$31,188	\$29,959	\$34,268
Discretionary programs in CAAs	\$11,233	—	—	—
Total Available to CAAs	\$66,204	\$31,188	\$29,959	\$34,268
Administration				
OEO	98	—	1,577	1,804
Federal government	—	1,642	—	—
Subtotal Administration	\$98	\$1,642	\$1,577	\$1,804
Totals, Federal Funds Available	\$66,302	\$32,830	\$31,536	\$36,072
Percent change from prior year		-50.5%	-3.9%	9.9%

^a This is based on the December 1981 continuing resolution which appropriates \$348,000,000 nationwide.

^b Maximum amount the state could receive under the federal fiscal year 1983 authorization level.

^c HHS officials expect a small, yet undetermined, amount of carry-over.

Table 7
Impact of the Community Services Block Grant on the State Budget
1980-81 to 1982-83
(in thousands)

	<i>Actual</i> <i>1980-81</i>	<i>Estimated</i> <i>1981-82</i>	<i>Projected</i> <i>1982-83</i>	<i>Difference</i> <i>1981-82 to 1982-83</i>	
				<i>Amount</i>	<i>Percent</i>
Funding included in state budget					
Available to OEO	\$19,140	\$98	\$1,183	\$1,085	1,107%
Annual award	(246)	(98)	—	—	—
Carry-over	(18,894)	—	—	—	—
Available to CAAs	—	—	22,469	22,469	100
Subtotals, Included in State Budget	\$19,140	\$98	\$23,652	\$23,554	24,035%
Direct federal support to CAAs	\$54,971	\$31,188 ^a	—	-31,188	100
Annual award	(34,801)	(31,188)	—	(-31,188)	(100)
Carry-over	(20,170)	—	—	—	—
Discretionary programs	11,233	—	—	—	—
Subtotals, Direct Support	66,204	31,188	—	-31,188	-100%
Total Available to State	\$85,344	\$31,286	\$23,652	-\$7,634	-24.4%

^a The FFY 82 grant is being administered by the federal government; therefore, the awards to CAA are not included in the current year estimates. This is the federal fiscal year allocation.

OFFICE OF ECONOMIC OPPORTUNITY—Continued**Block Grant Funds Available to California**

Table 7 shows the impact of anticipated block grant funding levels on the state's budget in the current and budget years. Federal funds available to California in 1981-82 are estimated at \$31.3 million, a decrease of \$54.0 million from actual expenditures in 1980-81. The budget estimates that in 1982-83, OEO will spend \$23.7 million or 75 percent of the block grant award for FFY 83. This is a decrease of \$7.6 million, or 24.4 percent, from expenditures in 1981-82.

Grant Awards from the Community Services Block Grant

We recommend that, prior to budget hearings, the Department of Finance and OEO advise the fiscal committees (1) how awarding only 75 percent of the block grant will affect continuation of current program activities and (2) if activities are reduced significantly, what funding priorities will be established.

In 1982-83 the budget proposes to spend \$23,652,000, or 75 percent of the FFY 83 allocation of Community Services block grant funds to California. Funds will be allocated to each of the 58 counties using a formula that takes into consideration each county's proportion of the state's low-income population. According to the budget, grant awards will be made on the basis of relative need and the applicant's ability to meet the needs of the poor.

In FFY 83, funds from block grants may be awarded to any eligible local or nonprofit organization. Federal law, however, requires that CAAs which were funded in FFY 82 be given special consideration for continued funding.

According to federal officials, funds available for community services grants during the current year will be awarded to 41 CAAs that previously received grants from CSA. Awards to CAAs will be made when their existing grants expire. According to HHS, 34 grants expired on December 31, 1981, 4 will expire in March 1982, and 3 will expire in April 1982. Each CAA will receive a grant covering a 12-month period. The grant amounts, however, will be significantly less than the amounts provided in FFY 81, in order to reflect the FFY 82 reduction in total funds.

Given the current funding cycle, all CAAs will have funds to continue their operations through calendar year 1982. It is reasonable to expect, however, that all CAAs will seek continuation funding when their grants expire, beginning January 1, 1982. Having received \$31.2 million in FFY 82, CAAs are likely to submit requests during 1982-83 for the full amount of the state's FFY 83 allocation for local agencies (\$30.0 million) to continue the same level of activity, as opposed to the \$23.6 million proposed for allocation in the budget. By proposing to spend only 75 percent of the block grant allocation in 1982-83, it is unclear whether OEO expects to (1) reduce CAA grant awards below the 1981-82 levels or (2) fund fewer CAAs than currently exist.

We recommend, therefore, that OEO advise the fiscal committees what are the effects on existing program activities of awarding only 75 percent of the block grant amount available to the state. If OEO expects to reduce CAA awards significantly below current-year levels, OEO should advise

the committees how priorities for funding will be established. This will give the Legislature an opportunity to see what program levels are proposed for funding with the state's FFY 83 community services block grant.

Identification of Carry-Over

We recommend that supplemental report language be adopted that requires the Department of Finance to identify block grant expenditures, beginning with the 1983-84 budget submission, by (1) block grant amount anticipated in the budget year and (2) any carry-over available from prior federal fiscal years.

Federal funds may be carried over from one federal fiscal year to the next under both the Low-Income Home Energy and the Community Services block grant programs. Under the LIHEA block grant program, the state may carry over up to 25 percent of its annual grant. Under the community services program, the state has two federal fiscal years within which it can spend the grant. These provisions allow OEO to keep part of a grant awarded in one fiscal year and spend it in the next fiscal year.

It has been common practice for community action agencies to carry over funds from one year to the next. Table 7 (above) shows that in FFY 81, \$20.2 million, or 36.7 percent of the amount available to CAAs, was available from funds carried over from prior years. Despite the anticipated funding cutbacks in FFY 82, officials at HSS advise us that they expect small amounts of carry over to remain available for expenditure when the CAAs' current grants expire.

When the state receives its FFY 83 block grant effective October 1, 1982, OEO will have until September 30, 1984 to spend the funds (or until the end of the first quarter of the 1984-85 state fiscal year). Even if the entire block grant is initially awarded to local agencies during 1982-83, given past experience, it is reasonable to assume that some savings, or carry over funds, may be available for expenditure or reaward by OEO until September 1984.

From the Legislature's perspective, the potential availability of carry over funds raises two issues:

1. The use of carry over funds can limit the Legislature's ability to control expenditures. If carry over funds, which are one-time in nature, are used to establish ongoing activities, the Legislature may be faced with the prospect in the following year of either having to make substantial *reductions* in the level of program activity or provide *increased* state support to continue activities at prior-year levels.

2. Carry over funds may allow the Legislature to redirect funds to higher priority programs. The block grants give the Legislature more flexibility in allocating federal funds. Specifically, it can transfer funds from the LIHEA and community services programs to other social services and health programs. If block grant funds are unexpended at the end of one year, the Legislature should have the option to redirect these funds to other programs if it deems necessary.

In order that the Legislature can monitor and control the state's expenditures of the block grants, we recommend that future budgets for OEO clearly show expenditures for *each* block grant, by federal fiscal year. To accomplish this, we recommend that the following supplemental report language be adopted:

"Beginning with the 1983-84 budget submission, the Department of

OFFICE OF ECONOMIC OPPORTUNITY—Continued

Finance shall show annual block grant expenditures, by identifying (a) the block grant amounts anticipated in the budget year and (b) any carry over funds OEO may have available from federal funds awarded in prior years to the state or community action agencies."

Governor's Office
OFFICE OF EMERGENCY SERVICES

Item 0690 from the General
Fund

Budget p. LJE 53

Requested 1982-83	\$12,982,000
Estimated 1981-82	15,806,000
Actual 1980-81	12,115,000
Requested decrease (excluding amount for salary increases) \$2,824,000 (-17.9 percent)	
Total recommended reduction	\$25,000

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0690-001-001—Support		General	\$4,270,000
Continuous Appropriation—Support		Nuclear Planning Assessment Special Account	66,000
0690-001-190—Support		Energy and Resources	425,000
0690-101-001—Local Assistance		General	21,000
Continuous Appropriation—Local Assistance		Nuclear Planning Assessment Special Account	200,000
Continuous Appropriation—Local Assistance		Public Facilities Account	4,500,000
Continuous Appropriation—Local Assistance		Street and Highways Account	3,500,000
Total			\$12,982,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|--|--------------------------|
| | <i>Analysis
page</i> |
| 1. <i>New Legislation Required. Reduce Item 0690-001-001 by \$25,000.</i> Recommend deletion of funding that would be used to staff a program beyond the period for which it is authorized. | 79 |
| 2. FIRESCOPE. Recommend the Office of Emergency Services report to the Legislature prior to budget hearings on status of federal funding and plans for expanding the FIRESCOPE program. | 80 |
| 3. Toxic Materials. Reduce reimbursements by \$30,000. Recommend deletion of reimbursements for one position which is not justified by workload. | 81 |
| 4. Natural Disaster Assistance. Recommend office report on Status of Public Facilities Account. | 81 |

GENERAL PROGRAM STATEMENT

The Office of Emergency Services coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. The office carries out its mission through two programs—emergency mutual aid services, and fixed nuclear power plant planning. It also provides aid to local governments through the Natural Disaster Assistance Fund. The office has 118.5 authorized personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total expenditure program of \$63,451,000 from the General Fund, special funds, and reimbursements in support of the Office of Emergency Services in 1982-83. This amount is \$46,814,000, or 42.5 percent, less than estimated current-year expenditures.

The decline in expenditures proposed for the budget year, however, does not reflect an equivalent cutback in the office's ongoing programs. The decline results almost entirely from reduced estimates of the amount of state and federal disaster assistance that will be distributed to local governments in the budget year. The budget anticipates that \$52.6 million in disaster assistance will be distributed in 1982-83, compared with \$98.8 million in 1981-82. These amounts are merely estimates; the actual amount of state and federal assistance provided in the budget year will depend on the cost of repairing damage caused by natural disasters. Approximately \$95.2 million was distributed for the purpose in 1980-81.

If the OES budget is adjusted to eliminate the effect of changes in disaster assistance funding, it shows a decrease of approximately \$627,000, or 5.5 percent, from estimated expenditures in the current year.

Expenditures in both the current and budget year, by program element, are shown in Table 1.

Table 1
Office of Emergency Services
Source of Funding Summary
(dollars in thousands)

	Estimated 1981-82	Proposed 1982-83	Change	
			Amount	Percent
Support				
① General Fund	\$4,138	\$4,270	\$132	3.2%
② Federal funds	2,687	2,701	14	0.5
③ Reimbursements	2	85	83	-
④ Nuclear planning assessment	702	66	-636	-90.6
⑤ Energy and Resources Fund	425	425	-	-
Subtotals	\$7,954	\$7,547	-\$407	-5.1%
Local Assistance				
⑥ General Fund	\$41	\$21	-\$20	-48.8%
⑦ Federal Disaster Relief	88,687	44,600	-44,087	-49.7
⑧ Federal match	3,083	3,083	-	-
⑨ Nuclear planning assessment	400	200	-200	-50.0
⑩ Public facilities account	8,600	4,500	-4,100	-47.7
⑪ Street and Highway account	1,500	3,500	2,000	133.33
Subtotals	\$102,311	\$55,904	-\$46,407	-45.4%
Totals	\$110,265	\$63,451	-\$46,814	-42.5%
Program				
Administration	(\$1,054)	(\$1,055)	(\$1)	(0.0%)
Personnel-years	24.9	24.9	-	-
Mutual aid	93,485	49,622	-43,863	-46.9
Personnel-years	28.6	32.6	4	14.0

47.6
8
55.6

OFFICE OF EMERGENCY SERVICES—Continued

Emergency communications systems	1,654	1,644	-10	-0.6
Personnel-years	13.7	13.7	-	-
Emergency plans	2,125	2,243	118	5.6
Personnel-years	30.5	33	2.5	8.2
State mutual aid resources	1,486	1,481	-5	-0.3
Personnel-years	13.8	13.8	-	-
Nuclear planning assessment	1,102	266	-836	-75.9
Personnel-years	4	2	-2	-50.0
Earthquake Preparedness and Response	313	195	-118	-37.7
Personnel-years	3	3	-	-
Subtotals	\$100,165	\$55,451	-\$44,714	-44.6%
Personnel-years	118.5	123	4.5	3.8
<i>Natural Disaster Assistance</i>				
Public Facilities	\$8,600	\$4,500	-\$4,100	-47.7%
Streets and Highways	1,500	3,500	2,000	133.3
Subtotals	\$10,100	\$8,000	-\$2,100	-20.8%
Totals	\$110,265	\$63,451	-\$46,814	-42.5%

Funding for OES Operations

The budget requests appropriations totaling \$7,462,000 for support of the office in 1982-83. This is \$490,000, or 6.2 percent, less than estimated current-year expenditures. This reduction, however, makes no allowance for any salary or staff benefit increase that may be approved for the budget year. Nor does it make allowance for potential significant increases in General Fund support that the budget indicates may be requested in a Department of Finance letter for the Earthquake Preparedness and Response program, later in the year.

The \$490,000 reduction in support reflects:

- a decrease of \$636,000, or 90.6 percent, in Nuclear Planning Assessment Special Account funds;
- an increase of \$132,000, or 3.2 percent, in General Fund support, and
- an increase of \$14,000, or 0.5 percent, in federal funds.

Staffing for the office is proposed to increase from 118.5 personnel-years in the current year to 123 personnel-years in 1982-83, an increase of 4.5 personnel-years, or 3.8 percent.

Five Percent Reduction

The office's budget has been reduced by \$204,000 to achieve the 5 percent reduction imposed on many state General Fund agencies by the Department of Finance. Specifically, the office proposes to increase salary savings by holding positions vacant (\$37,000), reduce in-state travel by eliminating trips to unnecessary meetings (\$20,000), reduce expenditures for communications and warning system maintenance and support (\$47,000), reduce funds for a contract with the Department of Water Resources for dam inundation maps (\$10,000), and reduce purchases for radio and communications and office equipment (\$90,000). This reduction will not affect the number of authorized positions.

Our review of the office's 5 percent reductions indicates that most of the proposal will have only a minor program impact. Our analysis indicates, however, that the proposed reduction in expenditures for communications maintenance and support (\$47,000) and regular replacement of radio communications equipment (\$90,000) could reduce the office's ability

to respond to emergencies. The office maintains that any problems created by a one-year deferral of these expenditures will be minor.

Emergency Management Training

During 1981-82, the office obtained \$161,060 in federal funding to expand emergency management training programs designed to improve California's ability to respond to disasters. The grant requires a 25 percent match from the state, which will be provided from existing resources. Of the total, \$57,500 will be carried over into 1982-83.

Earthquake Preparedness and Response Program

Last year, the budget requested \$4.6 million from the General Fund for a new program intended to improve the state's ability to respond to a major earthquake. The program had six components—one intended to provide the necessary planning (the earthquake task force) and five designed to improve the state's preparedness. During the budget process, the administration reduced its request to \$4.3 million and deleted one of the program components. In the 1981 Budget Act, the Legislature provided funds only for the task force, in the amount of \$313,000.

For 1982-83, the budget requests \$195,000 to support the task force, which is \$118,000, or 37.7 percent, below estimated current-year expenditures. Of this amount, \$67,000 is proposed for a three-member staff and \$128,000 is requested to cover the cost of one consultant and the travel and per diem expenses incurred by members of the steering committee and various advisory committees. The budget indicates that funding for other elements of the program may be requested during the budget process.

Fixed Nuclear Power Plant Planning

We recommend that funds for a radiological officer position to continue the Fixed Nuclear Power Plant Planning Program beyond December 31, 1982, be deleted because of the sunset date in the authorizing legislation, for a General Fund savings of \$25,000 (Item 0690-001-001).

Chapter 956, Statutes of 1979 (SB 1183), authorized the OES, in consultation with the Department of Health Services and affected counties, to investigate the potential consequences of a serious nuclear power plant accident at each of the four nuclear power plants in California with a generating capacity of 50 megawatts or more. Operators of these plants collectively will be assessed a sum not to exceed \$2,000,000 to cover the costs of this investigation. Assessments will be deposited in the Nuclear Planning Assessment Special Account before they are spent.

Chapter 956 also requires OES to revise its July 1975 "State of California Nuclear Power Plant Emergency Response Plan," and to work with appropriate state agencies in developing standard response procedures. In addition, OES will assist local authorities in preparing or upgrading their emergency response plans to reflect new guidelines and parameters. These activities will also be funded by the Special Account.

The budget indicates that OES and local governments will spend \$1,102,000 from the special account in the current year. In the budget year, expenditures from the special account for state support and local assistance will total \$266,000, of which \$200,000 will be used by local governments to modify their emergency plans.

Chapter 956 provides for the termination of the fixed nuclear power plant planning program on December 31, 1982. The budget requests \$25,000 (General Fund) to continue the program beyond the statutory termi-

OFFICE OF EMERGENCY SERVICES—Continued

nation date. It indicates that the funds will not be expended unless the program is extended.

The Legislature generally has followed the policy that appropriations in the budget should be based on existing statutory authority, and any costs attributable to new legislation should be financed in the new legislation itself. Accordingly, we recommend that funding for the January 1 through June 30 period be deleted from the Budget Bill. Specifically, we recommend that Item 0690 be reduced by \$25,000. This would leave adequate funds to support the program during the remainder of its authorized existence (July 1, 1982, through December 31, 1982). We recommend that, if the Legislature enacts legislation to continue the nuclear power plant planning program beyond the statutory termination date, funds for the remaining six months of 1982–83 be provided in the legislation itself.

FIRESCOPE

We recommend that prior to budget hearings the Office of Emergency Services report to the Legislature on the status of federal funding for research and development of FIRESCOPE, and on how a reduction in that funding will affect the program.

The budget is requesting \$333,750 from the General Fund and four new positions to support the FIRESCOPE program in 1982–83. This is \$183,750, or 122.5 percent, more than estimated current year expenditures.

FIRESCOPE is a federally developed project in southern California designed to improve the management of resources in areas susceptible to large, multijurisdictional wildland fires. The federal government has paid for the acquisition of equipment and, on a matching basis, a significant portion of the personnel costs associated with the project's research and development phase. As the project proceeds, however, the state has had to assume an increasingly larger share of the costs. In the budget year, staffing for FIRESCOPE will increase from 5 to 9 positions, and General Fund support will be required for 75 percent (\$333,750) of total operational costs. The federal government will provide the remaining 25 percent (\$111,250). The OES has indicated, however, that federal support for the research and development program will terminate at the end of the current federal fiscal year (September 30, 1982).

The transition from a federally sponsored research and development program to a state-managed operational system had been scheduled to be completed in 1985. This schedule, however, assumes that federal support of approximately \$2 million annually for development and implementation would continue to be available until that point. Withdrawal of federal funds for development could mean that the full responsibility for these functions might have to be assumed by the state in the budget year.

According to OES, during the past year the FIRESCOPE board of directors and the Governor's Emergency Council have recommended extension of the operational aspects of the program to an all risk, interdisciplinary emergency management system throughout California (not just southern California). Funds for such an extension, however, have not been included in the 1982–83 budget. The purpose of the augmentation proposed for the budget year is to continue FIRESCOPE at the existing program level. Moreover, the budget does not request funds to offset the federal fund reduction for research and development.

Our analysis indicates that either the expansion of FIRESCOPE recom-

mended by the board and the council or the reduction in federal funding could result in significant additional demands on the General Fund during the next four years. Therefore, we recommend that prior to budget hearings, the OES report to the fiscal committees on any plans it has to (1) assume full financial responsibility for the program or (2) expand the program from fire fighting to an "all risk" concept.

Toxic Materials Program

We recommend the deletion of \$30,000 in reimbursements for the Toxic Materials Program because the additional warning controller is not justified on a workload basis.

The budget for OES shows \$83,000 in reimbursements from the Department of Health Services for 2.5 new positions intended to increase the office's capacity for dealing with crises related to toxic substances and hazardous wastes.

Chapter 805, Statutes of 1980 (SB 183), appropriated \$55,332 to OES for 1.5 positions to develop the Toxic Materials Emergency Response Plan, establish a central notification and reporting system, and provide listings of the kinds of toxic hazardous substances. The plan specifies the state agencies responsible for implementing the plan, and provides for coordination of training conducted by state agencies and on-scene coordination of response actions. During the budget year, the positions initially funded by Chapter 805 will spend most of their time developing the notification and reporting system.

For 1982-83, the office is requesting an additional technical position and related clerical support to coordinate and develop a statewide hazardous materials training program, coordinate county response plans, and develop exercises to test the state response plan. The OES also requests one additional Warning Center Controller position to coordinate and provide information to other state agencies, provide staff during peak workload periods, enter all toxic hazard reports into a computer, and monitor ongoing spills and ensure state agency response.

Our analysis indicates that the workload generated by spills of hazardous materials does not warrant an additional warning center controller position.

The office is presently authorized 5.0 positions to cover the warning center on a 24-hour seven-day per week basis, and has access to other staff on an as-needed basis. According to OES, only 39 more hazardous spills were reported to the warning center in November 1981 than were reported in November 1980. The office indicates that each additional report takes about one extra hour initial processing time. Because it appears that the increased workload resulting from reports of additional toxic material spills is equivalent to justify only a small fraction of one full-time position, we recommend that OES absorb the additional workload using existing staff, and that the request for additional warning center staff not be approved. Approval of this recommendation would result in reductions in reimbursements from, and a savings to, the Department of Health Services amounting to \$30,000.

Misleading Budget for Natural Disaster Assistance

We recommend that the Office of Emergency Services report to the fiscal committees prior to budget hearings on the status of the Public Facilities Account, Natural Disaster Assistance Fund.

The state provides aid to local governments for replacing or repairing

OFFICE OF EMERGENCY SERVICES—Continued

publicly owned real property damaged by natural disasters. This aid is paid from the Natural Disaster Assistance Fund. The fund consists of two accounts: (1) the Street and Highway Account, which was funded by a tax on gasoline imposed for one year only under the Highway Users Tax Program and (2) the Public Facilities Account, which was funded in past years from various General Fund appropriations. Aid from the fund is made available for major local emergencies that are not eligible for 100 percent federal disaster assistance.

We are concerned that the Governor's Budget fails to provide the Legislature with an accurate description of the financial status of the Public Facilities Account. The budget indicates that the Public Facilities Account will have an unexpended balance of \$10,709,000 at the end of the budget year. Based on this information, it appears that the anticipated surplus in the account is enough to cover many years of normal expenditures. The office advises, however, that most of this reserve has been committed to specified capital outlay projects resulting from previous disasters that damaged public buildings. Thus, the Governor's Budget greatly overstates the surplus that will be available in the account at the end of the budget year.

Second, the proposed budget fails to reflect the impact that recent federal policy changes may have on expenditures from the account. The office recently advised that a change in federal policy regarding federal financial participation in the permanent restoration of local public facilities will result in increased expenditures from the account in the budget year. Prior to January 1982, the federal government paid all the costs of restoring public facilities damaged by certain disasters. Currently, the federal government will pay only 75 percent of such costs. Because the Public Facilities Account may be used to fund a significant portion of the costs that would have been funded by the federal government under the old policy, expenditures from the account may be significantly more than the budgeted amount.

Our analysis indicates that the Governor's Budget inaccurately estimates the anticipated surplus and expenditures from the Public Facilities Account. Despite the apparent large surplus in the account, the office may not have sufficient resources available to commit to necessary restoration projects. Therefore, we recommend, that the office report to the fiscal committees prior to budget hearings on (a) the extent to which the projected June 30, 1983, reserve of \$10.7 million has been committed to specific projects and (b) the impact of the new federal cost-sharing policy on anticipated expenditures from the account.

Governor's Office
GOVERNOR'S PORTRAIT

Item 0720 from the General
Fund

Budget p. LJE 63

Requested 1982-83	\$13,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides funds for commissioning a portrait of the Governor. Traditionally, funds have been appropriated for a portrait of each outgoing Governor.

**REQUIREMENTS OF THE GOVERNOR-ELECT AND
THE OUTGOING GOVERNOR**

Item 0730 from the General
Fund

Budget p. 64

Requested 1982-83	\$348,000
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Constitution requires the Governor to submit to the Legislature by January 10 of each year a budget with an explanatory message for the ensuing fiscal year. Because the Governor's term does not begin until January 3 following his or her election, newly-elected Governors have only one week in office before their budget is due.

Chapter 1241, Statutes of 1974, allows the Director of Finance to appoint persons to assist a Governor-elect in preparing a budget for submission by the January 10 deadline. The act also allows the outgoing Governor to appoint, for up to 60 days, persons to assist him in concluding matters arising out of his official duties.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$348,000 from the General Fund for the purposes authorized in Chapter 1241. Approximately \$168,000 was expended for these purposes during the last transition in 1975.

The appropriation would be available for expenditure by the Department of Finance, subject to the approval of the Governor-elect and the outgoing Governor. The budget document does not indicate how these funds would be allocated between the two Governors.

Our analysis indicates that the funds are needed to ensure a smooth transition from one administration to another.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General
Fund

Budget p. LJE 64

Requested 1982-83	\$1,002,000
Estimated 1981-82.....	1,001,000
Actual 1980-81	959,000
Requested increase (excluding amount for salary increases) \$1,000 (+0.1 percent)	
Total recommended reduction	26,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Reimbursements for services to other agencies. Reduce by \$26,000.* Recommend reduction in General Fund support by \$26,000 and corresponding increase in reimbursements to eliminate double-budgeting of services provided to two other agencies.

85

GENERAL PROGRAM STATEMENT

The Lieutenant Governor is elected pursuant to the California Constitution and serves concurrently with the Governor. He assumes the responsibilities of chief executive in the absence of the Governor and serves as the presiding officer of the Senate, voting only in the case of a tie vote. The Lieutenant Governor also serves on numerous commissions and boards. His other duties include such special tasks as may be assigned by the Governor.

Including the Lieutenant Governor, the office currently is authorized 25 staff and clerical positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$1,002,000 from the General Fund for support of the Lieutenant Governor's Office in 1982-83. This is \$1,000, or 0.1 percent, more than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit

Table 1
Office of the Lieutenant Governor
Program Budget
(In thousands)

Program	Actual 1980-81	Estimated 1981-82	Proposed 1982-83	Change	
				Amount	Percent
Support of the Office of the Lieutenant Governor	\$959	\$1,001	\$1,002	\$1	0.1%
General Fund	\$932	\$1,001	\$1,002	\$1	0.1%
Federal Trust Fund	1	—	—	—	—
Reimbursements	26	(26) ^a	(26) ^a	—	—
Personnel-years	26	25	23	-2	-0.8

^a The Lieutenant Governor's Office anticipates receipt of \$26,000 from the Commission of the Californias and Commission for Economic Development, but these amounts are not reflected in the budget.

increase approved for the budget year. (In the current year, approved salary and staff benefit increases resulted in a \$43,000 increase in the Lieutenant Governor's budget.)

Table 1 summarizes the budget of the Lieutenant Governor's Office for the past, current and budget years. The budget increase for 1982-83 is the net result of changes in planned expenditures, additional operating expenses and equipment, and the elimination of two staff positions per the Administration's 5 percent reduction in certain baseline budgets for 1982-83. Our analysis indicates that sufficient staff has been budgeted to carry out the duties of the office.

Budget Omits Reimbursements

We recommend a reduction of 26,000 in General Fund support and a corresponding increase in reimbursements in Item 0750-001-001, because the budget omits the amount of reimbursements it will receive from other agencies.

Pursuant to interagency agreements with the Commission of the Californias and the Commission for Economic Development, the Lieutenant Governor's Office will be reimbursed for equipment usage, telephone services, and prorated accounting and support services in the current year. In addition, the Commission of the Californias pays the Lieutenant Governor's Office rent for its office space within the Lieutenant Governor's suite in the state building in Los Angeles. These reimbursements, which are estimated to total approximately \$26,000 in 1981-82, are listed in Table 2. According to the budget, the office received approximately \$26,000 for similar billings from the two commissions in 1980-81.

The Lieutenant Governor's 1982-83 budget does not account for the receipt of these reimbursements in either the current or the budget year. Failure to include reimbursements in the Lieutenant Governor's budget results in double budgeting because some of these services (rent, accounting support) are budgeted from the General Fund in both the Lieutenant Governor's budget and the budgets of the two commissions. This adjustment would not reduce the budgeted level of resources for the Lieutenant Governor. Instead, it would properly reflect the commissions' operating expenses and the services provided to them by the Lieutenant Governor's staff. In addition, it will result in a savings of \$26,000 to the General Fund.

Table 2
Unbudgeted Reimbursements in the Lieutenant Governor's Budget
(1981-82)

<i>Commission of the Californias</i>	<i>Annual Amount</i>
Rent	\$6,675
Phones	600
Equipment Usage	4,500
In-House Accounting/Clerical Support	3,000
	<u>\$14,775</u>
<i>Commission for Economic Development</i>	
Equipment Usage	4,200
Phones	3,000
In-House Accounting	4,494
	<u>\$11,694</u>
Total	<u>\$26,469</u>

DEPARTMENT OF JUSTICE

Item 0820 from the General
Fund and various funds

Budget p. LJE 66

Requested 1982-83	\$101,579,000
Estimated 1981-82.....	99,027,000
Actual 1980-81	94,190,000
Requested increase (excluding amount for salary increases) \$2,552,000 (+2.6 percent)	
Total recommended reduction	\$1,056,000

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0820-001-001—Support		General	\$87,439,000
0820-001-012—Antitrust		Attorney General's Antitrust Account, General	970,000
0820-001-017—Fingerprint Fees		Fingerprint Fees, General	3,800,000
0820-001-044—Data Center Support		Motor Vehicle Account, State Transportation	9,335,000
0820-101-001—Legislative Mandates		General	35,000
Total			\$101,579,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Funding of Multimedia Productions. Reduce Item 0820-001-001 by \$88,000 (General Fund), and increase reimbursements by \$88,000.* Recommend alternative fund source be used to finance multimedia productions. 90
2. *Temporary Help. Reduce Item 0820-001-001 by \$162,000 (General Fund), Item 0820-001-044 by \$19,000 (Motor Vehicle Account, State Transportation Fund), Item 0820-001-012 by \$14,000 (Attorney General's Antitrust Account), and reimbursements by \$43,000.* Recommend reduction to eliminate overbudgeting for temporary help. 91
3. *Computer Relocation Plans Not Final.* Recommend adoption of Budget Bill language to allow expenditure of funds budgeted for computer relocation only after an amended feasibility study is reviewed and approved. 92
4. *Operating Expenses and Equipment. Reduce Item 0820-001-001 by \$220,000 (General Fund) and reimbursements by \$12,000.* Recommend deletion of unjustified operating expenses and equipment. 93
5. *Prison Crimes Prosecution.* Recommend the department report to the fiscal committees, prior to budget hearings, on its ability to investigate and prosecute prison crimes if its proposal to reduce the staffing of the prison crimes prosecution unit is approved. 95
6. *Paralegal Plan. Reduce Item 0820-001-001 by \$105,000.* Recommend implementation of department's paralegal plan in the Criminal Law division by adding three paralegals, and reducing three attorney positions and 0.9 clerical staff. 96

7. Pilot Program for Investigative Assistants. Recommend the department report to the Legislature by September 1, 1982, on its evaluation of the investigative assistant pilot program. 97
8. Applicant Record Purge. Recommend the department develop a plan to purge unnecessary applicant records from the identification program files and report to the Legislature by September 1, 1982. 99
9. Purge Criteria. Recommend the department develop and use stricter purge criteria to minimize unnecessary applicant records retained in department files 100
10. *General Fund Subsidy of Applicant Program. Reduce Item 0820-001-001 by \$448,000 (General Fund) and augment Item 0820-001-017 by \$448,000 (Fingerprint Fees Account).* Recommend increase in revenues from fees to eliminate a General Fund subsidy of the applicant identification program. 103

GENERAL PROGRAM STATEMENT

The Department of Justice, under the direction of the Attorney General, enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. Its functions are carried out through six programs—Executive, Special Programs, Civil Law, Criminal Law, Law Enforcement, and Administration. The department is authorized a total of 3,105.5 personnel-years in the current year.

The department's legal programs are staffed with approximately 450 attorneys and related support positions. The Civil Law Division provides legal representation for most state agencies, boards, and commission. The Criminal Law Division represents the state in all criminal matters before the appellate and supreme courts.

The law enforcement support program has an authorized staff of approximately 1,800 positions and is the largest of the department's divisions. It (1) provides investigative assistance to local law enforcement agencies, (2) operates a system of criminalistics laboratories throughout the state, (3) maintains centralized criminal history records and fingerprint files, and (4) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of \$101,579,000 from the General Fund and State Transportation Fund for the support of the Department of Justice in 1982–83. This is an increase of \$2,552,000, or 2.6 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budgeted increase in expenditures is primarily attributable to merit salary and general price increases. These additional costs will be partially offset by a 3.7 percent reduction in baseline expenditures required by the Department of Finance. While the Department of Justice will not reduce its General Fund expenditures by 5 percent, as many General Fund agencies were required to do, it proposes to reduce its General Fund programs by approximately \$3.3 million. (A 5 percent reduction would amount to

DEPARTMENT OF JUSTICE—Continued

\$4.5 million for the department.) This reduction consists of (a) a \$912,000 decrease in operating expenses, (b) a reduction of 10 staff utilized to investigate and prosecute crimes committed in state prisons, (c) a reduction of nine staff in the Opinions Unit, and (d) other program reductions. These and other proposed 1982-83 budget changes are detailed in Table 1.

Table 1
Department of Justice
Proposed 1982-83 Budget Changes
(in thousands)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Federal Funds</i>	<i>Reimburse- ments^a</i>	<i>Total</i>
1981-82 Current Year Revised.....	\$90,299	\$8,728	\$4,575	\$20,897	\$124,499
1. Workload Changes					
a. Licensing.....	—	—	—	-137	-137
b. Fingerprint.....	98	—	—	—	98
c. Medfly	-359	—	—	—	-359
d. CLETS Relocation	170	208	—	—	378
e. Grant Changes	—	—	-1,503	-298	-1,801
f. Financial Legislation	-46	-5	—	—	-51
g. Reimbursement Contracts	—	—	—	-904	-904
h. SPAN Project.....	—	—	—	-1,384	-1,384
i. Security Officers	-209	—	—	—	-209
j. Levi Strauss.....	—	—	—	-634	-634
k. Hardware Conversion	—	-96	—	—	-96
2. Cost Changes					
a. Merit Salary	798	43	—	143	984
b. Price Increases	2,857	493	—	467	3,817
c. OASDI	45	3	—	8	56
d. Restore Travel Reduction	411	—	—	—	411
e. Restore Two Percent Reduction ..	1,742	—	—	5	1,747
3. Program Change Proposals					
a. Interstate Organized Crime Index	—	—	—	51	51
b. Subsequent Injury Fund.....	-159	—	—	-498	-657
c. Second Hand Dealer	—	—	—	73	73
d. Operating Expenses.....	-912	—	—	—	-912
e. Executive/Special Programs	-631	—	—	—	-631
f. Civil Division	-310	—	—	96	-214
g. Criminal Division	-411	—	—	—	-411
h. Law Enforcement Division	-964	-39	—	-60	-1,063
i. Administrative Branch.....	-175	—	—	—	-175
1982-83 Proposed Expenditures	\$92,244	\$9,335	\$3,072	\$17,825	\$122,476

^a Reimbursements include amounts payable from the Political Reform Act.

Total program expenditures, including expenditures of federal funds and reimbursements, are budgeted at \$122,476,000. This is \$2,023,000, or 1.6 percent, less than estimated total expenditures in the current year. Table 2 summarizes the department's expenditures by program.

Table 2
Department of Justice
Budget Summary
(dollars in thousands)

	<i>Estimated</i> <i>1981-82</i>	<i>Proposed</i> <i>1982-83</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
1. Executive ^a	(\$3,304)	(\$3,209)	(-\$95)	(-2.9%)
Personnel-years	59.5	54.2	-5.3	-8.9
2. Special Programs	4,411	3,573	-838	-19.0
Personnel-years	52.1	41.6	-10.5	-20.2
3. Civil Law	27,006	26,820	-186	-0.7
Personnel-years	293.8	270.8	-23	-7.8
4. Criminal Law	23,546	23,017	-529	-2.2
Personnel-years	314.5	301.1	-13.4	-4.3
5. Law Enforcement	71,243	69,031	-2,212	-3.1
Personnel-years	1,777.3	1,688.4	-88.9	-5.0
6. Administration ^a	(23,365)	(24,775)	(1,410)	(6.0)
Personnel-years	608.3	561.2	-47.1	-7.7
7. Legislative Mandates ^b	35	35	—	—
8. Two Percent Reduction	-1,742	—	1,742	—
Program Totals	\$124,499	\$122,476	-\$2,023	-1.6%
Personnel-years	3,105.5	2,917.3	-188.2	-6.1

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

^b Reimburses cities and counties for mandated costs incurred in (1) destroying possession-of-marijuana files and (2) submitting dental records of missing persons.

Table 3 presents a summary of the department's proposed funding sources and highlights several changes in the budget year. The budget indicates that reimbursement support will decrease by approximately \$3 million. This reflects (a) the cancellation of a contract by the Department of Social Services for computer services in support of the Statewide Public Assistance Network, (b) the completion in the current year of administrative preparation for the distribution of funds from the settlement of the Levi-Strauss antitrust case to consumers, (c) the transfer of the responsibility for investigating and litigating claims against the Subsequent Injuries Fund and the Death Without Dependents program to the

Table 3
Department of Justice
Funding Source Summary
(in thousands)

	<i>Estimated</i> <i>1981-82</i>	<i>Proposed</i> <i>1982-83</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
1. General Fund	\$85,786	\$87,439	\$1,653	1.9%
2. Fingerprint Fees (General Fund)	3,538	3,800	262	7.4
3. Attorney General's Antitrust Account (General Fund)	940	970	30	3.2
4. Legislative Mandates (General Fund)	35	35	—	—
5. Motor Vehicle Account (State Transportation Fund)	8,723	9,335	612	7.0
6. Off-Highway Vehicle Fund	5	—	-5	—
Total Direct Appropriations	\$99,027	\$101,579	\$2,552	2.6%
7. Reimbursements	\$20,657	\$17,587	-\$3,070	-14.9%
8. Federal Trust Funds	4,575	3,072	-1,503	-32.9
9. Political Reform Act	240	238	-2	-0.8
Total Funding	\$124,499	\$122,476	-\$2,023	-1.6%

DEPARTMENT OF JUSTICE—Continued

Department of Industrial Relations, and (d) the reduction in anticipated reimbursements from the Tear Gas Training Program. A decline in federal funds primarily reflects the department's decision not to project the continuation of a grant for the Western States Information Network into the budget year because of funding uncertainties.

Shift Fund Source for Multimedia Productions

We recommend that alternative fund sources be used to finance multimedia productions to increase legislative flexibility in the allocation of state funds, for a General Fund reduction of \$88,000 (Item 0820-001-001) and an increase in reimbursements of \$88,000.

The Legal Information Center assists various units within the department to produce audiovisual presentations and publications for dissemination to California law enforcement officials, news media, businesses, and the public. In the budget year, the center will be supported by approximately \$433,000 from the General Fund and staffed with six personnel, including an assistant director, two motion picture specialists, a publications specialist, an editor, and a multimedia advertising specialist.

Our review indicates that more appropriate fund sources than the General Fund are available and should be used to support some of the center's activities.

Publications. In the current year, the center has developed a plan to print and distribute a publication entitled the *California Peace Officer's Legal Sourcebook*. The sourcebook is intended to provide California peace officers with a simple analysis of current statutory and case law, and to explain constitutional issues which affect law enforcement activities. It will be modeled after a sourcebook developed for Arizona law enforcement officers. Department staff indicate that the publication will consist of an 800-page text bound in a looseleaf binder format, which will allow for revisions on a quarterly or as-needed basis. They advise that videotapes eventually may be produced to accompany specific chapters or sourcebook revisions.

The department has hired a legal consultant to develop the text of the sourcebook, and is utilizing existing departmental resources to review and coordinate the project, at a General Fund cost of \$93,037 in the current year. In addition, the department indicates that it will spend \$16,030 to print and distribute 2,000 copies of the publication. The department advises that the Commission on Peace Officer Standards and Training (POST) has agreed to finance the publication of 5,000 additional copies and distribute them to law enforcement agencies for use in a pilot program to determine the usefulness of the sourcebook.

The department anticipates that its General Fund costs to develop, print, and distribute sourcebook updates will reach \$33,242 in the budget year. Additional costs to print and distribute up to 40,000 more sourcebooks for all California peace officers may be incurred if the pilot program indicates that the publication is effective.

There is no need to use General Fund resources to finance this project. Because it will provide legal training to local law enforcement officers, the sourcebook and associated videotape programs could be financed by the Peace Officers' Training Fund. This special fund was established to provide financial resources to raise the level of competence of law enforcement officers, and the budget estimates that it will have a surplus of \$1,057,000 in the budget year. The commission, which administers the fund, is authorized to develop and implement programs to provide train-

ing and education to local law enforcement agencies.

Because the sourcebook project is consistent with the purpose for which the Peace Officers' Training Fund was established, we recommend that all of the department's costs related to the sourcebook be financed from the fund. Specifically, we recommend a General Fund reduction of \$33,000 from the Department of Justice budget, and a \$33,000 increase in reimbursements. In our analysis of the POST Commission budget (Item 8120), we recommend an augmentation of \$33,000 to provide funds to reimburse the Department of Justice for its costs related to the publication of the sourcebook.

Audiovisual Presentations. In 1980-81, the center administratively established two motion picture specialist positions to assist in the production of public service television announcements, videotapes, slide shows, and other audiovisual presentations. Much of their work has been related to projects undertaken by the department's crime prevention unit.

Through discussions with department staff, we found that several fund sources other than the General Fund are available to support some of the center's audiovisual production costs. First, the department advises that it intends to charge fees to offset part of its costs in the current year. The center will finance \$10,000 of photography expenses by charging fees to businesses and organizations who purchase crime prevention audiovisual presentations. However, no fee reimbursements are scheduled to support the center in the budget year. Second, the department advises that the Special Deposit Fund contains an unencumbered amount of approximately \$45,000 which may be used only to offset costs of producing law enforcement films. The money was collected as royalties from the sale of law enforcement films made with federal grant funds and is subject to restrictions imposed by the granting agency.

Our analysis indicates that the center could charge fees and utilize resources available in the Special Deposit Fund to finance a portion of the costs of audiovisual productions in the budget year. To provide the Legislature with greater flexibility in the use of limited state resources, we recommend a General Fund reduction of \$55,000, and an augmentation of \$55,000 in reimbursements in order to shift funding to these two sources.

Temporary Help Overbudgeted

We recommend a reduction of \$238,000 (\$162,000 General Fund in Item 0820-001-001, \$43,000 in reimbursements, \$19,000 from the Motor Vehicle Account, State Transportation Fund in Item 0820-001-044 and \$14,000 from the Attorney General's Antitrust Account in Item 0820-001-012) because the department is overbudgeting for temporary help.

The department proposes to spend an estimated \$489,926 on net salaries and wages to fill 18.3 temporary help positions in 1982-83. According to the State Administrative Manual, these positions may be filled with employees for a limited time period only. They may be utilized to handle seasonal or peak workload, fill in behind employees who are on extended leaves of absence, sick leave, or military leave, or perform special studies or projects. Student assistants may also be hired with funds budgeted for temporary help.

The amount the department is budgeting for salaries for each temporary help position far exceeds the department's historical expenditures for this purpose. In the budget year, the department proposes to spend an average of \$26,772 on salaries and wages for each position. *This is over twice the average amount that the department spent on similar positions*

DEPARTMENT OF JUSTICE—Continued

in 1980-81. Table 4 documents the department's historical expenditures for temporary help salaries.

Table 4
Department of Justice
Historical Costs for Temporary Help Positions

<i>Fiscal Year</i>	<i>Number of Positions</i>	<i>Total Salaries and Wages</i>	<i>Average Cost Per Position</i>
1977-78	76	\$850,044	\$11,185
1978-79	61.6	703,919	11,427
1979-80	52	656,090	12,617
1980-81	95.4	1,221,900	12,808

A review of the proposed expenditures also reveals that the department is budgeted to pay more, on an annual basis, to some of the temporary employees than it pays to some of the most highly paid employees in the department. Table 5 displays the salaries of top department executives and compares them to the salaries, computed on an annual basis, of some of the proposed temporary help positions.

Table 5
Department of Justice
1982-83 Salary Comparison

<i>Permanent Staff</i>	<i>Annual Salary</i>
Attorney General	\$47,500
Chief Deputy Attorney General	62,184
Chief Assistant Attorney General	61,464
Deputy Director of the Law Enforcement Division	59,160

<i>Temporary Staff</i>	<i>Number of Positions</i>	<i>Amount Budgeted</i>	<i>Salary on an Annual Basis</i>
Civil Law (intern)	1.0	\$57,319	\$57,319
Registry of Charitable Trusts	0.1	8,387	83,870
Criminal Law	0.2	19,739	98,695
Personnel Services	0.3	29,072	96,907

Our analysis indicates that the amount of funds the department is budgeting for salaries for its temporary help positions is excessive by historical standards. Based on our analysis of the department's recent spending pattern for these positions, we estimate that instead of the \$26,792 budgeted per position, \$13,600 would be a more appropriate amount for salaries and wages for each proposed temporary help position. Therefore, after adjusting for salary savings and staff benefits, we recommend reductions of \$162,000 from the General Fund, \$43,000 in reimbursements, \$19,000 from the Motor Vehicle Account, State Transportation Fund, and \$14,000 from the Attorney General's Antitrust Account, to eliminate the over-budgeting for temporary help salaries and staff benefits.

Computer Relocation Plans Not Final

We recommend adoption of Budget Bill language allowing the expenditure of \$458,384 budgeted for computer relocation only after review and approval of an amended feasibility study.

In 1979, the Department of Justice established a data communications message-switching computing system at the Department of Motor Vehicles (DMV) facility. It did this for two reasons: (1) the Department of Justice required the use of a temporary facility pending completion of its new computer center and (2) placement at the DMV site enabled the Department of Justice to provide message-switching service to DMV as well as to meet its own needs. This resulted in a net reduction of DMV's communications support costs.

The 1981 Budget Act appropriated \$538,384 to relocate the computing equipment located at DMV to Justice's new computer center. The planned expenditure included approximately \$121,000 for system redesign. DMV however, indicated a preference for an approach which did not include the modifications proposed by the Department of Justice. Because of the fiscal implications of the various alternatives, the Legislature adopted language in the 1981 Budget Act requiring that an amended feasibility study be submitted prior to the expenditure of the funds budgeted for computer relocation.

Due to delays caused by modifications in DMV's computer system, the Department of Justice advises that \$458,384 of the funds budgeted for relocation will not be utilized in the current year. Instead, the budget proposes to expend the funds in 1982-83. To ensure adequate oversight of the proposed relocation, and to be consistent with legislative action in the 1981 Budget Act, we recommend adoption of the following Budget Bill language.

"Provided that \$458,384 of the funds appropriated in category (f) of Item 0820-001-001 shall be expended only upon approval by the Director of Finance of an amended feasibility study, prepared by the Department of Justice in accordance with the provisions of Sections 4921 to 4928, inclusive, of the State Administrative Manual, regarding relocation of the data communications message-switching computing system and upon notification to the Legislature pursuant to the provisions of Section 28."

Operating Expenses Overbudgeted

We recommend a reduction of \$232,000 (\$220,000 General Fund in Item 0820-001-001 and \$12,000 in reimbursements) because operating expenses are overbudgeted.

Analysis of the department's Supplementary Schedule of Operating Expenses (Schedule 11) reveals several instances of overbudgeting. Table 6 summarizes our recommended reductions to the department's operating expense budget. A discussion of each item follows.

Table 6
Department of Justice
Overbudgeted Operating Expenses

<i>Item</i>	<i>Amount Requested</i>	<i>Analyst's Proposal</i>	<i>Difference</i>
1. Travel—Criminal Law	\$275,000	\$193,000	\$82,000
2. Facilities	892,000	852,000	40,000
3. Consulting—Civil Law	129,000	39,000	90,000
4. Consulting—Executive program	20,000	—	20,000
Totals.....	\$1,316,000	\$1,084,000	\$232,000

DEPARTMENT OF JUSTICE—Continued

Travel. The Criminal Law Division is requesting a total of \$275,000 for in-state travel in the budget year. The department advises that this amount, which is 62 percent higher than the amount expended in 1980-81, is necessary because of increased travel required for prison crimes prosecution, and increased travel costs.

Our review of budget documents reveals that the department has proposed to *reduce* its prison crimes prosecution efforts in the budget year by eliminating 5 of its 10 authorized attorney positions, 1 special agent, and related clerical staff. The department has chosen to eliminate these positions as part of its efforts to achieve a 3.7 percent General Fund reduction required by the Department of Finance. No reduction, however, was made to the in-state travel expenses budgeted for these positions. Given the 50 percent reduction in legal staff, it is unlikely that prison crimes prosecution efforts will require more funds for travel than were needed in the prior or current years.

Further, our analysis of the program's historical expenditures for in-state travel indicates that the amount requested significantly exceeds amounts actually expended in recent years. Table 7 documents the program's recent expenditures for in-state travel.

Table 7
Department of Justice
Criminal Law Expenditures for In-State Travel

1978-79	\$156,443
1979-80	172,161
1980-81	170,000
1981-82	180,000 ^a

^a This is a projection of current-year expenditures based on actual experience in the first quarter of the current fiscal year.

We estimate that \$193,000 would provide the Criminal Law Division with a reasonable budget for in-state travel in 1982-83. This amount is based on projected 1981-82 expenditures and a 7 percent increase pursuant to Department of Finance budget instructions. Accordingly, we recommend a General Fund reduction in in-state travel of \$82,000.

Facilities. The department is requesting a total of \$892,000 for rental expenses associated with its legal offices at 3580 Wilshire Boulevard, Los Angeles. The leased space includes 92,636 square feet of office space, 1,000 square feet of storage space, and 280 parking spaces. The Space Management Division of the Department of General Services advises, however, that rent for the facility in the budget year will total \$852,000, or \$40,000 less than the budgeted amount. Because the department has been unable to provide documentation to justify the higher amount, we recommend a reduction of \$40,000 (\$28,000 from the General Fund and \$12,000 in reimbursements).

Consulting—Civil Law. The Business and Tax Section of the Civil Law Division is requesting \$129,000 for consulting and professional services in 1982-83. The department advises that \$90,000 of this amount is budgeted to pay fees to an attorney in Panama who is representing the state's interest in a case involving the Department of Corporations. The Department of Justice advises that it has budgeted funds for this purpose every year, including the current year, since 1978-79. Staff indicates that under the consulting contract, fees will not be paid to the attorney until the case

is resolved. Thus, this item of expense has been overbudgeted for the last four years.

The department has not indicated that this case is likely to be resolved in the budget year. Accordingly, to avoid budgeting funds for a contingency that may not occur, we recommend deletion of the \$90,000 budgeted for this purpose.

Consulting—Executive. The department is requesting a total of \$124,000 in operating expenses and equipment for its executive program. Of this amount, \$20,000 is proposed for unspecified consulting and professional services. Because this represents contingency budgeting and fails to provide the Legislature with an opportunity to review the proposed use of the funds, we recommend a deletion of \$20,000, for a corresponding savings to the General Fund.

Prison Crimes Prosecution

We recommend that the department report to the fiscal committees prior to budget hearings on its ability to investigate and prosecute prison crimes if its proposal to reduce the staffing of the prison crimes prosecution program is approved.

Chapter 1359, Statutes of 1978, allows district attorneys to transfer the responsibility for investigating and prosecuting prison crimes committed by state prison inmates to the Attorney General. The department advises that eight district attorneys have elected to do so. Based on a projected number of prison crime incidents, and attorney and investigator workload standards, the department requested, and the Legislature approved, a staff of 10 attorneys, nine clerical positions, and three special agents to handle the prison crimes workload.

In the budget year, however, the department proposes to reduce its prison crimes program staff by five attorneys, four clerical positions, and one special agent, for a total General Fund savings of \$393,000. The department chose to reduce its efforts in this area as one means of achieving a 3.7 percent General Fund reduction required by the Department of Finance. The Department of Justice advises that the remaining staff will address the prison crimes workload by limiting the number of cases accepted for investigation, prioritizing cases for prosecution purposes, and allowing a backlog of prison crime cases to develop.

According to the Department of Corrections the prison population will reach 34,775 inmates by the end of the budget year. This represents a 13 percent increase over the number of State prisoners expected at the end of the current year. As prison population continues to grow, and the problem of overcrowding within the institutions worsens, it is likely that the number of incidents requiring investigation and prosecution will increase at an even faster rate.

It is not clear that the prison crimes prosecution program will be able to respond adequately to increased incidents of prison violence if the unit's staff is reduced by nearly 50 percent. While there is legislation pending (AB 485) which would transfer prosecution responsibilities from the Attorney General back to the district attorneys, the proposed staffing level may not be adequate to meet the ongoing prosecution workload, if the measure is not enacted.

So that the Legislature will have sufficient information on which to evaluate the department's proposed staff reduction, we recommend that the department report to the fiscal committees prior to budget hearings on the ability of the reduced prison crime program staff to respond to anticipated workload.

DEPARTMENT OF JUSTICE—Continued**Department Fails to Implement Paralegal Plan in its Criminal Law Division**

We recommend the department begin to implement its paralegal plan in the Criminal Law Division by adding three paralegal positions, and deleting three attorney positions and related clerical staff, for a General Fund savings of \$105,000 (Item 0820-001-001).

In 1979, an Auditor General study concluded that a significant portion of the department's legal duties could be delegated to paralegals in order to relieve attorneys of routine legal work and allow them to devote a greater portion of their time to more complex legal matters. In the *Supplemental Report to the Budget Act of 1980*, the Legislature directed the department to develop a plan to increase its utilization of paralegals.

In response to the Legislature's request, the department conducted a study and developed a three-stage plan to increase its use of paralegals. The plan calls for (a) the establishment of a core of approximately 20 paralegals, (b) evaluation of the performance and cost-effectiveness of these paralegals after one year, and (c) establishment of an additional 10 to 20 positions if the initial program proves successful. The plan identifies specific units which have the greatest potential for paralegal use, indicates the number of paralegals that could be utilized in many of the units, and details the tasks which the paralegals could perform.

In the 1981-82 budget, the department requested 13 additional paralegal positions for the Civil Law Division to begin implementation of the paralegal plan. The Legislature approved 11 of the positions. With the addition of the positions, the civil law program is now authorized a total of 14 paralegal personnel and 252 attorney positions.

Although the department's plan also recommended additional paralegal staff for the Criminal Law Division, the department did not request any additional paralegal positions for this program. The division is currently staffed with 194 attorneys and two paralegals. The two paralegals were established prior to the development of the plan, and work on child support enforcement matters for the Department of Social Services. Specifically, they (a) organize and manage correspondence, (b) maintain a brief bank and legislative and regulatory files, and (c) assist in trial preparation, investigations, and witness coordination.

Our analysis indicates that the department has not begun to implement its paralegal plan within the Criminal Law Division, and as a result, it is not proposing to use its resources in the most cost-effective manner. We believe the department should proceed to implement the plan for three reasons. First, the department's study indicated that paralegals could be utilized to perform the following tasks, which are currently handled by attorneys:

- (1) assist with the management of the voluminous discovery in civil rights trials,
- (2) gather documentation and prepare responses to various types of writs,
- (3) review subpoenas, and collect and review records related to the Department of Corrections activities, and
- (4) assist with criminal trial preparation work.

Second, our analysis indicates that significant cost savings can be made if paralegals, instead of attorneys, perform routine legal work. This enables

the more expensive attorney personnel to concentrate on more complex legal matters. A paralegal position costs approximately one-half as much as an attorney, as shown in Table 8.

Table 8
Department of Justice
Legal Staff Cost Comparison

<i>Cost of One Position</i>	<i>Attorney^a</i>	<i>Paralegal</i>
Net personal services	\$39,894	\$21,656
Operating expenses and equipment	14,055	3,755
Totals	\$53,949	\$25,411
Estimated hourly billing rate	\$56.50	\$26.00

^a Deputy attorney general I, a position requiring one year experience.

Third, the department designed its paralegal plan so that an evaluation of the usage of paralegals in high priority areas could be performed before paralegal staffing was extended to all areas which potentially could utilize them. By delaying implementation of the plan, evaluation of paralegal usage in the Criminal Law Division cannot be performed and the cost savings from paralegal utilization will be further postponed.

Because of the potential cost advantages of increased paralegal usage, we recommend that the department begin to implement its paralegal plan in the Criminal Law Division. Specifically, we recommend an augmentation of three paralegal positions for the division, and a reduction of three attorney positions and related clerical staff, for a General Fund savings of \$105,000.

Pilot Program for Investigative Assistants

We recommend adoption of Supplemental Report language specifying that the department submit an evaluation of the investigative assistant pilot program to the Legislature by September 1, 1982.

In the 1981-82 budget, the department proposed to eliminate the California Narcotics Information Network (CNIN) because it had received federal funds to establish a multistate network that would assume the functions previously performed by CNIN. At that time, CNIN was staffed with six personnel, at a General Fund cost of approximately \$142,000. The department, however, requested that only three of the CNIN positions be abolished. It proposed to utilize the other three positions as investigative assistants in a one-year pilot program, at a General Fund cost of about \$95,000.

The proposal indicated that the positions would be utilized to perform routine non-investigative tasks currently performed by special agents. These tasks would include searching public records, serving legal documents, collecting data for statistical reports, and assisting in background investigations. The investigative assistants also would transport and inventory criminal evidence, inventory and schedule maintenance of equipment, and act as assistant rangemasters to transport ammunition, schedule marksmanship training and order supplies.

According to the department, the success of the pilot program should be measured by the increase in special agent time devoted to investigative or enforcement activity, rather than to more routine non-investigatory tasks. Our analysis indicates that if the program is successful, it should also result in cost savings by relieving special agents of routine non-investiga-

DEPARTMENT OF JUSTICE—Continued

tive duties and thus freeing the more expensive agent personnel to concentrate on more demanding investigative tasks. As shown in Table 9, investigative assistants cost less than half as much as special agent positions.

Table 9
Department of Justice
Investigative Staff Cost Comparison

<i>Cost of One Position</i>	<i>Special Agent I</i>	<i>Investigative Assistants^a</i>
Net personal services.....	\$28,077	\$20,110
Operating expenses and equipment	32,035	3,580
Totals	\$60,112	\$23,690

^a The department received authorization to utilize intelligence specialist personnel to fill the investigative assistant positions. Costs shown are for an intelligence specialist I.

Because the use of investigative assistants offers the potential for significant cost savings, a thorough assessment of the pilot program should be made. Therefore, we recommend adoption of the following supplemental report language:

"The Department of Justice shall submit an evaluation of the investigative assistant pilot program to the Legislature by September 1, 1982. The report should include workload and performance data, address the impact of the investigative assistants on special agent activity, and discuss the potential for increased utilization of investigative assistants in the Investigation and Enforcement Branch."

Fingerprint Identification Program

Program Description

The fingerprint identification program was established to (1) verify the identity of individuals through the use of fingerprint comparisons, (2) identify those individuals who have criminal histories, and (3) disseminate up-to-date criminal history records to state and local government entities. The program primarily serves law enforcement agencies, but also provides information to authorized agencies for employment, licensing, or certification purposes.

Generally, agencies submit fingerprint cards to the department which then searches a file of name cards, classifies the fingerprints, and searches a portion of its file of fingerprint cards for identical prints. If a match is found, senior fingerprint examiners verify the match and other staff locate the individual's criminal history file. After completing its search, the department sends either a copy of the person's records to the requesting agency or a notice indicating that the person has no criminal record.

With limited exceptions, licensing and employment agencies are charged a fee of \$6.55 for each applicant. Many agencies pass the costs on to the applicant.

Legislature Established Fingerprint Processing Deadline

In the *Supplemental Report of the 1981 Budget Act*, the Legislature directed the department to process fingerprints for security guard and alarm agent applicants that are submitted by the Bureau of Collection and

Investigative Services (BCIS) within an average of 10 working days (or 14 calendar days). This requirement is in addition to provisions of statute, which provide that (a) when a criminal justice agency supplies fingerprints, the department shall provide identification and criminal history data to the agency within 72 hours, and (b) whenever there is a conflict, the processing of criminal fingerprints and fingerprints for security guard and alarm agent registrations or firearms qualification permits shall take priority over the processing of applicant fingerprints.

The BCIS indicates that the prompt identification of applicants with criminal backgrounds is important for security guard and alarm agents because these applicants essentially are issued temporary licenses which allow them to work *before* the Department of Justice completes a criminal history search. Many other applicants receive their licenses and begin work only *after* the department completes its search.

Table 10 displays data on the department's processing time for security guard applicants. It reveals that the average processing time is approximately 15.4 calendar days for the security guards fingerprints surveyed by the department. Although this is not within the time limit established by the Legislature, the data indicates that the department is processing security guard fingerprints in approximately the same amount of time in which it processes criminal fingerprints for law enforcement purposes. The table shows that turnaround time for security guard applicants is significantly better than turnaround time for applicants in general. The BCIS advises that turnaround time has improved significantly in the current year.

Table 10
Department of Justice
Fingerprint Processing Time^a
(in calendar days)

<i>Date</i>	<i>Security Guards^b</i>	<i>Criminals</i>	<i>All Applicants</i>
7/17/81	N/A	16.7	25.1
8/14/81	13.3	13.0	27.5
9/18/81	16.2	15.6	18.1
10/16/81	18.9	15.4	17.4
11/13/81	13.3	18.3	20.6
Average processing time	15.4	15.8	21.7

^a Processing times are based on samples of fingerprints taken by the Department of Justice for the weeks beginning with the dates shown above.

^b Because of data limitations, the security guard data reflects only those guards with automated records, while figures for criminals and all applicants reflect those with automated and manual records.

The department advises that in cooperation with BCIS, it has recently developed a procedure which could significantly improve service to BCIS. The new procedures will involve a preliminary search of name files for security guard and alarm agent applicants. BCIS anticipates that it will be able to use preliminary identification data to expedite the license issuance process for a significant percentage of its applicants.

Improvements to Fingerprint Identification Program

We recommend the adoption of the following supplemental report language:

"The Department of Justice shall develop a plan to purge unnecessary applicant records from its name, fingerprint, and folder files, and

DEPARTMENT OF JUSTICE—Continued

submit the plan to the fiscal committees of the Legislature by September 1, 1982."

We recommend adoption of additional supplemental report language as follows:

"The Department of Justice, in consultation with licensing and employment agencies, shall develop and use purge criteria related to average employment, licensing, and license renewal eligibility periods for the major applicant groups, to ensure that a minimum of unnecessary applicant records are retained in department files."

The *Supplemental Report of the 1981 Budget Act* requested that our office conduct a study of the processing of criminal fingerprints, and security guard and alarm agent applicant fingerprints. Specifically, we were asked to suggest procedures to expedite the process.

Our analysis indicates that one major problem hampering the fingerprint identification program is that unnecessary applicant records are maintained in department files. This results in increased costs and a decreased responsiveness to the needs of law enforcement, employment, and licensing agencies.

In recent years the department has received approximately 500,000 requests per year under the applicants' identification program. The department advises that about 72 percent of the applicant names and fingerprints which are initially submitted for identification are retained in its files. Table 11 displays department estimates of the type of information currently maintained in its files for use in the identification program.

Table 11
Department of Justice
Identification Files

	<i>File Size</i>	<i>Number of Criminal Records</i>	<i>Number of Applicants Records</i>	<i>Percent Applicant</i>
Name file (Soundex)	11,000,000 cards	5,700,000	5,300,000	48%
Fingerprint file	6,800,000 cards	3,500,000	3,300,000	48%
Folder file.....	4,300,000 folders	3,300,000	1,000,000	24%

The department retains applicant records so that it can provide a subsequent arrest notification service to the agencies that submitted the applicant data. This service allows the department to provide a copy of the person's criminal record to any agency which may have licensed or employed the individual if an applicant is arrested at a later date.

In 1979, the Auditor General issued a report entitled *Changes Needed in the Department of Justice's Subsequent Arrest Notification Program*. The report described the results of an audit which found that 72 percent of the subsequent arrest notices in the sample were sent to applicant and employment agencies that were no longer interested in the individuals. The audit revealed that 36 percent of the notices were sent to agencies which had no record of the individual or had no interest in the subject beyond the initial application; 36 percent were sent to agencies which had an interest in the subject in the past but not at the time the notice was sent; and only 28 percent were sent to agencies which were interested in the subject.

The findings of this audit call into question the legality of the depart-

ment's subsequent arrest notice program. According to a Legislative Counsel opinion dated May 31, 1979, the department violates the law whenever it sends a subsequent arrest notification to an agency and the subject of the record is no longer an applicant for licensure or a licensee. The Auditor General's audit demonstrated that most of the notices which the department disseminated were in fact sent to state and local government agencies that have no right or need to know about individuals' contacts with the criminal justice system.

The audit results are also important because they suggest that most of the applicant records, which are retained in department files only for the purpose of providing subsequent arrest notification, are unnecessary. We can infer from the audit results that the department is storing millions of name and fingerprint records on people with no criminal involvement about whom state or local agencies have no right or need to know.

The Auditor General's report concluded that by storing unnecessary applicant records in its files, the department increases the costs of operating its identification program, and increases the time it takes to identify criminals for law enforcement agencies and applicants for licensing and employment agencies. To the extent that files contain unnecessary records, every single name or fingerprint search, whether for an applicant or a criminal, takes longer to complete and utilizes more personnel time. To the extent that millions of the records stored on applicants are unnecessary, the state unnecessarily incurs significant annual General Fund costs for criminal identification, and licensing and employment agencies must pay unnecessary additional amounts to check the criminal backgrounds of their applicants. Furthermore fingerprint turnaround time for law enforcement, as well as for licensing and employment purposes, is unnecessarily lengthened.

In addition, inclusion of unnecessary applicant records in department files causes the department to incur unnecessary costs when it automates its record systems. The department has partially completed the process of automating the name and folder files, and has been considering an automated fingerprint information system for several years. One of the major costs of automation projects is the cost of entering manual records into computer data bases. In the case of applicant files, the state incurs unnecessary costs to the extent that personnel are used to enter unneeded applicant records into its automated files.

Our analysis indicates that in order to reduce costs and improve turnaround time, the department's files should be purged of unnecessary applicant records. The cost of a purge could be offset by a short-term increase in fees to applicants. Chapter 1103, Statutes of 1981 (AB 347) specifically allows the department to add a surcharge to its fingerprint fees to fund maintenance and improvements to its identification systems. Therefore, we recommend adoption of the following supplemental language:

"The Department of Justice shall develop a plan to purge unnecessary applicant records from its name, fingerprint and folder files, and submit it to the fiscal committees of the Legislature by September 1, 1982."

Purge Criteria. Once the department purges its files, it will be important to ensure that any new records entered into the file are maintained only as long as licensing and employment agencies maintain an active interest in the applicants.

Under the existing system, an applicant record is removed from the files when an agency informs the department that it is no longer interested in

DEPARTMENT OF JUSTICE—Continued

the applicant. The department requires agencies receiving the subsequent arrest notification service to sign a contract in which they commit to notifying the department when they are no longer interested in an applicant.

The Auditor General's report, however, found that this requirement has been ineffective. At the time the study was performed, none of the surveyed agencies notified the department as soon as their interest in an individual ceased, and only six percent notified the department when they received a subsequent arrest notification after their interest in an applicant had ended. Chapter 269, Statutes of 1981 (AB 500), established in statute the requirement that agencies inform the department when their interest in an individual terminates.

Records are also removed from department files routinely, based on ongoing purge criteria. Current criteria call for removal of an employment applicant record when the subject of the record reaches the age of 67, and generally when a licensing applicant attains the age of 80 years. These criteria, however, are so lax that one department study estimates that applicant records are retained for an average of 30 years. In contrast, the criteria pertaining to persons with criminal records are as follows:

- Five-year retention period for records of misdemeanor arrests not resulting in a conviction.
- Seven-year retention period for records of misdemeanor arrests resulting in a conviction, and for records of felony arrests which do not result in a conviction.
- Retention until the subject of the record reaches age 70 for records of felony convictions.

These criteria indicate that when licensing agencies fail to notify the department that they are no longer interested in an individual, records of some licensing applicants are routinely retained in department files longer than those of convicted felons.

In 1979, the Auditor General recommended that the department develop strict purge criteria for applicant records because of the failure of licensing and employment agencies to notify the department when they were no longer interested in an applicant. The Auditor General proposed that (a) licensing applicant records be purged after the expiration date of each license unless the agency notifies the department of renewal or extension, and (b) employment applicant records not be retained because of the difficulties encountered in determining if applicants were hired and if they are still employed with the agency.

We concur with the Auditor General that stricter purge criteria are needed in order to ensure that records are not retained in department files far beyond the time in which a licensing or employment agency has an interest in an applicant. Therefore, we recommend the following supplemental language:

"The Department of Justice, in consultation with licensing and employment agencies, shall develop and use purge criteria related to average employment, licensing, and license renewal eligibility periods for the major applicant groups, to ensure that a minimum of unnecessary applicant records are retained in department files."

Eliminate General Fund Subsidy of Applicant Identification Program

We recommend that the department eliminate a General Fund subsidy of the applicant fingerprint program by increasing its revenues from fees by \$448,000 (Item 0820-001-017), resulting in a corresponding General Fund savings of \$448,000 (Item 0820-001-001).

As the number of applicant records in the identification files grows, the criminal identification program experiences increased costs and decreased turnaround time. Our analysis indicates that the applicant fingerprint fees do not reflect the full costs of the identification program to the department.

Funds are appropriated from the General Fund to the department to provide criminal history information to law enforcement agencies which is the primary responsibility of the identification program. The applicant program, however, was designed to be supported by fees sufficient to offset any department costs related to the program. The law provides that the department may charge a fee to a person or agency requesting the identification service, and that this fee should be sufficient to cover the cost of furnishing the information. These fees are deposited in the Fingerprint Fees Account, which is a special account within the General Fund. Each year in the Budget Act, funds are appropriated to the department to cover the costs of the applicant program. Any state agency required to pay the fee may charge the applicant a fee sufficient to reimburse the agency for this expense.

Our analysis indicates that the fee charged by the department fails to cover the full costs of the applicant program, thus resulting in a significant annual General Fund subsidy. The applicant fees are calculated to offset direct personnel costs and operating expenses of the applicant program, as well as departmental administrative overhead. By storing applicant records in its files, however, the department increases the costs to the General Fund of operating its criminal identification program. To the extent that files contain applicant records, every single name or fingerprint search takes longer to complete and utilizes more staff time. The fees do not reflect these costs.

The department recently estimated that the addition of 1.6 million fingerprint cards to its files results in an additional annual cost of \$224,000 to process ongoing criminal identification workload, due to the expanded file size. Because the number of applicant fingerprint cards in the identification files totals approximately 3.3 million, the department's data suggest that the General Fund costs resulting from the expanded file size totals approximately \$448,000 annually.

In order to eliminate a General Fund subsidy of the applicant fingerprint program, we recommend that the department increase its revenues from fees by \$448,000, permitting a corresponding General Fund savings of \$448,000. To the extent that the department purges inactive applicant records from its files, the amount of additional fee revenue required to avoid the General Fund subsidy should decrease in future years.

STATE CONTROLLER

Item 0840 from the General
Fund and various funds

Budget p. LJE 88

Requested 1982-83	\$46,366,000
Estimated 1981-82	46,574,000
Actual 1980-81	42,673,000
Requested decrease (excluding amount for salary increases) \$208,000 (-0.4 percent)	
Total recommended reduction	\$1,980,000
Recommendation pending	\$2,757,000

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0840-001-001—Support		General	\$41,916,000
0840-001-041—Support		Aeronautics Account, State Transportation	216,000
0840-001-061—Support		Motor Vehicle Fuel Account, Transportation Tax	1,960,000
0840-001-094—Support		Retail Sales Tax	121,000
0840-001-739—Support		State School Building Aid	292,000
0840-001-890—Support		Federal Trust	1,147,000
0840-001-970—Support		Unclaimed Property	714,000
Total			\$46,366,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Technical Issues. Reduce Item 0840-001-001 by \$417,000.* 107
 - a. Recommend reduction of \$47,000 to correct overbudgeting of Attorney General fees.
 - b. Withhold recommendation on \$1,441,000 requested for consulting services, pending receipt of additional information.
 - c. Recommend reimbursements be reduced by \$186,000 to reflect termination of audit activities.
 - d. Recommend reimbursements be reduced by \$184,000 to reflect anticipated savings.
2. Medi-Cal Reimbursements. Recommend that Department of Finance reconcile the difference between Department of Health Services and the State Controller's office. 109
3. California Fiscal Information System (CFIS). Withhold recommendation, pending receipt of additional workload information. 110
4. *Statewide Public Assistance Network (SPAN). Reduce Item 0840-001-001 by \$233,000.* Recommend deletion of amount associated with foreign language programming because justification for the request has not been submitted and county welfare offices may be able to provide these services more efficiently. 112
5. Statewide Public Assistance Network (SPAN). Withhold recommendation, pending approval of updated plan. 111
6. *OASDI Sick Leave Exclusion Program. Reduce Item 0840-* 113

- 001-001 by \$850,000 and 36 positions.* Recommend reduction to reflect termination of program.
7. *Bureau of Public Retirement Systems. Augment Item 0840-001-001 by \$9,000.* Recommend deletion of one actuary position for a savings of \$41,000, and augmentation of \$50,000 for an actuarial consultant needed to accomplish legislative intent. 115
 8. *Unclaimed Property Program.* Recommend enactment of legislation to eliminate advertising requirements. 116
 9. *Unclaimed Property Advertising. Reduce Item 0840-001-001 by \$48,000 and Reduce Item 0840-001-970 by \$441,000.* Recommend reduction of \$489,000 for advertising activities associated with the Unclaimed Property program because this is not a cost-effective means for returning unclaimed property to its owners. 116

GENERAL PROGRAM STATEMENT

The State Controller is the elected constitutional fiscal officer of the state. His responsibilities include those expressed in the Constitution, those implied by the nature of his office, and those assigned to him by statute. Specifically, the State Controller is responsible for (1) the receipt and disbursement of public funds, (2) reporting the financial condition of the state and local governments, (3) administration of certain tax laws including the inheritance and gift tax, and collection of amounts due the state, and (4) enforcement of the unclaimed property laws. The Controller also is a member of various boards and commissions including the Board of Equalization, Franchise Tax Board, Board of Control, State Lands Commission, Pooled Money Investment Board, and assorted bond finance committees.

The State Controller has 1,432.3 authorized positions in the current year. He has administratively established 29.0 positions, for a total of 1,461.3.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of \$46,366,000 from various funds for support of the Controller's office in 1982-83. This is a decrease of \$208,000, or 0.4 percent, from estimated current year expenditures. This, however, makes no allowance for the cost of any salary or staff benefit increases approved for the budget year.

In 1982-83, the General Fund will provide about 90 percent of the funding for the State Controller, with the balance coming from special and federal funds.

Table 1 identifies three major categories of budget changes: (1) baseline adjustments, (2) workload changes, and (3) program changes. The most significant adjustment to the baseline results from the expiration of about 88 positions. Approximately two-thirds of these positions were authorized on a limited term basis in previous budget acts. The other one-third were administratively established during the current year.

The budget proposes 68 new positions for the Controller's office. Of these, 45 are positions that were previously filled (that is, expiring limited-term positions or positions administratively established in the current year) and 23 are positions not previously filled.

Table 2 identifies the proposed level of expenditures and personnel-years for each of the major programs administered by the Controller's office.

STATE CONTROLLER—Continued

Table 1
State Controller's Office
Proposed 1982-83 Budget Changes
(in thousands)

	<i>OE&E</i>			<i>Funding Source</i>			
	<i>Personal Services</i>	<i>and Returns of Taxes*</i>	<i>Total</i>	<i>General</i>	<i>Reimbursement</i>	<i>Other State</i>	<i>Federal</i>
1981-82 revised budget.....	\$37,571	\$16,676	\$54,247	\$41,889	\$7,673	\$3,182	\$1,503
Baseline Adjustments:							
1. Legislatively established expiring positions	-1,663	-536	-2,199	-1,219	-555	—	-425
2. Administratively established expiring positions	-925	-621	-1,546	-216	-1,330	—	—
3. Merit salary adjustment	399	—	399	326	45	20	8
4. 2 Percent current year reduction.....	160	686	846	846	—	—	—
5. Other adjustments	-214	-38	-252	-958	544	101	61
Subtotals.....	-\$2,243	-\$509	-\$2,752	-\$1,221	-\$1,296	\$121	-\$356
Workload changes:							
1. Fiscal control	\$295	\$70	\$365	\$299	\$66	—	—
2. Local government fiscal affairs	376	103	479	—	479	—	—
Subtotals.....	\$671	\$173	\$844	\$299	\$545	—	—
Program changes:							
1. Low-Income Energy Assistance Program (PL 97-35)	100	250	350	—	350	—	—
2. CFIS Support-SCO Fiscal System.....	735	256	991	949	42	—	—
3. Statewide Public Assistance Network (SPAN)	307	293	600	—	600	—	—
Subtotals.....	\$1,142	\$799	\$1,941	\$949	\$992	—	—
Total 1982-83 Proposed Budget	\$37,141	\$17,139	\$54,280	\$41,916	\$7,914	\$3,303	\$1,147

* Operating Expenses and Equipment (OE&E).

Table 2
State Controller's Office
Program Summary
(dollars in thousands)

<i>Program</i>	<i>Personnel-Years</i>				<i>Expenditures</i>		
	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>	<i>New Personnel Requested</i>	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>
Fiscal control	749.1	805.4	792.2	(42.0)	\$27,217	\$29,991	\$29,936
Tax administration	220.6	252.4	243.0	(-6.0)	8,034	9,225	8,890
Local government fiscal affairs.....	92.4	109.1	108.8	(14.0)	3,575	4,160	4,481
Systems development	113.2	116.0	109.2	(2.0)	4,548	5,334	5,383
Unclaimed property.....	86.9	89.7	87.0	—	3,241	3,898	3,936
Refunds of taxes, licenses and other fees	—	—	—	—	29	30	30
Administration:							
Distributed to other programs	(47.5)	(48.4)	(46.5)	—	(1,700)	(2,097)	(2,097)
Undistributed.....	26.2	26.5	27.0	(10.0)	2,177	1,609	1,624
Totals	1,288.4	1,399.1	1,367.2	(62.0)	\$48,821	\$54,247	\$54,280
Reimbursements	—	—	—	—	-6,148	-7,673	-7,914
Net Program Totals	1,288.4	1,399.1	1,367.2	—	\$42,673	\$46,574	\$46,366

Five Percent Budget Reduction

In accordance with instructions from Department of Finance, many state agencies were required to reduce their 1982-83 baseline budgets by 5 percent. A \$1.7 million reduction in the budget for the Controller's office is proposed, pursuant to these instructions.

Retroactive Processing. The most significant component of the proposed reduction is a change in funding for 20 positions, with associated expenses of \$420,000. The Controller's office estimates that this is the number of positions associated with the processing of retroactive payroll documents. These documents provide for a change in a state employee's employment status and have an effective date falling in an earlier pay period. Such a change might involve disability, separation, or promotion.

In a report prepared for the Controller's office, the consulting firm of Price Waterhouse points out that submission of retroactive payroll documents by state agencies results in:

- Increased workload for the Controller's office;
- Inaccurate management information;
- Employee complaints because of late or inaccurate paychecks;
- Reduced level of internal accounting control.

Price Waterhouse estimates that 41 positions could be saved if state agencies submitted payroll documents on timely basis and retroactivity was totally eliminated. The report indicates, however, that only 47 percent of the workload associated with retroactive processing can be attributed to the lack of timely processing at the *department/campus* level. The remainder does not appear to be susceptible to management control.

In order to reduce the amount of retroactive processing required, the Controller is proposing to impose a fee on state agencies that submit retroactive documents. The budget anticipates that this will result in reimbursements equal to \$420,000, thereby permitting a corresponding reduction in General Fund support.

Details of the implementation plan for this activity will not be available until March 1, 1982. These details should include a precise definition of "retroactive documents," the fee schedule to be used, a description of the method to be used for charging departments *and* ensuring payment, and a plan for eliminating 20 positions if the reimbursements are not realized.

Technical Issues

We recommend that Item 0840-001-001 be reduced by \$47,000 to correct overbudgeting of legal services fees, for a corresponding savings to the General Fund.

According to Budget Letter No. 18, departments were to include specified amounts in their budget request for payment of fees charged by the Attorney General for legal services. Our analysis indicates that the Controller's office included \$47,000 in excess of the amount specified. On this basis, we recommend that this amount be deleted from the General Fund request to correct the overbudgeting.

We withhold recommendation on \$1,406,000 related to consultant and professional services—interdepartmental and \$35,000 related to consultant and professional services—external pending additional justification for these expenditures.

The budget proposes expenditures for consulting and professional services—*interdepartmental* of \$1,406,000. (This amount includes the Attorney General fees discussed above.) The detail provided to us by the

STATE CONTROLLER—Continued

Controller's office, however, shows that expenditures of only \$371,000 are in fact expected. The budget also proposes \$35,000 for consulting and professional services—*external*. This is \$982,000 less than the amount budgeted in the current year budget—\$1,017,000. The current year amount includes \$850,000 for legal services required in connection with the Howard Hughes estate, funds for expert witnesses in unclaimed property cases, and other outside consultants.

The Controller's office indicates that the budget as proposed is in error, in that the full amount for consulting services has been allocated incorrectly between interdepartmental and external services. However, because the Controller's office has not provided complete information to us as to how these funds will be spent, we have no basis on which to advise the Legislature as to the correct amount for each category. Therefore, we withhold recommendation on this item pending corrections to be made by the Department of Finance and the receipt of additional information as to the proposed expenditures.

Inaccurate Budgeting of Reimbursements

We recommend that reimbursements be reduced by \$186,000 to reflect more accurately the level of anticipated reimbursements during the budget year.

The budget is proposing to continue reimbursed services for several programs which will terminate during the current year. The program and dollar amounts are as follows:

California Coastal Commission	\$54,015
Department of Justice	50,283
Peace Officer Standards' and Training	64,820
CSU—Teale Costs	52,000
Total	\$221,118

On the other hand, the Controller's office has *underbudgeted* reimbursements which it expects to receive from PERS by \$34,847.

These technical adjustments to the reimbursement schedule result in a net reduction of \$186,000. We recommend that the reimbursements scheduled for the Controller's office be reduced by this amount, and that personal services, operating expenses and equipment expenditures be reduced by an equal amount.

Savings Not Recognized

We recommend a reduction in reimbursements of \$184,000 to reflect anticipated savings from more efficient mailing operations.

The budget is proposing to add six reimbursed positions for Medi-Cal disbursement activities, at a cost of \$145,397. These positions are needed because of the added workload resulting from the switch to four (rather than three) checkwrites per month. The Controller's office indicates that one of these positions, a mailing machine operator, will be able to improve quality control and increase the number of envelopes which include more than one warrant. This, in turn, will reduce postage and supply costs. The Controller's office expects to realize a *savings* of \$183,600 from using more efficient mailing operations. We therefore recommend that the scheduled reimbursement from Department of Health Services (DHS) be reduced by \$184,000 to account for the expected savings.

Discrepancy in Amount of Reimbursements for Medi-Cal Disbursements

We recommend that the Legislature ask the Department of Finance to explain the discrepancy between the amount included in the Department of Health Services' budget for Medi-Cal checkwrite services (\$2,218,000) and the amount identified in the budget for the Controller's office (\$1,837,929).

Item 4260-101-890 in the Department of Health Services budget proposes \$2,218,000 to reimburse the State Controller's office for disbursement services related to the Medi-Cal program. The Controller's office is projecting reimbursements of \$1,837,929 for these services, a difference of \$380,071. We recommend that the Department of Finance explain the difference between the Health Services budget and the State Controller's schedule of reimbursements.

FISCAL CONTROL

The Fiscal Control program seeks to assure the fiscal integrity of the state through a system of controls over the state's financial transactions and periodic reports on the state's financial condition and operations. As shown in Table 3, the program is carried out through four divisions: Accounting, Audits, Disbursements, and Payroll and Personnel Services.

Table 3
Fiscal Control Program
Summary by Element
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual</i> <i>1980-81</i>	<i>Estimated</i> <i>1981-82</i>	<i>Proposed</i> <i>1982-83</i>	<i>Actual</i> <i>1980-81</i>	<i>Estimated</i> <i>1981-82</i>	<i>Proposed</i> <i>1982-83</i>
1. Accounting Division:						
a. Control accounting.....	48.1	50.7	54.7	\$1,659	\$1,923	\$2,064
b. Financial analysis	17.9	22.0	24.0	667	794	901
2. Audits Division:						
a. Claim audits	43.8	55.0	60.9	1,154	1,479	1,577
b. Field audits	133.7	152.8	150.0	5,224	6,415	6,326
3. Disbursements Division:						
a. Disbursement services.....	122.1	130.2	136.7	7,390	7,980	8,309
b. Technical services	39.1	44.0	43.0	61	49	62
c. Less amounts distributed to other programs	—	—	—	(1,272)	(1,523)	(1,480)
4. Payroll and Personnel Services Division:						
a. Personnel services.....	116.7	127.0	112.9	4,389	4,207	4,063
b. Payroll services	227.7	223.7	210.0	6,673	7,144	6,634
Totals	749.1	805.4	792.2	\$27,217	\$29,991	\$29,936

Controller's Role in SB 90 Claims

Chapter 1406, Statutes of 1972 (SB 90), authorized the reimbursement of local governments for state mandated costs and lost sales and property tax revenues. Under Chapter 1406, local governments could submit claims for reimbursement only in cases where the mandating statute acknowledged an obligation on the state's part to cover the increased costs (or revenue loss) resulting from the mandate.

Chapter 1135, Statutes of 1977, significantly broadened the reimbursement program authorized by Ch 1406/72. It allows local governments to appeal to the Board of Control for reimbursement where (1) legislation contains a section disclaiming any state obligation to reimburse mandate

STATE CONTROLLER—Continued

costs or (2) legislation does not disclaim the state's obligation to reimburse but fails to provide an appropriation.

Legislation enacted in 1981 further broadened the reimbursement program. Chapter 100 (AB 777) provides that costs mandated on school districts by the courts, federal government and voter-approved initiatives are reimbursable through the Board of Control process. The Controller's office expects that its workload will increase by 150 claims per year as a result of this act.

The Controller's office has two functions with respect to payment of mandated cost claims. First, the Financial Analysis Bureau within the Accounting Division receives reimbursement claims from local governments and conducts a desk audit before making payment. Second, after payment, the Field Audit Bureau within the Audits Division selectively audits local governments to verify the validity of amounts claimed.

Reimbursements to local agencies and school districts for state mandated costs are budgeted at more than \$96 million for 1982-83.

Staffing Increase for Mandated Cost Desk Audits

We recommend approval.

In the current year, 9.5 positions are authorized for mandated cost desk audits performed by the Financial Analysis Bureau. Disallowances from these audits are estimated at \$17 million.

The budget is proposing that two permanent positions be added in 1982-83. This staffing increase corresponds to an expected increase in the number of claims audited, from 34,500 in 1981-82 to 37,000 in the budget year. Based on the expected workload increase and the effectiveness of this audit activity, we believe that the proposed two new positions are justified.

Staffing Increase for Mandated Cost Field Audits

We recommend approval.

During the current year, 10 audit positions are authorized for mandated cost field audits. The budget is proposing to reestablish three existing limited term positions on a permanent basis. These positions were added by the Legislature in 1980-81 for a two-year period, due to the cost-effectiveness of this program.

Field audit activity has produced a high recovery rate for costs audited to date. During the three-year period 1977-78 through 1980-81, the recovery rate averaged 40 percent and the total amount of General Fund recoveries exceeded \$23 million. For the same period, audit recoveries per auditor exceeded \$1.6 million. For the budget year, the recovery rate is estimated at 30 percent, and the amount recovered is expected to be in excess of \$7 million.

Because of the effectiveness of this program and the expected increase in mandated cost claims, we believe the continuation of these three positions is warranted.

California Fiscal Information System (CFIS) Development

We withhold recommendation on the request for 25 new positions and \$949,000, pending receipt of additional workload information.

The budget is proposing to add 25 positions in the budget year at a cost of \$949,000. These positions are requested in anticipation of increased

workload, most of which relates to development and implementation of the California Standard Accounting and Reporting System (CALSTARS).

Beginning in July 1981, 22 pilot agencies went "on-line" and began using the CALSTARS software package to implement a program cost accounting system. The current implementation schedule calls for an additional 23 agencies to begin using CALSTARS on July 1, 1982. The Controller's office anticipates a significant increase in workload due to the implementation of CALSTARS. It estimates that the total volume of transactions to be processed will increase by 10.3 percent, with the added workload occurring primarily in the Accounting, Audits, and Disbursements Divisions of the Controller's office. The heavy use of the State Expenditure Revolving Fund (SERF) is expected to contribute to a significant increase in workload and complexity in accounting procedures. Agencies are permitted to charge items against the SERF temporarily, before reconciling to program cost accounts at the close of the accounting period.

Our review of the Controller's request indicates that the anticipated increases in workload have not been adequately substantiated. Information submitted by the Controller's office fails to show the basis for the projected 10.3 percent increase in transaction volume. It also does not separate the impact of program cost accounting on workload from the normal growth in transaction volumes.

The Controller's office has indicated that this information will be available prior to budget hearings. We withhold recommendation on this request until the additional workload data are available.

Staffing for Statewide Public Assistance Network (SPAN)

Chapter 282, Statutes of 1979 (AB 8), requires the Department of Social Services to implement an automated, centralized delivery system for payment of various public assistance programs. Currently, the State Controller's role in these public assistance programs consists only of periodic disbursement of funds to each *county*. The county is then responsible for disbursing funds to each recipient. Under the SPAN concept, the Controller's office would take over the county's responsibility and provide individual check disbursement to aid recipients.

During 1981-82, six positions were administratively established to provide planning and liaison support to the Department of Social Services. The Controller's office was reimbursed for 90 percent of the cost of these positions. The remaining 10 percent of the funding was provided by the Controller's office through existing resources, for a total cost of \$231,313. The budget is proposing to continue these six positions and add four positions to accelerate the development of the Controller's related disbursement system. This proposal would cost \$600,000, of which \$233,000 is intended to fund foreign language programming efforts. These costs would be fully reimbursed by DSS.

Feasibility Study Report Not Yet Complete

We withhold recommendation on 10 reimbursed positions, pending acceptance of an amended Feasibility Study Report (FSR) to be completed by the Department of Social Services (DSS) relating to implementation of SPAN.

The SPAN program has experienced great difficulty in meeting implementation timetables. For instance, operations were scheduled to be-

STATE CONTROLLER—Continued

gin with five pilot counties in August 1982. However, the schedule has been revised, and DSS now anticipates that operations will begin with four pilot counties in January 1983. Because the DSS is in the process of amending the FSR for this program, and refining the issuance requirements which the Controller's office must meet, it is not clear that even the revised schedule is realistic. Further, in the absence of the final issuance requirements, we have no basis to evaluate the Controller's request for resources to implement this program. Accordingly, we withhold recommendation on this program, pending acceptance of the FSR by the Department of Finance.

Foreign Language Programming Not Needed

We recommend that reimbursements from DSS be reduced by \$233,000 related to foreign language programming.

The budget proposes a special item of expense in the amount of \$233,000 to support foreign language programming. Currently, welfare recipients receive a form, CA 7, with their aid payment, which must be filled out and returned by the individual. The recipient uses this form to report earned income for the preceding pay period. This information is used by the counties in calculating the benefits to which the recipient will be eligible during the next benefit period. If aid recipients do not speak English, they can bring their CA 7 form to the county welfare office where interpreters assist them in completing the form. Under the SPAN program, the CA 7 forms would be mailed by the State Controller's office to the recipients, along with the warrants. The Controller's office is planning to provide the CA 7 form printed in eight foreign languages plus English. The office estimates that it will cost \$233,000 for it to develop the ability to provide and process these forms, as the form must be machine readable.

The Controller's office has not provided any information which details the purpose for which these funds would be used. Thus, we do not know whether they would be used for consultant services or to purchase additional equipment. Further, it is not clear that this proposal is the most cost-effective means of servicing non-English-speaking clients. County welfare offices might be able to continue providing interpretative services more effectively, since specific language requirements may vary from one county to another. For these reasons, we recommend that the reimbursement from DSS be reduced by \$233,000. (See Item 5180 for further discussion of this issue.)

Low Income Energy Assistance Program (LIEAP)

We recommend approval.

Public Law 97-35 authorized the Office of Economic Opportunity (OEO) to distribute federal funds to low-income families, to assist them in paying their energy bills. In 1981-82, OEO entered into an agreement with the State Controller's office (SCO) to provide magnetic tapes containing recipient information to be used in the disbursement process. This information is processed to produce individual warrants and the related accounting and control records. The Controller's office mails the warrants to the recipients and provides any necessary follow-up.

In the current year, 4.0 positions were administratively established for this function at a cost of \$350,000. These costs are fully reimbursed from OEO. The budget is proposing to continue these four positions, and to add

two new positions on a one-year limited term basis at the same funding level. The 1982-83 expenditures will also be funded by reimbursements from OEO.

We believe that the additional workload required by LIEAP (1.1 million warrants annually) is sufficient to justify the addition of these reimbursed positions.

Personnel and Payroll Services Division Augmentation

We recommend approval.

The Payroll and Personnel Services Division (PPSD) is responsible for payroll processing and maintenance of the personnel records for all state employees.

The budget is proposing to permanently reestablish five positions to staff the User Acceptance Unit of the Uniform State Payroll System. Three of these positions provide maintenance and development support to the Payroll System. As a result of converting the payroll system from Phase I to Phase II in 1980-81, 400 system problems were identified which required analysis and correction. At the present time, 270 problems remain unsolved. In addition, recent changes in reporting requirements regarding contributions to the Public Employees Retirement System and the development of the State Expenditure Revolving Fund (SERF) process have increased workload in this section.

The remaining two positions are proposed to accommodate analytical and system development efforts related to collective bargaining activities. For example, the section is developing a process to identify, cancel and preclude payroll deductions for employees who are represented by an exclusive bargaining agent. It is also preparing for the review and analysis of proposed memoranda of understanding (MOUs) and development of bargaining strategies on items affecting the Payroll System, such as frequency of pay, premium pay rates or out-of-classification pay.

Based on the workload increases attributable to the Payroll System conversion and ongoing collective bargaining activity, we believe these positions are justified and recommend that they be approved.

Elimination of OASDI Sick Leave Exclusion Program

We recommend that 36 positions be deleted because the OASDI Sick Leave Exclusion program has been eliminated, for a reduction of \$850,000.

Public Law 97-123 was signed by President Reagan on December 29, 1981. This act eliminated existing provisions of law which allowed employers to classify compensation paid to employees absent on account of personal sickness as other than taxable wages for purposes of making OASDI contributions. As a result, the OASDI Sick Leave program established by Ch 1202/79 and Ch 491/79 became inoperative. Final payments to state employees were disbursed in December 1981. Total phase-out of the program will be completed by June 30, 1982.

The budget proposes to continue 27 permanent positions for this program. Ten of these positions are located in the Disbursements Division and 17 positions are assigned to PPCSD. In addition, nine limited-term positions are located in the Systems Development Division. Since these positions were established to administer a program which is no longer operative, we recommend that 36 positions be deleted, for a General Fund savings of \$850,000.

STATE CONTROLLER—Continued**TAX ADMINISTRATION**

We recommend approval.

The Tax Administration program administers the Inheritance and Gift Tax Laws, collects various minor taxes, including the insurance tax and motor vehicle license tax, and refunds gas taxes paid for certain nonhighway users. Table 4 provides a summary of the personnel-years and expenditures for the four elements of this program.

Table 4
Tax Administration
Summary by Element
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>
1. Inheritance tax.....	161.2	194.9	189.2	\$6,100	\$7,098	\$6,735
2. Gift tax.....	28.7	26.1	23.3	869	900	836
3. Tax collection.....	3.9	8.0	7.7	80	282	310
4. Gas tax refund.....	26.8	23.4	22.8	985	945	1,009
Totals.....	220.6	252.4	243.0	\$8,034	\$9,225	\$8,890

Inheritance and Gift Tax Initiatives

Two initiatives, which will appear on the June 1982 ballot, provide for the abolishment of the Inheritance and Gift Tax Laws. The initiatives would allow the state to continue to levy a "pickup" tax equal to the state death tax credits provided by federal estate tax laws. The effect of this provision would be to provide the state a portion of the estate taxes which would otherwise go to the federal government.

Inheritance tax payments are considered delinquent and assessed a penalty charge nine months after the date of death. Due to the payment patterns characteristic of the inheritance tax, the initial effect of these initiatives, if approved by the voters, would not be felt before March of 1983.

If these initiatives are approved by the voters, we anticipate a minor undeterminable administrative cost savings in the Controller's office during 1982-83.

LOCAL GOVERNMENT FISCAL AFFAIRS

The Local Government Fiscal Affairs program is responsible for (1) prescribing accounting and budgeting requirements for counties and special districts and reporting local government financial transactions, (2) reviewing and reporting on the use of state gas tax funds, (3) approving county cost plan allocations, (4) administering state law regarding property tax delinquencies, and (5) administering portions of the Senior Citizens' Property Tax Postponement program. Table 5 summarizes the activities for the five elements in this program.

Table 5
Local Government Fiscal Affairs
Summary by Element
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>
1. Financial information.....	28.1	30.5	30.3	\$1,214	\$1,134	\$1,297
2. Streets and roads.....	32.3	46.4	46.6	1,217	1,905	1,887
3. County cost plans	9.7	9.4	9.3	374	332	376
4. Tax dedeed land	8.1	9.3	9.2	254	321	372
5. Senior citizens' property tax post- ponement	14.2	13.5	13.4	516	468	549
Totals	92.4	109.1	108.8	\$3,575	\$4,160	\$4,481

Transportation Development Act Audits

We recommend approval.

In the current year, 14 positions were administratively established at a cost of \$470,262 to provide staff to perform Transportation Development Act (TDA) audits for counties and transportation planning agencies. The expenditures are fully reimbursed by the local agencies. The budget proposes to continue the 14 reimbursed positions at a cost of \$479,000. These positions would expire on June 30, 1984.

These audits help to ensure the propriety of expenditures made in conjunction with the TDA. It also enhances the accuracy and adequacy of the required financial transaction report. For these reasons, we believe the continuation of these positions is warranted.

Actuarial Expertise Still Required

We recommend that Item 0840-001-001 be reduced by \$41,000 and that one actuary position be deleted. We further recommend that this item be augmented by \$50,000 for consulting and professional services.

Chapter 928, Statutes of 1977 (as amended by Ch 388/78), requires all state and local public retirement systems (of which there are approximately 100) to submit annual financial reports to the State Controller. Further, the Controller is required to review this data in an annual report, giving particular consideration to the adequacy of each system's funding and any assumptions regarding such variables as inflation rates, salary and wage increases, mortality rates, and rates of return on investments. The Legislature's intent in enacting these requirements was to safeguard the solvency of all public retirement systems and funds by providing for periodic and independent analysis of their financial condition.

The budget is proposing to permanently continue one actuary position administratively established in 1981-82. The 1981 Budget Act appropriated \$90,000 on a one-time basis to the Controller's office to contract with an outside actuary. The outside actuary was assigned to develop a uniform set of assumptions for assessing the financial status of retirement systems. Five plans were reviewed by the consultant and included in the financial transactions report for 1979-80. Ten additional studies will be completed in the current year, and these studies will be included in the 1981-82 report. Thirty plans will then remain to be reviewed.

The Legislature also reclassified an existing staff services manager II as an actuary, so that the position might develop the actuarial expertise

STATE CONTROLLER—Continued

needed to fulfill legislative intent with respect to the ongoing evaluation of retirement system solvency. The Controller's office has had difficulty recruiting qualified applicants for the position and anticipates that the position will remain unfilled. Given these problems, it appears that legislative intent can only be met if the Controller contracts with an actuarial consultant on an ongoing basis. Therefore, we recommend that Item 0840-001-001 be reduced by \$41,000 and one actuary position, and that the budget be augmented by \$50,000 for professional and consultant services.

UNCLAIMED PROPERTY

Through the Unclaimed Property program, the Controller (1) collects unclaimed property from holders of such property (financial institutions, corporations, and others) and (2) attempts to return the property to owners or heirs. Table 6 summarizes expenditures of the Unclaimed Property Division for the two program elements, abandoned property and estates with unknown heirs.

Table 6
Unclaimed Property
Program Summary
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>
1. Abandoned property	81.7	84.3	81.8	\$3,066	\$3,628	\$3,669
2. Estates of deceased persons	5.2	5.4	5.2	175	270	267
Totals	86.9	89.7	87.0	\$3,241	\$3,898	\$3,936

Advertising Costs

We recommend that legislation be enacted to eliminate the advertising requirements associated with the Unclaimed Property program. We further recommend that Item 0840-001-001 be reduced by three positions and \$48,000 and Item 0840-001-970 be reduced by \$441,000 for advertising costs and temporary help related to publication activities.

Section 1531 of the Code of Civil Procedure requires that the State Controller publish the owner's name, address, and dollar amount of unclaimed property which has escheated to the state. This requirement specifies that the publication occur *twice*. The first notice must appear 150 days after receipt of the property, and the second notice is published 90 days thereafter. These notices are published in newspapers in all 58 counties of California. The initial publication occurs *after* the individual has been notified at least two times by mail of the existence of the unclaimed property.

The budget is proposing \$441,000 to fund the cost of these advertisements and \$47,907 for temporary help to assist existing staff respond to telephone inquiries following publication.

The *Supplemental Report of the 1981 Budget Act* directed the State Controller to develop policies for limiting advertisements related to the location of owners of unclaimed property by insuring that *holders* of unclaimed property take every reasonable action to locate owners of the property. The State Controller's office has submitted a report responding to this directive (*Cost of Advertising Unclaimed Property*) to the Joint Legislative Budget Committee.

Our analysis of the report indicates that it is not responsive to the supplemental report language, for the following reasons:

1. The report concludes that no immediate changes should be made to unclaimed property advertising policies. The supplemental language report, however, requires that new policies and procedures *shall be developed* for limiting advertisements.
2. The report reviews *existing* policies and procedures concerning advertising activity but does not examine the development of *new or modified* policies that might reduce advertising costs.
3. The report does not address strengthening enforcement activities to ensure that *holders* of unclaimed property take every reasonable action to locate owners of such property before it escheats to the state.

Not only does this report fail to address the Legislature's concerns related to steadily increasing costs of advertising; it fails to provide adequate justification for continuation of duplicative notification procedures. The responsibility for returning unclaimed property should remain with the holders of such property, and we can find no analytic basis for continuing these expenditures which are supported by all taxpayers but benefit relatively few individuals. We recommend, therefore, that advertising and temporary help funds in the amount of \$488,907 be deleted from the Controller's budget.

Termination of Auditor Positions Warranted

We recommend approval.

Three unclaimed property auditor positions were changed from permanent status to limited term as a result of action taken by the Legislature during deliberations on the 1981-82 budget. Continuation of these positions was made contingent upon the outcome of a report required by the *Supplemental Report of the 1981 Budget Act*. The supplemental report required the Controller to study the costs and benefits of having regulatory agencies audit holders of unclaimed property.

The Controller's report makes two assertions regarding transfer of this audit function to other agencies:

1. Net revenues from unclaimed assets would not be enhanced.
2. The cost of auditing for unclaimed property would rise with no compensating economic or regulatory benefits.

Our review finds no evidence that either of these consequences would occur. Our *Analysis of the 1981-82 Budget Bill* indicated that this audit activity could be absorbed by regulatory agencies. Subsequent information provided by the Controller's office indicates in the *past*, it has audited the compliance of banking and savings and loan companies with unclaimed property laws. Because these institutions are now complying with the law, the Controller's auditing efforts are being redirected towards public utilities, insurance companies, department stores, and major retailers. Thus, there is no apparent need for *any* audits to be undertaken of financial institutions at this time, except on a spot basis. We believe that such limited audit activity can be performed most effectively by regulatory agencies.

In sum, the Controller's report does not justify continuation of the three limited-term positions, and they have not been proposed for continuation in the budget. Therefore, we recommend approval as budgeted.

STATE CONTROLLER—Continued**REFUNDS OF TAXES, LICENSES, AND OTHER FEES***We recommend approval.*

The budget proposes that \$30,000 be appropriated for refunds to taxpayers who have made erroneous payments or overpayments of taxes, licenses, and other fees. This mechanism avoids the delays and costs associated with claims for noncontroversial refunds filed with the Board of Control and included in the Claims Bill.

ADMINISTRATION*We recommend approval.*

The administration program provides executive direction, policy guidance, management, and support services to the operating divisions. Table 7 shows the expenditures for each element of this program.

Table 7
Administration
Program Summary
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Proposed 1982-83</i>
1. Executive office.....	20.3	20.0	20.0	\$1,026	\$1,040	\$1,121
2. Administrative services	53.4	54.9	53.5	2,851	2,666	2,600
3. Less amounts distributed to other divisions.....	-47.5	-48.4	-46.5	-1,700	-2,097	-2,097
Totals.....	26.2	26.5	27.0	\$2,177	\$1,609	\$1,624

STATE BOARD OF EQUALIZATION

Item 0860 from the General

Fund and various funds

Budget p. LJE 104

Requested 1982-83	\$77,745,000
Estimated 1981-82.....	72,207,000
Actual 1980-81	69,628,000
Requested increase (excluding amount for salary increases) \$5,538,000 (+7.7 percent)	
Total recommended reduction	\$1,759,000

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0860-001-001—Support		General	\$71,881,000
0860-001-019—Motor Vehicle Fuel Conservation and Energy Resources Surcharge		Energy Resources Conser- vation and Development Special Account, General	274,000
0860-001-022—Emergency Telephone Users Sur- charge		Emergency Telephone Number Special Account, General	70,000

0860-001-061—Motor Vehicle Fuel License and Use	Motor Vehicle Fuel Ac-	3,636,000
Fuel Taxes	count, Transportation Tax	
0860-001-965—Timber Yield Tax	Timber Tax	1,614,000
Total		<u>\$77,745,000</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. **Sales Tax Audits. Reduce Item 0860-001-001 by \$1,516,000.** 123
Recommend deletion of 66 proposed new audit positions, because they have not been justified on the basis of marginal net assessments.
2. **Delinquent Sales Tax Collections. Reduce Item 0860-001-001 by \$30,000.** 128
Recommend reclassification of five new business tax representative positions to office assistants in order to achieve a more cost-effective use of resources.
3. **Local Property Tax Monitoring. Reduce Item 0860-001-001 by \$57,000.** 130
Recommend consolidation of program with County Assessment Standards program, to reflect close relationship between these programs.
4. **Local Property Tax Monitoring. Reduce Item 0860-001-001 by \$45,000.** 131
Recommend elimination of appeals procedure element, because it is no longer needed.
5. **Local Property Tax Monitoring.** 131
Recommend enactment of legislation to repeal portions of existing law, thereby reflecting actual role of the program.
6. **State-Assessed Property. Augment Item 0860-001-001 by \$44,000.** 133
Recommend addition of one position for continued study of utility and industrial property transfers, because the benefits of such study exceed cost.
7. **Motor Vehicle Fuel Conservation. Reduce Item 0860-001-019 by \$219,000, and augment Item 0860-001-001 by \$63,000.** 134
Recommend elimination of program because the cost of gathering county-by-county gasoline consumption data far exceeds benefits. Further recommend legislation to repeal portions of existing law requiring board to gather this data.

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

About 95 percent of the board's staff is devoted to the administration of the state and local sales tax and several other excise taxes. Administration of these taxes includes registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration of local property taxes, and about 5 percent of its staff is engaged in those activi-

STATE BOARD OF EQUALIZATION—Continued

ties. The board's various responsibilities are described below.

Administration of State and Local Taxes. The board administers and collects the state's $4\frac{1}{4}$ percent sales and use tax, the local $1\frac{1}{4}$ percent sales and use tax, and a $\frac{1}{2}$ percent sales and use tax for the San Francisco Bay Area Rapid Transit District, the Santa Clara County Transit District, and the Santa Cruz Metropolitan Transit District. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax), and (5) the insurance tax. The board also administers (1) the private car tax, which is imposed on privately-owned railroad cars, (2) the surcharge on the consumption of electricity, (3) a telephone surcharge, which is used to fund the 911 emergency telephone systems, and (4) a pair of yield taxes on timber, at a current combined rate of 8.1 percent, which are imposed at the time of harvest.

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

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

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

Hazardous Substances Tax. The board (1) collects two taxes on the disposal of hazardous substances, (2) annually sets the tax rate for one of these taxes to maintain a \$10 million balance in the Hazardous Substance Account, and (3) periodically audits operators of dump sites and disposers of hazardous wastes to ensure payment of tax.

The board has 2,777.1 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of \$77,745,000 from various funds to support the State Board of Equalization in 1982-83. This is an increase of \$5,538,000, or 7.7 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefits increase approved for the budget year.

The budget requests a total of 2,876.3 authorized *positions* in 1982-83, an increase of 99.2 positions over the number authorized in the current year. Of these 99.2 positions, 39.7 are proposed to accommodate additional duties mandated by legislation passed in the current fiscal year, while the remainder are primarily to accommodate expected increases in workload.

The number of *personnel-years* associated with each program is shown in Table 1. Personnel-years are equal to authorized positions minus salary savings. In the current year, the board's salary savings are abnormally high, due to the 2 percent unallotment of funds ordered by the Governor to avoid a deficit in the General Fund. The board accommodated this reduction by increasing salary savings. Thus, while the board's budget proposes an increase of 99.2 positions, it requests funding for an additional 148.2 personnel-years. If allowance is made for the increased salary savings

in the current year, however, the number of personnel-years requested in the budget is only 95.2 higher.

Table 1
Board of Equalization Budget Summary
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Requested 1982-83</i>	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Requested 1982-83</i>
1. Local property tax monitoring	42.8	42.9	38.4	\$1,861	\$1,894	\$1,795
2. County assessment standards	60.8	57.3	63.6	2,603	2,619	2,919
3. State assessed property	91.7	90.6	89.4	3,453	3,597	3,702
4. Timber tax	34.3	39.2	38.9	1,312	1,525	1,614
5. Sales and use tax	2,177.0	2,216.5	2,350.5	71,671	75,508	81,461
6. Hazardous substances tax	—	—	9.7	—	—	352
7. Alcoholic beverage tax	34.9	35.1	29.3	977	1,121	1,003
8. Cigarette tax	12.3	12.3	10.4	1,303	1,411	1,564
9. Motor vehicle fuel license tax	12.6	12.9	17.4	455	484	581
10. Use fuel tax	87.9	90.1	93.9	2,720	2,973	3,055
11. Energy resources surcharge	1.5	1.6	1.5	51	60	55
12. Emergency telephone users surcharge	2.2	2.3	2.2	66	75	70
13. Insurance tax	1.9	1.9	1.9	76	81	84
14. Motor vehicle fuel conservation	—	7.2	7.2	—	252	219
15. Appeals from other governmental programs	14.8	16.9	20.7	661	799	978
16. Administration (undistributed)	1.8	—	—	231	185	132
Totals	2,576.5	2,626.8	2,775.0	\$87,440	\$92,584	\$99,584
Reimbursements	—	—	—	-17,812	-20,377	-22,109
Net Totals	2,576.5	2,626.8	2,775.0	\$69,628	\$72,207	\$77,475

Table 2 displays the major changes in the board's program budget between the current year and the budget year. Included in the total baseline adjustments of nearly \$3.7 million are \$1.5 million for price increases and \$0.6 million for the restoration of travel funds deleted in the current year as a result of Control Section 27.1 of the 1981 Budget Act. The program maintenance proposals, totaling \$2.3 million, include requested increases to handle workload changes in existing programs. Program change proposals, totaling \$1.0 million, include requests for funds to administer a new hazardous substances tax program and to process claims for refund of excess sales taxes paid on the sale of certain mobilehomes.

Table 2 also shows an increase of \$1.7 million in reimbursements, which is attributable to (1) increased payments made by cities and counties to reimburse the board for the increased costs of collecting the local share of the sales and use tax and (2) reimbursements provided from the De-

STATE BOARD OF EQUALIZATION—Continued

partment of Health Services for the costs of administering the new hazardous substances tax program.

Table 2
Board of Equalization
Proposed 1982-83 Budget Changes
(dollars in thousands)

	<i>Cost</i>	<i>Total</i>
1981-82 current year revised	—	\$72,207
1. Baseline Adjustments:		
A. Changes in cost of existing personnel—		
(1) Merit salary adjustments	\$1,176	
(2) Staff benefits	336	
Total, Increases in Cost of Existing Personnel	\$1,512	
B. Price increase	\$1,541	
C. Restoration of travel reduction (Sec. 27.10)	606	
Total, Baseline Adjustments		3,659
2. Program Maintenance Proposals:		
A. Business taxes—		
(1) Registration, processing, and collections	\$645	
(2) Audits	1,516	
B. Appeals from other agencies—		
(1) Franchise and income tax appeals	139	
Total, Program Maintenance Proposals	—	2,300
3. Program Change Proposals:		
A. Business taxes—		
(1) Hazardous substances (SB 618)	\$276	
(2) Mobilehome refunds (SB 492)	190	
(3) Gasoline tax rate increase (SB 215)	74	
(4) Diesel fuel tax rate increase (SB 215)	73	
B. Property taxes—		
(1) Timber tax microcomputer system	12	
(2) Auditing timber tax accounts	94	
(3) Change of ownership activity (AB 152)	323	
Total, Program Change Proposals		1,042
4. Increased reimbursements:		-1,732
Total, Support Budget Changes		\$5,269
Total, 1981-82 Support Budget		\$77,476

Five Percent Reduction

The Department of Finance required most agencies, in preparing their 1982-83 budget requests, to identify for reduction an amount equal to 5 percent of the General Fund support assumed in their baseline budget planning estimates. Restorations of all or part of the proposed 5 percent reduction, however, were approved by the department in those cases where the reduction would result in a loss of revenues exceeding the proposed savings.

In response to the department's directive, the Board of Equalization identified \$3.4 million in potential reductions. Of this amount, the department approved the restoration of \$2.85 million, resulting in a net reduction of \$555,000. This reduction consists of (1) savings resulting from extending the survey cycles of the Local Property Tax Monitoring Program and the County Assessment Practices Surveys from four to five years (\$320,000)

plus (2) a 50 percent reduction in the levels of audit coverage for Alcoholic Beverages Tax accounts and Cigarette Tax accounts (\$235,000). The effects of these reductions are discussed in detail in our analysis of the board's budget.

Revenues Administered by the Board

Table 3 shows estimated state and local revenue collections from programs administered by the board. Total revenues in the budget year are estimated at \$13.8 billion, which is an increase of 16.3 percent over estimated 1981-82 levels.

Table 3
State and Local Revenues
Collected by the Board of Equalization
(in millions)

	Actual 1980-81	Estimated 1981-82	Proposed 1982-83	Percent Change from Previous Year	
				1981-82	1982-83
State sales and use tax.....	\$7,131.4	\$7,745.0	\$9,055.0	8.6%	16.9%
Local sales and use tax	1,991.4	2,162.7	2,528.6	8.6	16.9
Alcoholic beverage tax	142.9	147.2	147.2	3.0	—
State cigarette tax.....	278.2	286.2	293.2	2.9	2.4
Local cigarette tax	119.2	122.7	125.7	2.9	2.4
Motor vehicle fuel tax (gasoline)	758.4	749.7	814.7	-1.1	8.7
Use fuel tax (diesel)	81.6	85.0	100.0	4.2	17.6
Energy resources surcharge.....	23.8	29.7	30.7	24.8	3.4
Emergency telephone users surcharge.....	15.8	15.8	15.8	—	—
Insurance tax	460.9	496.0	660.0	7.6	33.1
Timber yield tax	17.6	24.8	33.3	40.9	34.3
Private railroad car tax	8.3	6.0	6.1	-27.7	1.7
Totals	\$11,029.5	\$11,870.8	\$13,810.3	7.6%	16.3%

SALES AND USE TAX PROGRAM

Sales Tax Auditing

We recommend that funding for 66 new tax audit positions be deleted, because they have not been justified on the basis of their expected marginal net assessments, for a General Fund savings of \$1,516,000.

The budget proposes expenditures of \$81.5 million for administration of the sales tax program in 1982-83. This is \$6.0 million, or 7.9 percent, more than estimated current-year expenditures for this program. Of this \$81.5 million, \$39.7 million (48.7 percent) is proposed for auditing accounts of business firms subject to the sales and use tax.

Sixty-five new field audit positions are requested for 1982-83 in order to maintain the same coverage of accounts authorized for 1981-82. Of these 65 positions, 40 represent additional positions beyond the number authorized for 1981-82 and 25 represent the continuation of field audit positions which the Legislature approved on a limited-term basis, for 1981-82 only. In addition, the budget proposes one new audit position in the board's headquarters, for a total request of 66 new audit positions.

Legislature Endorsed Marginal New Assessment Criterion. Last year, the Legislature confronted this same issue when the Board of Equalization requested 25 new field audit positions in order to maintain the level of

STATE BOARD OF EQUALIZATION—Continued

audit coverage authorized in 1980–81. In our *Analysis of the 1981 Budget Bill*, we noted that the board's request for additional resources was not justified, given the board's failure to allocate its existing audit resources in the most productive manner.

In particular, we pointed out that, in order to maximize the productivity of its audit programs (as measured by the excess of net assessments over audit costs), the board should allocate its audit resources on the basis of the expected *marginal benefits* associated with additional audits. Thus, the board should rank all eligible accounts in groups according to the amount of net assessments in excess of costs which an audit of the accounts in each group might be expected to produce. Once the eligible accounts are so ranked, the board should place the highest priority on auditing those accounts for which the expected net assessments exceed by the greatest amount the costs of performing the audits.

In acting on the board's request last year, the Legislature concurred with our recommendation that the board's allocation of audit resources should be based on this type of marginal analysis, and adopted the following Budget Act language:

"Provided, that the State Board of Equalization shall use the effectiveness criterion of net assessments per dollar of cost for the purpose of audit selection and resource allocation processes and in reporting accomplishments to the Legislature. The board may use other criteria in evaluating the effectiveness of other aspects of the audit program. *The board shall select audits and allocate audit resources solely on the basis of incremental or marginal net assessments expected to be produced.* Nothing in this proviso shall require the board to individually rank each audit eligible account against all other eligible accounts or preclude the board from selecting audits for training purposes, or from allocating audit staff to verify claims for refund or to meet necessary management information needs." (emphasis added)

In addition, the Legislature approved the 25 audit positions requested by the board on a limited-term basis, for 1981–82 only, pending their justification on the basis of increased marginal productivity.

Legislative Intent Not Observed. Our analysis indicates that the Board of Equalization has not complied with the Budget Act language added by the Legislature. As noted, the board's request for additional audit resources is once again based on the board's desire to maintain a given level of audit coverage, rather than on an analysis of the expected marginal benefits and marginal costs of additional audits, as directed by the Budget Act language. Furthermore, the board has not revised its audit selection process to treat refund audits neutrally or to rank accounts on the basis of their expected marginal net assessment. In short, our analysis indicates that the board is continuing to allocate its *existing* audit resources in an inefficient manner.

In last year's *Analysis*, we observed that the board was contemplating two actions which offered the potential for bringing the allocation of audit resources more into line with the marginal net assessment approach described above. First, the board had begun a study to determine the ability of the field offices to rank accounts on the basis of their expected marginal productivity. Second, the board was intending to revise its audit selection process to treat refunds neutrally, adopting net assessments as the relevant measure of audit productivity.

Information provided by the board, however, indicates that the results of the marginal productivity study will not be available until some time in the spring of 1982. In addition, the board was unable to incorporate the neutral treatment of refund audits into its process of selecting accounts for audit during 1981-82. It intends to do so, however, for accounts to be audited in 1982-83. Thus, while the board is in the process of revising its method of allocating audit resources in order to comply with the Budget Act language in 1982-83, it has not done so in the current year.

Additional Audit Positions Not Justified. More importantly, our analysis indicates that the Board of Equalization has justified neither the retention of the 25 audit positions authorized on a limited-term basis for 1981-82 nor the authorization of 41 additional audit positions on the basis of their marginal productivity. As in previous requests for additional audit resources, the board maintains that the approval of additional audit positions would result in significant additional revenues to the state. And, as in previous requests, its estimate of the magnitude of these revenues is misleading because it is based on the *average* recovery from existing audits, rather than on the likely return from *additional* audits. Moreover, as we noted in last year's *Analysis*, the board's argument obscures the issue of whether the additional revenues could be generated without an increase in the number of auditors, by reallocating existing resources. Our analysis indicates that this is still highly probable, and that the General Fund need not incur the cost of the new positions to secure the additional revenue sought by the board.

For these reasons, we recommend that the 66 new positions requested for additional sales tax audits not be approved, for a General Fund savings of \$1,516,000. We further recommend that the Budget Act language adopted last year by the Legislature, cited above, be continued in the Budget Bill until the Board of Equalization presents solid evidence that it has complied with legislative intent.

Sales Tax Compliance Program

The sales tax compliance program involves registering taxpayers, filing enforcement, and collecting delinquent taxes. Table 4 presents the total staff and expenditure requirements for this program.

Table 4
Board of Equalization
Sales Tax Compliance Program

	<i>Personnel-Years</i>			<i>Proposed Expenditures</i>
	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	
Registration	487.5	507.1	517.2	\$15,240,000
Return processing	423.5	430.9	463.7	18,082,000
Delinquent tax collections	260.5	261.3	286.1	8,469,000
Totals	1,171.5	1,199.3	1,267.0	\$41,791,000

New Taxpayer Accounts Up

We recommend approval.

The budget requests 11 new positions in 1982-83 to register new sales taxpayers. Registration of new sales and use tax accounts is a mandatory activity of the board and must be performed before the potential taxpayer may lawfully engage in business. This program element includes processing new accounts, closeout and revocation activities, and revising registra-

STATE BOARD OF EQUALIZATION—Continued

tions to reflect mergers and sales. The relevant workload indicators for this program are shown in Table 5.

Table 5
Sales Tax Compliance Program
Taxpayer Registration

	<i>New Accounts</i>	<i>New Accounts Processed per Personnel-Year^a</i>
1976-77.....	157,179	425
1977-78.....	159,267	433
1978-79.....	161,236	447
1979-80.....	168,749	445
1980-81.....	188,229	487
1981-82 (est.).....	196,700	497
1982-83 (est.).....	205,500	507 ^b

^a Excludes headquarters support and administration overhead.

^b Governor's Budget proposal.

As shown in Table 5, the budget estimate assumes that the number of new taxpayer accounts will increase from 196,700 in 1981-82 to 205,500 in 1982-83, an increase of 4.5 percent.

This estimated rate of growth is conservative in comparison with the 11.5 percent growth experienced in 1980-81, and reflects an anticipated return to the more moderate rate of 1976-77 to 1979-80, when growth in new accounts averaged only 2.4 percent per year.

The budget estimate also assumes that, during this time period, productivity (as measured by the number of new accounts processed per personnel-year) will increase by 2 percent. This results in a need for 11 new positions to accommodate the workload growth. Our analysis indicates that, based on productivity gains achieved through the Business Taxes Consolidated Information System, the estimated 2 percent increase in productivity is reasonable. Accordingly, we recommend that the 11 new positions requested for this program in 1982-83 be approved.

Sales Tax Return Processing Workload Up*We recommend approval.*

The budget requests 15.3 positions in the board's headquarters and three positions in field offices to accommodate increased sales tax return processing workload. The 15.3 headquarters positions provided by the budget represent the full amount of additional resources requested by the board for headquarters workload increases. The workload estimates on which the board's request was based are shown in Table 6.

Table 6
Sales Tax Compliance Program
Tax Return Processing—Headquarters

	<i>Actual 1979-80</i>	<i>Actual 1980-81</i>	<i>Estimated 1981-82</i>	<i>Estimated 1982-83</i>
Sales tax returns	2,459,555	2,484,435	2,559,000	2,636,000
Other tax returns	552,491	596,184	643,100	694,800
Totals	3,012,046	3,080,619	3,202,100	3,330,800

As noted, the budget provides three additional field office positions for processing additional sales tax returns. The board originally requested 10 positions for this purpose, based on increases in the number of delinquent tax returns to be processed, as shown in Table 7.

Table 7
Sales Tax Compliance Program
Tax Return Processing—Field Offices
1976-77 through 1982-83

	<i>Number of Returns Filed</i>	<i>Delinquent Accounts</i>	<i>Percent Delinquent</i>	<i>Delinquent Accounts Processed per Personnel- Year^a</i>
1976-77	2,186,177	200,517	9.2%	2,017
1977-78	2,296,752	218,461	9.5	2,095
1978-79	2,368,920	239,977	10.1	2,095
1979-80	2,459,555	222,015	9.0	2,035
1980-81	2,484,435	228,454	9.2	1,995
1981-82 (est.)	2,559,000	242,185	9.5	2,115 ^b
1982-83 (est.)	2,636,000	249,472	9.5	2,127 ^b

^a Excludes headquarters support and administration overhead.

^b Governor's Budget proposal.

Table 7 shows the trend in field office productivity, based on the number of positions provided in the 1981-82 and 1982-83 budgets. The board's original request for 10 additional positions was based on processing an estimated 249,472 delinquent accounts in 1982-83 at the *1980-81 productivity rate* of 1,995 accounts per personnel-year. As the table shows, this level of productivity is unusually low in comparison with the productivity achieved in other years. Moreover, the board estimates that actual productivity in the *current* year will equal 2,115 accounts processed per personnel-year.

Assuming that the field offices will be able to achieve a productivity level of 2,127 accounts processed per personnel-year in 1982-83, the proposed increase of three positions should provide sufficient resources to process the additional delinquent accounts. Given an estimated productivity level of 2,115 accounts per personnel-year during the current year, the level of productivity assumed in the budget appears reasonable. Accordingly, we recommend approval.

Increased Workload from Mobilehome Refunds

We recommend approval.

The budget proposes nine limited-term (one-year) positions and \$190,000 to process additional claims for refund of sales tax overpayments related to the sale of mobilehomes. This increased workload is mandated by Ch 781/81 (SB 492).

In 1979, the Legislature exempted from the sales tax the value of certain nonvehicle items sold with mobilehomes, when the sale is accomplished through a broker. Examples of the items exempted include awnings, carports, patios, and landscaping. Although the exemption took effect January 1, 1980, the legislation also provided that claims could be filed for the refund of sales tax overpayments associated with sales occurring between January 1, 1977, and December 31, 1979. The Board of Equalization was

STATE BOARD OF EQUALIZATION—Continued

required to establish and administer a program to refund the overpayment of these sales taxes.

Ordinarily, the deadline for filing claims for refund would occur three years after the date of sale. Chapter 781, Statutes of 1981 (SB 492), however, extended the deadline until December 31, 1982. As a result of this extension, the board will experience additional workload associated with the verification and processing of refund claims during the budget year.

The board currently has approximately 1,200 claims for refund on file which must be processed under SB 492. In addition, the board estimates that it will receive 2,400 additional claims prior to the December 1982 deadline, for a total of 3,600 claims to be processed during the budget year.

Our analysis indicates that the board's request for additional resources is reasonable in light of this increased workload. Accordingly, we recommend approval.

Clerical Positions Appropriate for Collections

We recommend that five business tax representatives requested for collections be classified instead as office assistant I positions in order to achieve a more cost-effective use of the board's resources, for a General Fund savings of \$30,000.

The board has requested four office assistant I positions and five business tax representative I positions to collect delinquent sales taxes. During the past three years, delinquent accounts have been growing at an annual rate of about 7 percent. This trend is expected to continue in the budget year. The nine positions are requested to maintain a stable inventory of delinquent accounts.

Last year, the board requested 15 positions to accommodate the growth in delinquent accounts. Of these 15, the board proposed that 9 be business tax representatives, and 6 be office assistants. The requested staffing pattern reflected the existing use of resources among the board's 22 district offices.

In the *Analysis of the 1981 Budget Bill*, we noted that, while 10 of the board's district offices relied entirely on business tax representatives to make initial telephone contacts with delinquent taxpayers, the remaining 12 offices had been successfully using clerical personnel for this purpose. Our analysis indicated that the more economical use of resources practiced by these 12 offices could be expanded in the future. Accordingly, we recommended that the nine business tax representative positions requested by the board be reclassified to office assistants.

The Legislature, in acting on our recommendation, provided that use of clerical personnel for collections activity would be phased in, and reclassified five positions to office assistant I. Thus, of the 15 additional positions approved, 11 were office assistants and 4 were business tax representatives.

Our analysis of the board's request for the budget year indicates that once again the proposed breakdown between office assistants and business tax representatives reflects the *existing* allocation of collections personnel among the 22 offices, and ignores the Legislature's expressed desire to make greater use of clerical personnel in performing this function. Our analysis further indicates that the substitution of clerical personnel for business tax representatives in the collection of delinquent taxes continues to be justified as a more efficient use of the board's resources. Accordingly,

we recommend that five business tax representative positions be reclassified to office assistant I positions, for a General Fund savings of \$30,000.

LOCAL PROPERTY TAX MONITORING PROGRAM

The State Constitution requires the Board of Equalization to determine annually each county's "assessment level," and empowers the board to equalize those levels among counties.

Prior to the passage of Proposition 13, the board accomplished this task by appraising a sample of properties within each county every three years and reporting the countywide ratio of assessed value to full market value. During this period, the board's county assessment ratios played a key role in the allocation of state aid to local governments. These ratios were the basis of the "Collier Factors," which were used to allocate approximately \$2.25 billion in intergovernmental payments. The independent determination of county assessment ratios by the board was intended to reduce the effect of unequal assessment ratios among counties in the distribution of intergovernmental transfers, and to eliminate the incentive for counties to underassess local property for the purpose of capturing a larger share of the state disbursements.

With the enactment of Proposition 13, however, the assessed value of real property ceased to be based on its current full market value, except in cases of change of ownership or new construction. Consequently, the measurement of county assessment levels, as traditionally defined, is no longer meaningful. Further, because of the lack of certainty regarding proper assessment practices after the passage of Proposition 13, and because county assessors lacked experience with the new system, the Legislature chose not to include in the "bail-out" legislation any provisions similar to the old Collier Factors for adjusting local apportionments. It has been argued, therefore, that there is no need for the board to attempt to measure countywide ratios of actual assessed value to "full assessed value" under current law.

Role of Local Monitoring Program Reevaluated

As a result of the changes brought about by Proposition 13, and the uncertainty surrounding the need for continuing the Local Property Tax Monitoring program, the Legislature in the 1980 Budget Act approved funding for the program on a limited-term basis, for two years only. During this time period, the board was to reevaluate the role of the local monitoring program after Proposition 13.

Our analysis indicates that the board has changed the local monitoring program in two major ways. First, the program's emphasis has been changed from the computation of countywide measures of assessment conformity to investigating the quality of assessments of various types of property *within* each county. As a result, the primary purpose of the local monitoring program now is to provide input to the board's surveys of county assessment practices.

The assessment practices surveys, authorized by statute since 1947, are distributed to the county Board of Supervisors, the grand jury, the Governor, and the Legislature, as well as to the assessor whose office has been examined. These surveys have formerly emphasized the examination of the management of county assessors' offices. The authorizing statutes, however, also require the assessment practices surveys to report on the extent to which the county has achieved *intracounty* equalization. This issue is the focus of the new Local Property Tax Monitoring program.

STATE BOARD OF EQUALIZATION—Continued

The second major change in the local monitoring program concerns its scope, which has been greatly reduced in the years following Proposition 13's passage. When the results of the local monitoring program were used to apportion \$2.25 billion in state payments to local governments, a high level of accuracy in the measurement of assessment conformity was crucial. For this reason, the board employed a relatively large-scale sampling program. Given the local monitoring program's new focus as a discovery mechanism for the assessment practices surveys, the same level of accuracy is no longer needed. Hence, the size of the samples used by the local monitoring program has been reduced.

A further consequence of the change in focus of the local monitoring program has been a reduction in the frequency with which each county is surveyed, from once every three years to once every four years. The budget proposes to further lengthen the survey cycle, to once every five years. This five-year cycle coincides with that of the assessment practices surveys.

As a result of these changes, the local monitoring has been considerably scaled down, from 104.5 positions and expenditures of \$3.2 million in 1978-79, to 38.4 positions and \$1.8 million proposed in the budget for 1982-83. Our analysis indicates that the reduction in scope is reasonable in light of the changes in property tax law and assessment practices brought about by Proposition 13. The board's plan to use the local monitoring program as a means of enhancing the quality of its assessment practices surveys is a legitimate exercise of its authority under existing law. Further, to the extent that the surveys enable county assessors to correct practices which have resulted in the underassessment of property, the state will directly benefit through reductions in the cost of school apportionments. Preliminary results from the new local monitoring program indicate that this is highly probable.

While our analysis indicates that the new focus of the local monitoring program is a reasonable one, we have two recommendations for improving the efficiency and economy of the program. In addition, we recommend the enactment of legislation to bring existing law into conformity with the board's responsibilities after enactment of Proposition 13.

Consolidation of Functions Justified

We recommend that the Local Property Tax Monitoring program be incorporated into the County Assessment Standards program, to reflect the close relationship between these programs. We further recommend the elimination of one C.E.A. II position, for a General Fund savings of \$57,000.

As noted, the new role assigned to the Local Property Tax Monitoring program by the board calls for the program to provide input into the county assessment practices surveys. The 1982-83 budget further emphasizes this role by placing both the local monitoring program and the surveys on a common, five-year cycle.

Our analysis indicates that the board's organizational structure has not changed to accommodate the new relationship between the monitoring program and the surveys. In particular, the Local Property Tax Monitoring program continues to function as a separate entity with its own division chief, while the assessment practices surveys are part of the County Assessment Standards program, which has a separate division chief. By

placing the local monitoring program within the County Assessment Standards program to reflect the new organizational relationship between these programs, the need for one of these positions would be eliminated. Accordingly, we recommend that the board's organizational structure be changed to reflect the new role of the local monitoring program, and that one C.E.A. II position be eliminated, for a General Fund savings of \$57,000.

Appraisal Appeals No Longer Needed

We recommend that the appeals procedure element, located within the local monitoring program, be eliminated as a low priority activity, for a reduction of one position and a General Fund savings of \$45,000.

Prior to the adoption of Proposition 13, when the assessment ratios developed by the local monitoring program played a direct and important role in the allocation of state aid to local governments, county assessors often disputed the findings of the local monitoring program. When these disputes could not be resolved at the staff level, the board's Office of Appraisal Appeals offered an impartial forum in which the two sides could present their cases to a hearing officer of the board, who rendered a final decision.

Acting on our recommendation in the *Analysis of the 1980 Budget Bill*, the Legislature formally abolished the Office of Appraisal Appeals in the 1980 Budget Act. The Legislature did, however, allow the board to retain one hearing officer to arbitrate disputes arising out of the findings of the local monitoring program. The board argues that, by offering an impartial forum in which to resolve such disputes, the hearing officer enhances county assessors' acceptance of the local monitoring program's legitimacy.

Our analysis indicates that the formal appeals procedure is no longer needed. When the local monitoring program had direct consequences for the allocation of state aid to local governments, the appeals procedure provided an equitable means of resolving disputes between county assessors and the board. The results of the new local monitoring program, however, have no consequence for the allocation of state aid and are used solely as the basis for the assessment practices surveys.

We have examined the practices of other state agencies with oversight functions, notably the Office of the Auditor General, with regard to how disputes between the oversight agency and the party reviewed are resolved. The usual means of resolving these disputes is to allow the party to respond in writing to the recommendations of the oversight report, and to publish these responses as part of the report. We know of no reason why this approach would not also be applicable in the case of the Board of Equalization. For this reason, we recommend that the appeals procedure element be eliminated, for a General Fund savings of \$45,000.

Legislation Needed to Reflect New Role of Local Monitoring Program

We recommend that legislation be enacted repealing Sections 1813 through 1825 of the Revenue and Taxation Code, because they do not reflect the board's actual equalization functions subsequent to the passage of Proposition 13.

Sections 1813 to 1825 of the Revenue and Taxation Code prescribe generally the board's duties with respect to intercounty equalization. The statutes require the board to compute ratios of assessed to full market value every three years, and provide legal authority for the board's Office of Appraisal Appeals. As noted above, these sections of the code no longer accurately reflect the board's role in intercounty equalization, due to the

STATE BOARD OF EQUALIZATION—Continued

changes brought about by the passage of Proposition 13. Accordingly, we recommend that these sections of law be repealed.

COUNTY ASSESSMENT STANDARDS PROGRAM**Change of Ownership Duties Increased***We recommend approval.*

The budget proposes the addition of 11.1 positions and \$323,000 in order to process increased workloads associated with monitoring changes in ownership of real property. These workload increases are the result of additional duties mandated by the Legislature in 1981, through the passage of Ch 1141/81 (AB 152).

Under current law, county assessors must reassess real property at its full market value whenever a change of ownership occurs. Most such changes come to the attention of the assessor through the recording of deeds or other conveyances with county recorders, who provide the assessors with copies of these documents. The definition of change of ownership, however, also includes obtaining control of corporations, partnerships, or other legal entities. In such cases, the assessor has no simple discovery mechanism for identifying the change in ownership, as no legal documents are generally filed with the county recorder.

Recognizing these difficulties, the Legislature enacted Ch 1349/80, which requires the Franchise Tax Board to include on the income tax return forms for corporations and partnerships questions which would assist in identifying changes in control. Based on responses to these questions, names of those entities which may have undergone a change in control are sent to the Board of Equalization for further investigation and dissemination to county assessors.

In 1981, the Legislature expanded these provisions by enacting Ch 1141/81 (AB 152). In addition to the duties mentioned above, AB 152 requires the board to contact the entity in question and determine whether a change in ownership did, in fact, occur. If the board determines that there was a change of ownership, the assessors of the affected counties are notified of its finding. The legislation further requires the board to recommend penalties for nonresponse to requests for information regarding changes in control.

The board's request for additional resources is based on these expanded duties mandated by AB 152. In developing its workload estimates, the board has assumed that approximately 800,000 corporations, partnerships, or other legal entities will file income tax returns with the Franchise Tax Board in 1982. Of these, the board estimates that approximately 80,000 will involve potential changes in control, and that, following a preliminary screening, the board will send approximately 26,000 questionnaires to entities seeking additional information.

Our analysis indicates that this program will result in an unknown increase in local property tax revenues. To the extent that local property tax revenues are increased, the state will benefit directly through reductions in the level of K-12 school and community college apportionments. These apportionments are provided on a formula basis to make up the difference between the revenues needed by schools and the amounts actually raised by local property taxes. Thus, if local property tax revenues increase, the state apportionments decrease by the amount of such revenues used for school purposes.

We have reviewed the board's workload estimates and believe that they are reasonable, based on experience with this program to date. In addition, our analysis indicates that the board's request for additional resources is reasonable in light of this increased workload and the probability of positive fiscal effects. Accordingly, we recommend approval.

STATE-ASSESSED PROPERTY PROGRAM

Continued Study of Utility and Industrial Property Transfers Needed

We recommend an augmentation of \$44,000 and one position to enable the board to continue to study transfers of major utility and industrial property, because the benefits of this study exceed its cost.

The board's state-assessed property program is responsible for assessing certain properties which cross county boundaries, such as pipelines and properties owned by railroads and certain public utilities, for which state-wide assessment is preferable to assessment on a county-by-county basis. In assessing these properties, the board first calculates the value of the entire property as a unit and then apportions this value among the counties in which the property is located.

Property is typically assessed using one of three approaches to estimating value: (1) recent sales of comparable properties, (2) capitalization of income (in the case of income-producing properties), or (3) replacement cost less depreciation. Of these three assessment methods, the first—the market value approach—is preferred as giving the most accurate indication of a property's true value.

In the case of major utility and industrial property transfers resulting from corporate mergers or acquisitions, however, the assessment of the property by the market value approach is complicated by the relative infrequency of similar transactions within California. In such cases, reliable indicators of market value may be developed only through a nationwide examination of these transactions.

For this reason, the board requested and the Legislature approved in the 1980 Budget Act funding for a senior-level appraiser to conduct a study of major utility and industrial property transfers. Funding for the study was provided on a limited-term basis, for two years only, and expires in June 1982.

Our analysis indicates that the board's study of utility and industrial property transfers has been highly productive. In particular, this study has resulted in a comparative sales evaluation approach for transfers of major railroads. The methodology developed by the appraiser resulted in the reassessment of property owned by four major railroads from a value of \$1,150 million in 1980 to \$1,290 million in 1981—an increase of \$140 million in assessed value and \$1.4 million in property tax revenues. In addition, this study has resulted in improvements in the capitalization rates used in the income approach to valuation, and in the identification of new data sources from other states and the federal government for use in developing value indicators.

Based on these results, the board requested permanent funding for the senior appraiser position to permit the continued collection and analysis of current market data on utility and industrial property transfers. This request was returned by the Department of Finance without consideration.

Our analysis indicates that, based on the results produced to date, the investment in this position has been repaid many times over by the addi-

STATE BOARD OF EQUALIZATION—Continued

tional property tax revenues generated. Further, it is likely that the collection and analysis of market value data will continue to be justified by the additional tax revenues produced. Accordingly, we recommend an augmentation of \$44,000 and one position to continue the board's study of transfers of major utility and industrial property.

MOTOR VEHICLE FUEL CONSERVATION PROGRAM**Recommend Elimination of Program**

We recommend that funding for the collection of county-by-county data on monthly gasoline consumption by the board be eliminated, because the costs of gathering such data far exceed its benefits, for a reduction of 7.2 positions and a net savings of \$156,000. We further recommend that the Legislature enact legislation repealing Sections 25376 through 25378 of the Public Resources Code, which require the board to collect this data.

Chapter 1326, Statutes of 1980 (SB 1390), requires the board to collect county-by-county data on monthly gasoline consumption and forward it to the state Energy Resources Conservation and Development Commission (Energy Commission) and each county board of supervisors. This measure also authorizes county boards to impose gasoline sales restrictions. In addition, if consumption for three consecutive months is above 95 percent of the average monthly consumption during the base period July 1, 1977 through June 30, 1980, the Governor may impose odd-even or other sales restrictions.

The budget proposes 7.2 positions and \$219,000 from the State Energy Resources Conservation and Development Special Account of the General Fund to collect this data on gasoline consumption. Of this amount, \$156,000 represents costs directly attributable to the Motor Vehicle Fuel Conservation program and \$63,000 represents the program's apportionment of departmental overhead costs.

Our analysis indicates that the cost of this program far exceeds any possible benefit which might be derived from the data collected, for the following reasons:

- **Base Period Amount Not Known.** Although the Energy Commission is attempting to estimate consumption levels for each county during the July 1977 to June 1980 base period, data on actual gasoline consumption is unavailable.
- **Monthly Consumption Data Not Available in a Timely or Accurate Manner.** Because of the inevitable time lags in the gathering and processing of the monthly consumption data, the board is unable to supply the data to counties any earlier than two months following the end of the month surveyed. In addition, data gathered by the board to date has shown many reporting errors. Due to the extent and magnitude of the inaccuracies, the board has not yet released any gasoline consumption data to the Energy Commission.
- **Program Does Not Provide Reliable Indication of Need for Rationing.** Even if the Energy Commission were able to establish the amount of base period gasoline consumption, and if the board's monthly consumption data could be made available to counties in a timely and accurate manner, the program would still not provide a reliable indication of the need for gasoline rationing.

A shortage occurs when the demand for gasoline exceeds its supply at an essentially fixed price. Consumption data, in contrast, provide no information regarding the relationship of demand to supply. It is entirely possible, for example, that gasoline consumption could be far in excess of the base period amounts established by the Energy Commission, and yet no shortage existed, as long as supplies were plentiful and prices were not fixed. On the other hand, a shortage could exist with consumption levels at or even below the base period amounts, if supplies were restricted and prices regulated.

A much more simple and direct indicator of gasoline shortages is the presence of vehicle lines at gas stations. In the event of shortages, these lines would surely turn up long before counties received their monthly consumption data from the Board of Equalization. Since the deregulation of gasoline prices in 1980, however, any restrictions in supply will most likely result in higher prices rather than queues.

Our analysis indicates that elimination of this program would not reduce significantly the amount of information on statewide gasoline consumption. Under the Petroleum Industry Information and Regulation Act (Ch 1055/80), the Energy Commission gathers and distributes extensive information on petroleum supplies.

For these reasons, we recommend that funding for the Motor Vehicle Fuel Conservation program be eliminated. This would result in a \$219,000 savings to the Energy Resources Conservation and Development Special Account of the General Fund, and require an increase in General Fund expenditures of \$63,000, for a net savings of \$156,000. (The \$63,000 represents the amount of general departmental overhead costs, not directly attributable to the Motor Vehicle Fuel Conservation program, which are allocated to the program. It is a fixed cost associated with the board's operation and, hence, is not relinquishable.) We further recommend that the Legislature enact legislation repealing Sections 25376 through 25378 of the Public Resources Code, which require the board to collect the data on gasoline consumption.

MOTOR VEHICLE FUEL LICENSE TAX AND USE FUEL TAX PROGRAMS

Increased Fuel Taxes Workload

We recommend approval.

The budget proposes 11.1 limited-term (one- and two-year) positions and \$147,000 to process additional workload resulting from an increase in the taxes on gasoline (Motor Vehicle Fuel License Tax) and diesel fuel (Use Fuel Tax) from 7 cents per gallon to 9 cents per gallon. Of these 11.1 positions, 5.1 would be used to process an estimated 14,000 additional floor stock tax returns related to the increase in the Motor Vehicle Fuel License Tax. The remaining six positions would be used to notify Use Fuel taxpayers of the increased tax rate and to accommodate an anticipated increase in the number of errors in Use Fuel tax returns.

Chapter 541, Statutes of 1981 (SB 215) increases the taxes on gasoline and diesel fuel by 2 cents per gallon, effective January 1, 1983. To implement the tax increase on gasoline, a "floor stocks tax" of 2 cents per gallon is imposed upon gasoline distributed prior to January 1, 1983 on which the old tax of 7 cents per gallon has been paid. This floor stocks tax will be imposed on retailers and certain persons having in their possession 1,000 or more gallons of gasoline.

STATE BOARD OF EQUALIZATION—Continued

The Board of Equalization estimates that the assessment and collection of the floor stocks tax will generate a one-time workload increase of 14,000 additional tax returns to be processed, and will raise \$3 million in additional tax revenues. Based on existing workload standards, the board estimates that the processing of these returns will require 5.1 positions and \$74,000.

Taxes on diesel fuel, unlike those on gasoline, are based on the amount of fuel actually used in California, as reported to the board on a Use Fuel tax return. Thus, operators of diesel trucks pay the Use Fuel tax at the pump, but may apply for a refund of excess taxes paid if not all of the fuel purchased is used in California. Similarly, operators who purchase diesel fuel outside of California but drive their vehicles within the state are liable for Use Fuel taxes on the amount of fuel used in California.

Based on previous experience with changes in the Use Fuel tax rate, the board anticipates difficulties in effecting immediate compliance with the new tax rate, especially on the part of out-of-state truckers. The board therefore intends to use six positions and \$73,000 to notify 66,700 Use Fuel taxpayers of the increased tax rate, and to accommodate an anticipated increased error rate among the 206,000 Use Fuel tax returns filed.

Our analysis indicates that the board's request for additional resources on a limited-term basis is reasonable in light of the workload increases noted above. Accordingly, we recommend approval.

HAZARDOUS SUBSTANCES TAX PROGRAM*We recommend approval.*

The budget for the board proposes an expenditure of \$352,000 and 10.2 positions to administer the Hazardous Substances Tax program. This amount will be fully funded via a reimbursable contract with the State Department of Health Services.

Chapter 756, Statutes of 1981 (SB 618) requires the board to administer two taxes on the disposal of hazardous wastes. The statute took effect in September 1981 as an urgency measure. At the time this analysis was written, the board was awaiting final approval of funding to begin its mandated duties during 1981-82.

The first tax administered by the board, currently set at the rate of \$1 per ton, is imposed upon operators of dump sites and upon persons who dispose of hazardous waste on-site. Approximately 700 persons subject to this tax will be required to file monthly tax returns, and revenues generated by this tax will be deposited in the Hazardous Waste Control Account.

The second tax is imposed upon the approximately 10,000 individuals or firms who generate hazardous wastes. Persons subject to this tax are required to file a tax return with the board by March 1 of each year. Based upon a formula prescribed by the statute, the board will assess each person a tax such that the Hazardous Substances Account will show a balance of \$10 million at the beginning of each fiscal year.

Revenues from the Hazardous Substances Account and the Hazardous Waste Control Account will be used to regulate dump sites, clean up hazardous wastes, monitor health effects, and compensate victims. The program is described more fully in our analysis of the budget of the Department of Health Services (Item 4260).

The board's responsibilities under the act include the preparation of the tax return forms, registration of accounts, processing of tax returns, auditing accounts, and collecting delinquent taxes due. In addition, the board

is responsible for the computation of the tax rates associated with funding the Hazardous Substances Account, as described above.

The Hazardous Substances Tax program will be administered by the board's excise tax unit, and the budget request is based upon that unit's current workload standards. We have examined the board's request and believe that it is reasonable, given the level of workload assumed by the board. Because the program is new, any estimate of workload is necessarily tentative, and will be subject to change as the board acquires more experience with the program. Our analysis indicates, however, that the resources requested should be sufficient for the board to discharge its responsibilities during the budget year. Accordingly, we recommend approval.

TIMBER TAX PROGRAM

The budget proposes to spend \$1,614,000 from the Timber Tax Fund to administer the Timber Tax Program in 1982-83. This is an increase of 5.8 percent over the \$1,525,000 estimated to be spent in the current year.

The board establishes a schedule of timberland values for use in valuing timberland over the next three years, based on timber sales throughout the state. The board also develops a schedule of timber harvest values twice each year, to be used in valuing for tax purposes timber harvested. Finally, the board establishes the tax rates for the Timber Yield Tax and the Timber Reserve Fund Tax, which are 2.9 percent and 5.2 percent, respectively, for calendar year 1982. The revenues from these taxes, which are paid by timber harvesters, are returned to the counties in which they are raised.

Increased Audit Coverage Proposed

We recommend approval.

The budget requests three positions and \$94,000 from the Timber Tax Fund to increase the current level of audit coverage of timber tax accounts. The objective of this increased coverage is to enable the board to audit over a three-year cycle all of the 60 "largest, most complex accounts paying 90 percent of the total tax collected." The present level of coverage has allowed the board to audit only 20 (one-third) of these accounts during the past three years.

Our analysis indicates that these 60 large accounts are characterized by an expected return on audit coverage which far exceeds its cost. For example, in 1980-81, the estimated marginal cost per hour of a timber tax audit was \$60, while the average net assessment per hour associated with the 20 audits completed was \$240. Even after allowing for the fact that the productivity of marginal audits is probably less than the average productivity, it would still appear that *complete* coverage of these highly productive accounts is justified. Accordingly, we recommend that the three additional positions proposed in the budget be approved.

Microcomputer to Calculate Harvest Value Schedules

We recommend approval.

The budget proposes a one-time expenditure of \$12,000 from the Timber Tax Fund to enable the board to purchase a microcomputer. This computer will be used in the semi-annual computation of the harvest value schedules on which timber tax liabilities are based. The board estimates that, by calculating the schedules with the computer rather than using manual computations, eight-tenths of a personnel-year will be saved.

STATE BOARD OF EQUALIZATION—Continued

The board will then be able to direct this time to other, higher priority, uses such as field examination of taxpayer harvest reports and timber sales.

Our analysis indicates that the board's proposal will result in a more cost-effective use of its resources. Accordingly, we recommend approval.

ALCOHOLIC BEVERAGE TAX AND CIGARETTE TAX PROGRAMS**Alcoholic Beverage Tax and Cigarette Tax Audits Reduced***We recommend approval.*

In response to the Department of Finance's request for proposals to reduce its baseline budget by 5 percent, the board identified \$3.4 million in potential reductions. Of this proposed amount, the department approved the restoration of \$2.85 million, leaving a net reduction of \$555,000. The \$555,000 reduction incorporated into the budget includes \$235,000 in savings resulting from a 50 percent reduction in the levels of audit coverage authorized for alcoholic beverage tax accounts and cigarette tax accounts.

Our analysis indicates that, because of the low productivity of the alcoholic beverage tax and cigarette tax audit programs, the 50 percent reduction in the level of audit coverage proposed in the budget is appropriate. In particular, based on our examination of the audit productivity in these accounts, it appears that the current levels of audit coverage exceed the productivity-maximizing levels, in that the estimated marginal costs currently exceed the marginal benefits of additional audits.

In the alcoholic beverage tax audit program, the estimated marginal cost per hour of audit during 1980-81 is \$139, while the estimated *average* net assessment per hour is only \$67. The *marginal* net assessment per hour of audit coverage is probably significantly lower than this figure. As a result, at the current level of audit coverage, many of the audits conducted are costing more than they produce in additional net assessments.

A similar situation exists in the cigarette tax audit program. In 1980-81, the cigarette tax audit program produced \$2,735,000 in net assessments, at a cost of \$194,000. Of these amounts, however, \$2,645,000 in net assessments and \$14,000 in costs are attributable to the one-time impact of a federal court ruling that cigarettes sold on Indian reservations to non-Indians are subject to state tax. When the normal results of the cigarette tax audit program are isolated, the program generated an *average* net assessment per hour of \$47, at a marginal cost per hour of \$95. Again, the *marginal* net assessment per hour is probably significantly lower than the \$47 average net assessment.

In both the alcoholic beverage tax and the cigarette tax audit programs, then, the ratio of the marginal net assessment per hour to marginal cost per hour in 1980-81 was below 0.5—that is, at the margin, both of these audit programs were showing less than \$0.50 in net assessments generated per dollar of cost. As a result, both programs have been operating at a level of coverage which exceeds the productivity-maximizing point.

The productivity figures for the alcoholic beverage tax and the cigarette tax audit programs indicate that a reduction in the level of audit coverage is justified. Because the board is unable to provide estimates of the marginal net assessment associated with various levels of audit coverage, however, it is not possible to state precisely how great a reduction in audit coverage is appropriate. Absent this information, the 50 percent reduction in coverage proposed in the Governor's Budget appears to be a reasonable

"first cut" at reducing the level of audit coverage. Then, based on an examination of the productivity results achieved under the reduced level of audit coverage, it will be possible to determine next year whether further reductions or modest increases in audit coverage are needed to approach the point of greatest productivity. Accordingly, we recommend approval as budgeted.

APPEALS FROM OTHER GOVERNMENTAL PROGRAMS

Increase in Appeals from the Franchise Tax Board

We recommend approval of four positions to process the increase in taxpayer appeals of decisions made by the Franchise Tax Board.

The board hears taxpayer appeals of decisions made by the Franchise Tax Board. After a taxpayer files a notice of appeal, the board holds a hearing to resolve the issue presented by the appeal. The board has requested three attorneys and one legal stenographer to reduce the existing backlog and to handle the anticipated increase in the number of appeals from the Franchise Tax Board. The board's legal staff prepares memoranda concerning each appeal in preparation for oral hearings. After such hearings, the legal staff prepares a written opinion reflecting the views of the board members. The board's request is based upon an estimated 9.7 percent growth in the number of appeals filed for the current and budget years. This projection is conservative, in view of the 15.9 percent growth in appeals experienced for 1980-81. Accordingly, we believe the additional positions will be needed, and recommend that they be approved.

SECRETARY OF STATE

Item 0890 from the General

Fund

Budget p. LJE 136

Requested 1982-83	\$13,803,000
Estimated 1981-82.....	11,050,000
Actual 1980-81	11,625,000
Requested increase (excluding amount for salary increases) \$2,753,000 (+25.0 percent)	
Total recommended reduction	\$34,000
Recommendation pending	\$49,000

1982-83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0890-001-001—Support		General	\$11,873,000
0890-101-001—Local Assistance		General	1,930,000
Total			\$13,803,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Understated Postage Costs. Recommend Department of Finance report at the budget hearings on the adequacy of the proposed allowance for mailing ballot pamphlets.

142

SECRETARY OF STATE—Continued

2. Increased Staff for Uniform Commercial Code Program. 143
Withhold recommendation on \$49,000 for 3.4 positions, pending further information identifying personnel savings associated with implementation of a computer output microfilm system.
3. Voter File Purge. Recommend enactment of legislation 144
replacing existing requirements for purging voter files with the "positive purge" system, for an annual savings to the General Fund of \$450,000. Further recommend that the Secretary of State provide, prior to budget hearings, cost estimates for the recommendations made in her December 15, 1981 purge-effectiveness report.
4. *Unbudgeted Salary Savings. Reduce Item 0890-001-001 by 145*
\$15,000. Recommend that salary savings be calculated for new Limited Partnership program, for a savings of \$15,000 to the General Fund.
5. *Overbudgeted Cost-of-Living Adjustment. Reduce Item 145*
0890-101-001 by \$19,000. Recommend that local assistance cost-of-living adjustment be budgeted at 5 percent, rather than 7 percent, for a savings of \$19,000.

GENERAL PROGRAM STATEMENT

The Secretary of State is a constitutional officer. In addition to performing numerous duties prescribed in the Constitution, the Secretary has statutory responsibility for specified financial statements and corporate-related documents, statewide elections, campaign disclosure documents, notaries public and the state archival function. Activities necessary to carry out these responsibilities are conducted in six program units: (1) Corporate Filing, (2) Elections, (3) Political Reform, (4) Uniform Commercial Code, (5) Notary Public, and (6) Archives. Effective January 1, 1983, a seventh program element, Limited Partnerships, will be added to carry out the responsibilities mandated by Ch 807/81. A discussion of this new program appears on page 143.

The Secretary of State currently has 279.1 authorized positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations totaling \$13,803,000 from the General Fund for support of the office of the Secretary of State in 1982-83. This is \$2,753,000, or 25 percent more than current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The Secretary of State also anticipates receiving reimbursements of \$993,000 in special handling fees and \$530,000 under the Political Reform Act. Thus, the Secretary of State is proposing a total expenditure program of \$15,326,000 for 1982-83, which is \$2,833,000, or 23 percent, above the current-year level. Table 1 displays appropriations available for expenditure, by budget item, for 1980-81, 1981-82 and 1982-83. Table 1 also shows that activities of the Secretary of State will generate revenues projected at \$13,301,000 for the budget year. This represents an increase of \$2,282,000, or 21 percent over the current year.

Table 1
Secretary of State
Comparative Budget Statistics
1980-81 through 1982-83
(in thousands)

Schedule	Title	Actual 1980-81	Estimated 1981-82	Proposed 1982-83	Change 1981-82 to 1982-83	
					Amount	Percent
Secretary of State, Support (0890-001-001)						
(ab)	Secretary of State operations	\$6,989	\$8,099	\$10,139	\$2,040	25.2%
(c)	Oral History Project	105	105	—	-105	-100.0
(d)	Printing State Ballot Pamphlet	2,104	2,103 ^a	1,464	-639	-30.4
(e)	Mailing State Ballot Pamphlet	801	933	855	-78	-8.4
(f)	Printing, registration by mail	250	296	321	25	8.4
(g)	Postage, registration by mail	454	497	617	120	24.1
—	Presidential delegate mileage	2	—	—	—	—
Local Assistance (0890-101-001)						
(a)	Filing fees	319	24	376	352	1566.7
(b)	Registration by mail	800	600	642	42	7.0
(c)	Voter file purge	1,301	—	912	912	100.0
—	Subtotals, Available for Expenditure ..	\$13,125	\$12,657	\$15,326	\$2,669	21.1%
—	Allocation for employee compensation ...	\$627	\$413	unknown	-\$413	-100.0%
—	Estimated savings	-1,568	-544	—	544	100.0
—	Savings 27.1 Budget Act	—	-15	—	15	100.0
—	Governor's 2 percent mandatory decrease	—	-226	—	226	100.0
—	Legislative Mandates	271	75	—	-75	-100.0
—	Excess reimbursements	246	35	—	-35	-100.0
—	Allocation for price increase	—	98	—	-98	-100.0
—	Allocation for contingencies	86	—	—	—	—
—	Totals, Expenditures	\$12,787	\$12,493	\$15,326	\$2,833	22.7%
Secretary of State, Support						
(h)	Political Reform Act of 1974	-\$441	-\$528	-\$530	-\$2	-0.4%
(i)	Reimbursements	-721	-915	-993	-78	-8.5
—	Totals, Appropriations	\$11,625	\$11,050	\$13,803	\$2,753	25.0%
—	Revenue	\$10,305	\$11,019	\$13,301	\$2,282	20.7%

^a Appropriated amount. Current-year expenditure estimate is \$1,368,000. The \$735,000 in savings is represented below.

Five Percent Budget Reduction in 1982-83

The Secretary of State's 1982-83 baseline budget has been reduced by \$563,000, or 5 percent, in accordance with the Governor's action to reduce the baseline budget of most General Fund agencies. This reduction was achieved by returning to the use of newsprint, rather than a higher grade of paper, for printing the state ballot pamphlet. The Secretary of State traditionally has used newsprint for printing the ballot pamphlet, but market and production conditions were such that the Office of State Printing was unable to obtain newsprint for the last three statewide elections. Instead, "groundwood book stock" was used, which is higher quality paper and more expensive than newsprint.

In the current year, newsprint will be available for printing the 1982 primary ballot pamphlet, resulting in estimated savings of approximately \$735,000. In the budget year, savings associated with returning to the use of newsprint are estimated at between \$639,000 and \$786,000, or more than the amount needed to cover the 5 percent reduction. The excess is being redirected to fund program increases proposed for the budget year.

SECRETARY OF STATE—Continued**Secretary of State Operations**

The budget proposes an expenditure of \$10,139,000 for support of Secretary of State Operations. This is an increase of \$2,040,000, or 25 percent, over estimated current-year expenditures. More than one-half of this increase—\$1,145,000—is requested to implement the new Limited Partnership program established by Ch 807/81. The increase will also provide \$49,000 for 3.4 new clerical positions in the Uniform Commercial Code program, \$161,000 for nine new clerical positions in the Corporate Filing program, and \$21,000 for a microfilm technician for the archives. The remaining \$673,000 reflects price increases and increased operating expenses. Revenue increases associated with the added positions in the Uniform Commercial Code and Corporate Filing programs are expected to be \$152,000 and \$347,500, respectively.

State Voter Pamphlet

The budget includes \$1,464,000 for printing the state voter pamphlet for the November 1982 general election. This is \$639,000, or 30 percent, less than the amount appropriated for the June 1982 primary election in the 1981 Budget Act. This decrease is made possible by the availability of a less expensive paper.

Postage Costs Appear to be Understated

We recommend that the Department of Finance report prior to budget hearings on the adequacy of the allowance for mailing the ballot pamphlet.

The budget proposes an appropriation of \$855,000 to cover the cost of mailing the November 1982 ballot pamphlet to voters. Our review of information provided by the Secretary of State, however, indicates that postage for the 1982 general election ballot pamphlets will cost approximately \$966,000. This is \$111,000, or 13 percent, more than the amount proposed in the budget. In light of this projected shortfall, we recommend that the Department of Finance comment at the time of the budget hearings on the adequacy of the Secretary of State's proposed postage allowance.

Registration by Mail

Chapter 704, Statutes of 1975, redesigned the voter registration program to provide for "self-registration" through the use of postage-paid registration cards. The budget provides \$321,000 and \$617,000, respectively, for the printing and postage costs of the "self-registration" cards.

The cost for printing is projected to increase by \$25,000, or 8 percent, due to rising printing costs. Postage for the "self-registration" program consists of \$327,000 for mailing the cards to the registrant and \$290,000 for return postage. The total is \$120,000, or 24 percent, above estimates for the current-year. This increase is due to (1) increased postage rates and (2) an anticipated increase in the number of registrants and re-registrants.

State Funding for Oral History Project "Silenced"

Since 1974, the Secretary of State's budget has included funds to support the California Government History Documentation project, conducted by the Regional Oral History Office of the Bancroft Library, University of

California at Berkeley. The project preserves firsthand accounts of significant events in the state's legislative, administrative and political history. To date, the project has completed interviews for a series on the Earl Warren Era (1925-1953) and the Goodwin Knight-Edmund G. Brown, Sr., Era (1953-1966), and it is currently conducting research and interviews regarding the Ronald Reagan Era (1966-1974).

During the current year, \$105,000 was appropriated to the Secretary of State from the General Fund to support the California Oral History project. The Governor's Budget, however, does not request an appropriation for this project in the budget year.

New Limited Partnership Program

Effective January 1, 1983, Chapter 807 repeals the Uniform Limited Partnership Act and establishes in its place the California Limited Partnership Act. This act transfers to the Secretary of State from the various county recorders the responsibility for receiving, filing, and making available to the public certificates and other documents containing pertinent information regarding limited partnerships.

The Secretary of State is requesting \$1,145,000, 32 authorized positions and 14 personnel-years of temporary help to implement the Limited Partnership program in 1982-83. The staffing and workload projections are based on the Secretary of State's experience under its Corporate Filing program. Of the \$1,145,000 requested for 1982-83, approximately \$450,000 has been identified as a one-time expenditure and should not carry forward into the 1983-84 baseline budget. The Secretary of State projects that between January 1, 1983 and June 30, 1983, approximately \$1,865,000 in revenue will be generated from filing receipts and requests for information associated with the Limited Partnership program. This is \$720,000 more than estimated expenditures for the budget year.

Potential Savings from Computer Output Microfilm

We withhold recommendation on a proposed increase of \$49,000 and 3.4 positions for the Uniform Commercial Code program, pending implementation of a computer output microfilm system and receipt of further information regarding savings associated with this system.

The budget proposes an augmentation of \$49,000 and 3.4 positions for the Secretary of State's Uniform Commercial Code program, based on projected workload increases. This program receives, files and makes available to the public, financing statements which assure security interests in personal property. Currently, the filing of changes to a financing statement requires the manual pulling and refileing of the original document to verify that the proper document is being changed.

The Secretary of State is in the process of installing a computer output microfilm (COM) system. This system should be fully operational by February 15, 1982. Once implemented, COM will contain the basic data on filed financing statements, thereby eliminating the need to manually pull and refile an estimated 124,000 files a year. This increased efficiency should reduce staffing requirements. We withhold recommendation on the proposed increase of \$49,000 and 3.4 positions, pending receipt of a report from the Secretary of State on the personnel savings resulting from implementation of COM.

SECRETARY OF STATE—Continued**Cost-Effectiveness of Purging Voter Files**

We recommend that legislation be enacted replacing existing requirements for purging voter files with the "positive purge" system, for an annual General Fund savings of approximately \$450,000. We further recommend that the Secretary of State provide prior to the budget hearings a cost estimate for recommendations made in her December 15, 1981 report on purge effectiveness.

Current law requires counties to use one of two different systems for purging registered voters from the rolls. These are the "Marks Plan" (Ch 1401/76, as amended by Ch 780/77) and the "Residency Confirmation Plan" (Ch 3/78). The two plans are similar and both essentially establish a procedure for permanent registration whereby a registrant is purged only when the postal service returns ballot material and indicates that the voter no longer resides at the address. Both plans require the counties to provide an increased level of service, relative to prior law. Consequently, the state is obligated under the provisions of SB 90 to reimburse the counties for the costs of complying with this mandate. On an annual basis, the cost of reimbursing counties for the net costs of purging voter files in accordance with current law is \$450,000.

For the 10 years prior to the adoption of the "Marks" and "Residency Confirmation Plans", counties used the "positive purge" system for updating voter files. This system removed from the rolls those registrants who did not vote in the most recent statewide general election.

The *Supplemental Report of the 1981 Budget Act* requires the Secretary of State to evaluate and report on the effectiveness of the current purge systems. The Secretary of State has responded to this directive by issuing a report, entitled *Evaluation of Purge Effectiveness and Suggested Changes*. In her report, the Secretary of State indicates that the main objective of purging is to maintain an accurate voter file. The report concludes that the existing purge methods are ineffective because they result in a "deadwood" factor exceeding 7 percent. "Deadwood" in this instance refers to ineligible voters who remain on voter registration rolls.

In her report, the Secretary of State recommended that the "positive purge" be reinstituted following the statewide general election as a method for eliminating this deadwood. The Secretary of State further recommended that a preprimary purge also be conducted as a means of reducing the number of undeliverable state and local ballot pamphlets and sample ballots. The report, however, did not address the fiscal implications of the changes recommended by the Secretary of State.

Although the existing purge systems have increased the costs of maintaining voter registration lists, they do not appear to be effective in maintaining an accurate voter file. Because it cannot be demonstrated that these systems have produced benefits sufficient to justify the higher costs, we recommend that legislation be enacted providing for a return to the less-costly "positive purge" system. Such legislation would result in one-time costs for converting to the "positive purge" system, but it would eliminate the requirement that the state reimburse counties for the ongoing costs of purging voter files. This would result in annual General Fund savings of approximately \$450,000.

We further recommend that, prior to the budget hearings, the Secretary of State provide an estimate of the costs involved in implementing her

proposal to adopt a positive purge *and* conduct a preprimary purge. To the extent that the costs of conducting a preprimary purge would be offset by savings from mailing out a reduced number of ballot pamphlets and sample ballots, the Legislature may wish to consider providing for a preprimary purge in addition to a post-general election positive purge.

Unbudgeted Salary Savings

We recommend that salary savings be budgeted for the Limited Partnership program, for a savings of \$15,000 to the General Fund (Item 0890-001-001).

The Limited Partnership program contains support for 32 new positions, at an estimated cost of \$300,000 for salaries and benefits. Because the program does not become operable until January 1, 1983, funding for these positions is provided on a less-than-full-year basis. Specifically, 3 positions are funded for the full 12 months, 10 are funded for 8 months, 14 for 7 months and 5 for 6 months.

Because the positions would be phased in gradually, the Secretary of State did not calculate salary savings for these positions. The Department of Finance budget instructions, however, specify that in addition to vacancy adjustments, a minimum of 5 percent salary savings must be budgeted for new positions. Accordingly, we recommend that a 5 percent salary savings be budgeted for these positions, for an estimated savings of \$15,000 to the General Fund.

Overbudgeted Cost-of-Living Increase

We recommend a General Fund reduction of \$19,000, due to overbudgeted cost-of-living adjustments for local subvention programs (Item 0890-001-001).

The Governor has proposed that all discretionary cost-of-living adjustments be funded at 5 percent. The Secretary of State has two local assistance subvention programs, Signatures In Lieu of Filing Fees and Registration by Mail, for which the cost-of-living adjustment was budgeted at 7 percent. We have received no information which would justify a higher cost-of-living adjustment for these two election-related programs than that provided for other programs. Accordingly, we recommend that the cost-of-living adjustment factor for the Signatures In Lieu of Filing Fees and Registration by Mail programs be budgeted at 5 percent, rather than 7 percent, for General Fund savings of \$7,000 and \$12,000, respectively.

COMMISSION ON VOTING MACHINES AND VOTE TABULATING DEVICES

Item 0910 from the General
Fund

Budget p. LJE 146

Requested 1982-83	\$11,000
Estimated 1981-82	10,000
Actual 1980-81	6,000
Requested increase \$1,000 (+10 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Commission on Voting Machines and Vote Tabulating Devices is responsible for approving the use of new machines or devices, overseeing the operation of devices currently in use, and investigating and reporting on any alleged malfunctions of voting machine equipment. The commission consists of the Governor, the Secretary of State, and the Attorney General. The commission has no authorized staff positions but is authorized to employ expert electronic technicians or other consultants as needed to fulfill its duties.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$11,000 from the General Fund to support the commission's activities in 1982-83. This is an increase of \$1,000, or 10 percent, over current-year expenditures. The increase reflects rising operating expenses due to inflation.

STATE TREASURER

Item 0950 from the General
Fund

Budget p. LJE 147

Requested 1982-83	\$3,205,000
Estimated 1981-82	3,231,000
Actual 1980-81	2,354,000
Requested decrease (excluding amount for salary increases) \$26,000 (-0.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The State Treasurer has the following responsibilities:

1. Provide custody for all money and securities belonging to or held in trust by the state;
2. Invest temporarily idle state and other designated funds;
3. Pay warrants and checks drawn by the State Controller;
4. Prepare, sell and redeem general obligation and revenue bonds of the state; and
5. Prevent the issuance of unsound securities by irrigation, water storage and certain other districts.

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

The State Treasurer's office has 133.2 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$4,696,000 from the General Fund and reimbursements in support of the Treasurer's office in 1982-83. This is \$282,000, or 6.4 percent, more than estimated current year expenditures. This will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget request consists of (1) \$3,205,000 in General Fund support, which is \$26,000, or 0.8 percent, less than estimated General Fund expenditures in the current year, and (2) \$1,491,000 in reimbursements, which is 26.0 percent more than anticipated reimbursements in the current year.

The proposed budget reflects a 5 percent (\$168,000) reduction in General Fund support. This reduction consists of (1) the deletion of 1.0 personnel-year from the District Securities Commission, and (2) the reallocation of 4.0 personnel-years within the administrative program from General Fund support to reimbursements.

The request also provides increased reimbursements for 2.0 new clerical positions—an office assistant II and a personnel assistant I—within the administrative program. One of the positions will be a receptionist for the executive office and the other will provide additional support within the Management Services Division.

Table 1 shows personnel-years and expenditures for the Treasurer's office, by program element, for the past, current, and budget year.

Increase in Reimbursements

The budget anticipates a \$308,000, or 26 percent, increase in reimbursements over the estimate for the current year. This increase consists of the following:

1. A reallocation of \$144,000 and 4.0 personnel-years within the administrative element from General Fund support to reimbursements. Since January 1, 1981, the Treasurer has been appointed to and required to provide administrative support for eight new bond advisory commissions and financing authorities. The statutes require that the staff support provided to the various commissions is to be financed entirely through reimbursements. As these commissions have become operational, they have placed an increasing demand on the administrative program's General Fund support. The proposed reallocation of 4.0 personnel-years and \$144,000 of General Fund support to reimbursements properly identifies these program costs and allocates them to their appropriate funding sources.
2. \$41,000 for revenue bond trustee fees, resulting from an anticipated increase in the issuance of state revenue bonds by the new commissions and financing authorities.
3. An \$84,000 increase in the custodial costs of servicing the investments of the state retirement programs. Due to a change in investment patterns the Treasurer is anticipating an increase in the investment activity related to state retirement programs, which will result in an

STATE TREASURER—Continued

- increase in the custodial workload of the Treasurer's staff.
4. 2.0 new clerical positions and an increase of \$35,838 within the administrative program to provide additional staff necessary to meet the increased workload generated by the new commissions, and
 5. \$3,000 for other miscellaneous increases in reimbursable operating expenses and equipment costs.

Our analysis indicates that these additional amounts are reasonable.

Table 1
State Treasurer
Budget Summary
(dollars in thousands)

<i>Programs</i>	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1980-81</i>	<i>Authorized 1981-82</i>	<i>Proposed 1982-83</i>	<i>Actual 1980-81</i>	<i>Authorized 1981-82</i>	<i>Proposed 1982-83</i>
Bond sales and services	19.0	20.0	20.2	\$636	\$719	\$739
Investment services	8.9	8.2	8.3	479	553	573
Paying and receiving	50.0	55.1	55.4	1,607	1,918	2,042
Trust services	19.2	19.0	19.1	750	820	839
District securities division	7.2	7.4	6.5	345	383	390
Administration (distributed to other programs)	16.4	17.9	19.1	(686)	(821)	(809)
Administration (undistributed) ..	—	—	—	46	21	113
Totals	120.7	127.6	128.6	\$3,863	\$4,414	\$4,696
Reimbursements	—	—	—	1,509	1,183	1,491
General Fund	—	—	—	2,354	3,231	3,205

State and Consumer Services Agency
MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General
Fund

Budget p. SCS 1

Requested 1982-83	\$4,350,000
Estimated 1981-82	4,370,000
Actual 1980-81	3,352,000
Requested decrease (excluding amount for salary increases) \$20,000 (-0.4 percent)	
Total recommended reduction	\$169,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. **Utilities Expense. Reduce by \$54,000.** Recommend deletion of double-budgeted price increase for telephone, gas and electric service. 150
2. **Equipment. Reduce by \$16,000.** Recommend that funds donated for the Hall of Economics and Finance be used in place of state funds to purchase equipment for the new building. 151
3. **Salary Savings. Reduce by \$99,000.** Recommend a 6.9 per- 151