

UNALLOCATED CAPITAL OUTLAY

Item 9860-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. GG 242

Requested 1982-83	\$400,000
Recommended approval	400,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides \$400,000 for preliminary planning of projects proposed to be financed from the General Fund, Special Account for Capital Outlay, in 1983-84. The funds would be allocated by the Department of Finance. An item for this purpose has historically been included in the Budget Bill. The proposed amount would provide for approximately \$27 million in construction for new project proposals, assuming the historical ratio of planning to construction (1.5 percent). A program of this magnitude seems reasonable.

UNALLOCATED CAPITAL OUTLAY—REVERSION

Item 9860-495 to the General
Fund

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts the unencumbered balance under Item 494.1, Budget Act of 1979 to the General Fund. The 1979 Budget Act contained \$12 million—appropriated without regard to fiscal year—for an unallocated source to augment capital outlay construction projects. Use of these funds was limited to inflationary cost increases as approved by the Director of Finance and the State Public Works Board. According to the Department of Finance, there is an unencumbered balance of \$3,390,000 in this appropriation.

Since enactment of Ch 899/80—redistributing tidelands oil revenue for various capital outlay purposes—capital outlay has generally been funded from tidelands oil revenues, bonds and other special funds. Any augmentation requirement for these projects are funded from the respective special fund. Consequently, there is no need to retain the unallocated General Fund source for augmentation purposes. Transferring the unencumbered balance to the General Fund will make the \$3,390,000 available for other needs statewide.

ANALYSIS AND RECOMMENDATIONS WITH RESPECT TO GENERAL CONTROL SECTIONS

The so-called "control sections" of the 1982-83 Budget Bill set forth general policy guidelines governing the use of state funds. These sections place limitations on the expenditure of certain appropriations, extend or terminate the availability of certain specified appropriations, provide procedures for expenditure and control of funds appropriated by the Budget Act and contain the usual severability and urgency clauses.

The control sections proposed by the administration for fiscal year 1982-83 may be found in Section 4.00 through Section 37.00 of Senate Bill No. 1325 and Assembly Bill No. 2360 of the 1982-83 Regular Session of the Legislature. In many instances, the numbering of these sections is not consecutive. This is because section numbers have been assigned for the most part to correspond with the equivalent or similar sections in the 1981 Budget Act.

SECTION 4.00

STATEWIDE ELECTRONIC DATA PROCESSING

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section was first added to the Budget Act in 1969 for the purpose of controlling and coordinating the use of electronic data processing (EDP) technology. Since that time, a number of revisions have been made to adapt the section to changing conditions and requirements.

Current Language

In its existing form (Budget Act of 1981), the section requires that certain criteria which are defined in the State Administrative Manual (SAM) must be met before appropriations made by the Budget Act are expended for EDP services, equipment, facilities, personnel or supplies. The University of California, the State Compensation Insurance Fund, the community college districts, the Legislature, and the judiciary are exempted from the requirements of Section 4.

Language added in 1981 requires that the Director of Finance, with the assistance of the California Information Technology Board, develop and publish in SAM policy statements in specified key EDP areas.

Proposed Language

The language proposed in the 1982 Budget Bill deletes the requirement that the Director of Finance publish specified policy statements, because a publication schedule was submitted in December 1981.

As proposed, this section would add the requirement that the Department of Finance and the Department of General Services develop and publish in SAM standards and guidelines relating to the acquisition and use of office automation equipment. These standards and guidelines would be developed to meet objectives which are specified in the proposed language and which would ensure the most cost-effective use of automated office technology.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**SECTION 4.50
ATTORNEY FEES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section prohibits the use of funds appropriated in the Budget Act to pay attorney fees in specified cases, prior to legislative review and approval. Only court-awarded attorney fees specifically authorized and set forth in an item or section of the act, or expressly authorized by a statutory provision other than Section 1021.5 of the Code of Civil Procedure, may be paid directly from funds appropriated in the act.

This section increases legislative oversight of the payment of court-awarded attorney fees. It was included in the Budget Acts of 1980 and 1981.

The Budget Bill includes a new item which appropriates \$400,000 from various funds for the payment of attorney fee claims, settlements, and judgments against the state pursuant to the Code of Civil Procedure, Section 1021.5, the "private attorney general" doctrine, or the "substantial benefit" doctrine. (See our analysis of Item 9810.)

**SECTION 4.70
TORT LIABILITY INSURANCE**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section prohibits the use of funds appropriated in the Budget Act to purchase a discretionary tort liability insurance policy unless 30-days' advance notification, together with a cost-benefit analysis of the proposed policy, is provided to the Joint Legislative Budget Committee.

This section is necessary because a number of agencies have continued to purchase commercial tort liability policies on a discretionary basis, despite the state's policy of self-insuring or carrying no insurance wherever possible. The section was included for the first time in the Budget Act of 1981. The Insurance Office of the Department of General Services estimates that 1981-82 expenditures for such policies will total \$64,606, a decrease of \$226,135 from actual expenditures in 1980-81. The office indicates that proposed expenditures in 1982-83 will decrease to \$59,052.

**SECTION 5.00
ADVANCED ORDERING OF EQUIPMENT**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section authorizes, upon approval by the Department of Finance and the State Public Works Board, the placement of advance orders for equipment to be used in funded construction projects and the incurring of obligations for such equipment in 1982-83 to be met in 1983-84. As a rule, the advance ordering occurs in connection with heavy or complex items of equipment which involve long time lags between order placement and delivery. Encumbrances under this provision are limited to a total of \$3 million.

SECTION 5.30
TRANSFER OF FUNDS FROM THE STATE HIGHWAY ACCOUNT TO THE
GENERAL FUND

ANALYSIS AND RECOMMENDATIONS

We recommend that this section be amended to reference the 1981-82 statutory transfer.

Generally, Ch 541/81 requires that a portion of the revenues raised from the imposition of the sales tax on gasoline be allocated in a specific fashion between the General Fund, the Transportation Planning and Development Account, and the State Highway Account. The portion of the state's sales tax revenue which is subject to this allocation, known as the "spillover," is determined each year by the Board of Equalization. This amount is equal to the difference between the revenue which would have been received at the old state sales tax rate of 5 percent, imposed on all sales *except* sales of gasoline, and the revenue received under the present 4³/₄ percent rate, imposed on all sales *including* sales of gasoline. For the current year, this amount was determined to be \$293 million.

The "spillover" funds are transferred to the Transportation Planning and Development Account (TP&D) in the State Transportation Fund, subject to a specified limit. This limit is set by law, and is equal to \$110 million, adjusted annually for changes in the cost of living and population (the so-called "Gann" formula). For 1981-82, this limit is \$140 million.

Prior to the enactment of Ch 541/81, any spillover in excess of the amount transferred to the TP&D Account was retained by the General Fund. Ch 541/81, however, limits the amount which can be retained by the General Fund. In the current year, the General Fund is allowed to retain \$127 million. Any spillover in excess of the amount retained by the General Fund and the amount transferred to the TP&D Account is then divided equally between the State Highway Account and the TP&D Account. This excess was \$26 million for 1981-82, and \$13 million has been transferred to each of these accounts.

Control Section 5.3 appropriates the \$13 million transferred in the current year to the State Highway Account back to the unappropriated surplus of the General Fund. These funds will not be needed for expenditure in 1982-83, as there will be \$64 million in available funds in the account as of June 30, 1983, even if this \$13 million is returned to the General Fund.

The language of this section does not specifically refer to the transfer made in the 1981-82 year. In order that this section not be interpreted to affect any 1982-83 transfers, which are currently estimated to be zero, we recommend that the language be amended to specifically reference the 1981-82 transfer.

SECTION 5.40
DEPARTMENT OF TRANSPORTATION

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 161, Statutes of 1979, appropriated into a special reserve all monies in or due to the State Highway Account (SHA). Funds in the reserve would be available for expenditure only upon appropriation in the Budget Act.

This section appropriates from the special reserve an amount sufficient

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

to fund appropriations to the Department of Transportation. It also appropriates to the special reserve, on June 30, 1983, all monies in or due to the SHA, but not appropriated. This section is necessary so that (1) the SHA reserve can be used to pay for expenditures proposed in the Budget Bill, and (2) monies remaining in the SHA at the end of 1982-83 which will be needed in further years to fund the State Transportation Improvement Program, will not have to be returned to taxpayers under the provisions of Article XIII B of the State Constitution.

**SECTION 6.10
STATE BUILDING ALTERATIONS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section establishes certain limits on the use of support budget funds for alteration of state buildings. Departments may not undertake building alterations—using support budget funds—which cost more than \$10,000 unless the Director of Finance determines that the proposed alteration is critical. Such critical projects may not exceed \$150,000, and Department of Finance approval must be reported to the Chairperson of the Joint Legislative Budget Committee not less than 30 days prior to requesting bids for the project. Alteration projects which cost less than \$10,000 are not subject to any approval or reporting requirement.

This section was established in 1976 to ensure that alteration of state buildings is reviewed by the administration and the Legislature. Except for the upper limit of \$150,000, the proposed language is identical to that which was included in the 1981 Budget Act. The upper limit was originally established to correspond to the upper limit for minor capital outlay. In 1982-83, the administration has increased the minor capital amount to \$150,000 per project. This increase reflects inflation since the last adjustment. The increase to \$150,000 under Section 6.10 is reasonable and we recommend approval.

**SECTION 6.20
FUNDING SOURCE FOR REAPPROPRIATIONS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section provides that unless otherwise noted in the Budget Bill, any reappropriation for capital outlay funds from the General Fund contained in the Budget Bill shall be payable from the Special Account for Capital Outlay.

The Budget Bill, as introduced, does not include any reappropriations for capital outlay from the General Fund. Consequently, if the Budget Bill is enacted in this form, Section 6.20 would not have any effect. In the event the budget is amended to include reappropriations of capital outlay funds from the General Fund, this section would switch the fund source to the SAFCO unless language citing another fund source is included under the specific reappropriation.

SECTION 7.00
PROPERTY ACQUISITION

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section continues legislative policy, established in 1961, whereby all acquisitions of land or other real property are made subject to the Property Acquisition Law. The effect of this section is to require action by the State Public Works Board before property acquisitions can proceed. This section, however, exempts any acquisitions made from appropriations of the California Water Fund or the State Highway Account, State Transportation Fund. All property acquisitions, without exception, must be reported to the Public Works Board.

SECTION 8.00
OVERSIGHT OF CAPITAL OUTLAY APPROPRIATIONS

ANALYSIS AND RECOMMENDATIONS

We recommend modification of Section 8.00 to reinstate language contained in the 1980 and 1981 Budget Acts limiting augmentation of capital outlay construction projects to 20 percent of the construction contract cost.

Section 8.00 is a general control section for the oversight of capital outlay appropriations. The section establishes certain review and approval requirements involving the State Public Works Board, Department of Finance and the Joint Legislative Budget Committee. In general, this section applies to all Budget Bill appropriations for capital outlay.

The Department of Finance and Public Works Board Approval Requirements. This section requires that the Public Works Board and the Department of Finance approve the following aspects of projects funded in the Budget Act:

- preliminary plans,
- working drawings,
- any subsequent changes to the approved preliminary plans or working drawings, and/or
- any construction alternates included in the contract bid documents.

Moreover, this section requires the Department of Finance to certify, in writing, to the Chairperson of the Joint Legislative Budget Committee, the chairpersons of the respective fiscal committees, and the legislative members of the board, that requested action to be presented to the board is in accordance with the legislatively approved scope and cost. If the Department of Finance has approved changes to the approved scope or cost, the department is required to detail the changes and associated cost implications.

This section also limits the Public Works Board's authority to allocate additional funds for capital outlay projects pursuant to Section 16352 or Section 16409 of the Government Code, to 20 percent of the amount appropriated. Finally, this section requires the Department of Finance to approve purchase of any single unit of equipment which costs more than \$1,000.

Joint Legislative Budget Committee Review. This section requires the administration to submit specified project data to the Joint Legislative Budget Committee for its review. Specifically, the committee must be

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

given an opportunity to review:

- Any augmentation in excess of 10 percent of the amount appropriated.
- Acquisition projects where acquisition of a lesser portion of property approved by the Legislature is proposed, and it is determined that this lesser portion is sufficient to meet the objectives of the projects approved by the Legislature.

Public Works Board Approval Prohibited Under Certain Conditions. This section also requires that the Public Works Board defer action with respect to two types of projects:

- Projects which require augmentation in excess of 20 percent of the amount appropriated.
- Approval of a portion of an acquisition project or approval of preliminary plans when it is determined that the estimated cost of the total acquisition or construction project is in excess of 20 percent of the amount appropriated.

Recommended Modification to this Section

The Budget Act of 1980 and 1981 included language limiting the Public Works Board's authority to augment construction projects. Specifically, the language allows the board to augment *only* the amount appropriated for *construction contract costs*. This limitation was established because the only cost of construction project that should vary after the project is approved by the Legislature is the construction contract amount. The contract amount may vary from the estimated cost because of inflation, however, and/or the competitive bid climate. There should be no need for the Public Works Board to augment funds budgeted for fees charged by contract architects or the Department of General Services.

Because the costs for these fees are frequently budgeted with the construction amount, the language proposed in the 1982-83 Budget Bill effectively would allow the project construction amount to be augmented by *more* than 20 percent. The language approved by the Legislature in 1980 and 1981 prevented this from occurring.

We recommend that the policy established in 1980 and 1981 be continued. Specifically, we recommend that Section 8.00 be amended as follows:

- On page 255, line 27, insert after "instance determined.": "Any augmentation of construction projects shall be limited to the amount appropriated herein for construction contract cost."

SECTION 8.10

DEPARTMENT OF PARKS AND RECREATION

ANALYSIS AND RECOMMENDATIONS

We recommend that this section be amended to clearly establish legislative oversight and control over major concession contracts, operating leases and operating agreements.

Since 1972, Section 8.10 of each Budget Act has required the Department of Parks and Recreation to submit proposals for major new concessions contracts and major changes in existing concessions contracts to the Legislature as part of the department's annual budget.

The Legislature has included Control Section 8.10 in the Budget Act for three reasons: (1) to provide for legislative oversight and control over major concessions contracts in the state park system, (2) to assure coordination of the state park concessions program with the department's support and capital outlay programs, and (3) to assure that the concessions program is consistent with legislative policies.

On January 20, 1982, we submitted to the Legislature a report entitled *A Review of the Department of Parks and Recreation's Concession Program in the State Park System* (Legislative Analyst's Report No. 82-3). In this report, we pointed out that serious problems exist in the concessions program. We also pointed out that statutory provisions of the Public Resources Code and Control Section 8.10 do not provide sufficient policy guidance and effective legislative oversight and control of the department's concessions contracts, operating leases and operating agreements.

To remedy these shortcomings, we recommended in the report that legislation be enacted which specifies more clearly the department's authority to modify, execute and approve concessions contracts, operating leases and operating agreements. This legislation should permanently establish in the Public Resources Code the provisions of Section 8.10 plus other needed law.

The legislation we recommend is needed to provide broader and permanent corrective action. However, we believe there is also a need to implement short term corrective action in the Budget Bill. For that reason we recommend adoption of Section 8.10 as amended below.

Our proposed language would more clearly establish legislative oversight and control over concessions contracts, operating leases and operating agreements which involve a total investment of \$250,000, or involve estimated gross receipts in excess of \$250,000. Section 8.10, Budget Act of 1981, defined a major concession as involving in excess of \$100,000 of investment or in excess of \$100,000 of gross receipts. The proposed language is:

Section 8.10. "No expenditure from an appropriation made by this act to the Department of Parks and Recreation shall be made to modify, execute or approve any proposed concession contract, operating lease, or operating agreement with any local entity, any nongovernmental entity (including private parties) or any nonprofit corporation which involves a total investment in excess of \$250,000 or involves estimated gross receipts in excess of \$250,000 annually under the terms of the proposal unless (1) the Legislature has reviewed the proposal as part of the support or capital outlay budget of the Department of Parks and Recreation and expressed approval of the expenditure from an appropriation made by this act through the supplemental language report or (2) the State Public Works Board has approved the proposal not sooner than 20 days after the Director of Finance has provided written notification to the Chairman of the Joint Legislative Budget Committee, the Chairman of the Assembly Ways and Means Committee and the Chairman of the Senate Finance Committee, and upon a determination by the board that the proposal could not have reasonably been presented to the Legislature through the annual budget process."

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**SECTION 8.20
DEPARTMENT OF PARKS AND RECREATION**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This control section provides that the Department of Parks and Recreation must demonstrate to the Public Works Board and the Office of Procurement in the Department of General Services that it has taken reasonable steps to consolidate and standardize procurement of park furnishings or acquire the furnishings through the California Conservation Corps. This language attempts to minimize costs by eliminating procurement of nonstandard park furniture on a unit-by-unit basis.

**SECTION 8.30
DEPARTMENT OF PARKS AND RECREATION**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This control section was added to the Budget Act of 1977 to require that the Department of General Services and the Attorney General inform the State Public Works Board of all inverse condemnation actions served against the state, and to ensure that there will be no disbursements of state funds for property being acquired without prior approval by the board.

This section was added because the board was not always being informed of inverse condemnations until a stipulated judgment between the parties had been reached, or a court decision had occurred, which left the board with no alternative but to approve the judgment.

**SECTION 8.40
DEPARTMENT OF PARKS AND RECREATION**

ANALYSIS AND RECOMMENDATIONS

We recommend addition of Section 8.40 to require the Department of General Services to transfer all properties acquired for the state park system to the Department of Parks and Recreation no later than August 1, 1983.

As previously discussed under Item 3790-001-001 of this *Analysis*, the Department of General Services manages 61 leases and concessions on approximately 85,000 acres which it has acquired on behalf of the Department of Parks and Recreation for the state park system, at a cost exceeding \$200 million. The Department of General Services is managing these leases and concessions because it has not transferred the properties to the Department of Parks and Recreation.

Under existing law, the Department of General Services is able to retain and expend rental revenues from these leases and concessions. In the current year these revenues will total \$820,000. Beginning in 1983-84, however, the amount of rent retained by General Services will increase by about \$1 million annually. None of these revenues will be reported as state park revenues, nor will any of the revenues be deposited in the General Fund.

There are no statutory constraints which would prohibit immediate transfer of all state park properties managed by General Services to the Department of Parks and Recreation for incorporation in the state park

system. Although policy legislation transferring this property to the Department of Parks and Recreation is preferable, and is recommended in our recent report entitled *A Review of the Department of Parks and Recreation's Concessions Program in the State Park System* (Legislative Analyst's Report No. 82-3), this transfer could be accomplished through the Budget Bill. Accordingly, we recommend that the Legislature adopt the following language in a new Control Section 8.40:

Section 8.40. "Provided that the Department of General Services shall transfer all properties acquired for the state park system on which acquisition is substantially completed to the Department of Parks and Recreation for addition to the state park system no later than August 1, 1983."

This transfer will serve to assign full responsibility to the Department of Parks and Recreation for managing all state park system properties and will increase General Fund revenues by \$820,000 in the budget year. In 1983-84 this revenue will increase to over \$1.8 million.

The costs to the Department of Parks and Recreation of managing this property are not known but provision for these costs should be made in the department's budget.

SECTION 8.50

APPROPRIATION OF FEDERAL FUNDS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section expresses the intent of the Legislature that state agencies eligible for federal aid should apply for the maximum amount available under federal law. It also provides that all federal funds received are automatically appropriated for expenditure, subject to any Budget Act provisions controlling expenditures, including Section 28.00.

The Budget Bill includes direct appropriations of federal funds to the various state agencies. These appropriations are fixed amounts payable from the Federal Trust Fund. Under current law, expenditure of federal funds could not exceed these appropriations. The Budget Bill, however, contains only estimates of the amounts the federal government will award to the state. This section appropriates any additional amounts of federal funds received in excess of these appropriations.

Section 28.00 calls for notification to the Legislature 30 days before any excess funds are approved for expenditure unless the funds are specifically exempted from the requirements in Section 28.00 by Section 8.70. Under Section 28.00, the Director of Finance may approve expenditures for new programs not identified in the Governor's Budget or for purposes which constitute an increase in the level of services above that authorized by the Budget Act. The Director may do so, however, no sooner than 30 days *after* both fiscal committees and the Joint Legislative Budget Committee have received written notice of such changes.

SECTION 8.51

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section requires each state agency to use the Federal Trust Fund account numbers when certifying charges against federal funds appropriated by Budget Act items. This ensures consistent accounting between the State Controller's office and each state agency.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**SECTION 8.70
FEDERAL FUNDS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Historically the Department of Finance has attempted to show the receipt of all federal funds in the Governor's Budget. Until the 1979 Budget Act, however, not all federal funds were reflected in the Budget Bill or subject to legislative review. Any funds received in excess of the amounts shown in the Governor's Budget, however, were subject to the review process established by Control Section 28.00.

Under the procedures established by Control Section 28.00, the Director of Finance can (1) increase or decrease the amounts available for expenditure by an agency when federal funds exceed or fall short of the amounts scheduled in the Budget Act and (2) approve expenditures for new programs not identified in the Governor's Budget or for purposes which constitute an increase in the level of service above that authorized by the Budget Act. The director may do so, however, no sooner than 30 days *after* both fiscal committees and the Joint Legislative Budget Committee have been notified in writing of such changes.

In 1979, a new procedure was implemented to show all known or anticipated federal funds in the Budget Bill. This procedure would be continued, in a somewhat different format, by the Budget Bill of 1982. In most cases, the level of funding projected in the budget is based on a rough estimate. The purpose of this control section is to facilitate the budgeting procedure for federal funds by reducing the level of administrative reporting, reviewing and approval which would otherwise result if every subsequent change in federal fund receipts was subject to the Section 28 notification provisions.

Federal funds appropriated in the Budget Act and funds that will pass through department operating budgets are subject to Section 28.00. Some funds, however, will not pass through department budgets, and are reported in the Budget Bill for information purposes only. If the Budget Bill specifies that these federal funds are subject to Control Section 8.70, any funding changes would be exempt from the provisions of Control Section 28.00.

Under these procedures the Legislature has the opportunity to specify which federal funds should be subject to subsequent Section 28.00 reporting procedures and which should be exempted. We believe this is a reasonable administrative procedure for implementing the Legislature's stated policy of scheduling all federal funds in the Budget Bill, and that this control section, as a part of that procedure, should be included in the Budget Act.

SECTION 8.80
STATEWIDE INDIRECT COST RECOVERIES

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

A portion of the total amount of federal funds received by the state is designated for the recovery of statewide indirect costs incurred in implementing federally funded programs. In the past, some departments have used the indirect cost allotment to augment their budgets. Section 8.80 requires that the allotment be transferred to the General Fund, unless the Director of Finance authorizes the department to encumber it. Before giving such authorization, however, the Director of Finance must give 30 days' advance notice of the necessity for such a departmental expenditure to the fiscal committees and the Joint Legislative Budget Committee.

Section 8.80 also provides that the Director of Finance may instruct the Controller to transfer the indirect cost allotment to the General Fund if the department does not do so on a timely basis.

This control section was first added in the 1979 Budget Act. It resulted in savings of \$8.9 million in 1979-80 and \$9.6 million in 1980-81. The Governor's Budget estimates that savings to the General Fund resulting from this section will be \$10.1 million in 1981-82 and \$10.1 million in 1982-83.

SECTION 8.90
ADMINISTRATIVE COST RECOVERIES

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

This is a new control section providing for the recovery of general administrative costs from special funds to the General Fund whenever such cost recovery transfers have not been appropriated in department budgets.

General administrative costs, commonly referred to as pro rata, are the costs to the state's General Fund for services centrally provided to all state agencies and for which there are no direct charges. These services include the costs of the Legislature, Department of Finance, State Controller, State Treasurer, State Personnel Board and other central agencies.

Government Code Sections 11270-11277 and 22828.5 provide the statutory authority for the assessment of pro rata charges. The purpose of assessing special funds for pro rata charges is to reimburse the General Fund for the costs of the services provided.

Historically, these charges are budgeted and included in the annual appropriations made from special funds. In a few cases, however, some special funds are not appropriated in 1982-83, thereby technically eliminating the appropriation to pay prior year charges. This section would enable the General Fund to obtain administrative cost recoveries directly from special funds, upon order of the Director of Finance.

SECTION 9.00
CAPITAL OUTLAY AUGMENTATION FUND—UNIVERSITY OF CALIFORNIA

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

This section requires the University of California to obtain the State Public Works Board's approval before using certain funds to augment capital outlay projects previously authorized by the Legislature. Augmen-

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

tation is permitted when the cost of such projects exceeds available funds by reason of construction cost increases. The augmentation funds are provided from savings on other construction projects which have been completed.

**SECTION 11.00
DEPARTMENT OF PARKS AND RECREATION**

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of Section 11.00 because it would (1) defeat the purpose of the appropriation of new revenue under Item 3790-021-001 to the Department of Parks and Recreation to support program expansions and (2) overappropriate the State Parks and Recreation Fund in the budget year.

In order to avoid having to reduce its General Fund expenditures by 5 percent, as many state agencies were directed to, and at the same time secure a substantial increase in its support budget for 1982-83, the Department of Parks and Recreation is proposing (a) the appropriation of \$71,903,000 in Item 3790-001-001 which is the department's baseline budget reduced by 5 percent (\$3,735,000) (b) the appropriation of \$202,000 in Item 3790-011-001 of increased revenues resulting from an increase in parking fees from \$2 to \$3 at state beaches operated by the department in Santa Barbara, Ventura, Los Angeles, Orange and San Diego Counties, (c) the appropriation of up to \$5,870,000 in Item 3790-021-001 of any increase in state park user fees and concession revenues which exceed \$20,830,000 in 1982-83, and (d) the appropriation of up to \$5,870,000 in Control Section 11.00 from the unencumbered balance in the State Parks and Recreation Fund for a loan to the department to meet cash flow needs resulting from the expenditure of revenues appropriated by Item 3790-021-001. The loan must be repaid with state park revenues generated in 1982-83 or, if such revenues are not sufficient, with the first available revenues in 1983-84.

As discussed under Item 3790-001-001 in this *Analysis*, Control Section 11 defeats the purpose of Item 3790-021-001 by authorizing a loan in the amount of the appropriated increase in revenues from the Parks and Recreation Fund. This means that the department can start spending the revenue increase on July 1, 1982, even though it may not realize the full increase.

Moreover, the budget (page R169) shows Parks and Recreation Fund having an ending balance of only \$170,000 in the budget year. Thus, the loan in Section 11 would overappropriate the fund.

Furthermore, Section 11 provides that the loan from the Parks and Recreation fund must be paid from the first park system revenues received in 1983-84 if the loan is not repaid in 1982-83. However, under existing law, the first \$7 million of park system revenues each year are deposited in the Parks and Recreation Fund. If the next revenues to the fund are used to repay the loan, the General Fund will, in effect, be repaying the loan in 1983-84 because these revenues would otherwise go into the General Fund.

We conclude that Section 11 is not desirable and recommend that it be deleted.

SECTION 12.20
APPROPRIATION LIMIT FOR 1982-83

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation, pending availability of final annual adjustment data in May.

This section establishes the state's 1982-83 appropriations limit for purposes of Article XIII B. It also sets a time limit on judicial challenges to the established limit.

The budget proposes a 1982-83 limit of \$19,899 million. This is only a preliminary estimate, however, as the final annual adjustment factors (for inflation and population) needed to establish the 1982-83 limit will not be known until May. In addition, the Department of Finance has not yet estimated the changes in past-year limits due to transfers of financial responsibility between the state and local governments.

When this data becomes available, we will report our recommendations on the state's appropriation limit to the Legislature.

SECTION 12.25
INTEREST ON GENERAL FUND LOANS

ANALYSIS AND RECOMMENDATIONS

We recommend the establishment of Section 12.25, which provides for the automatic payment of all interest costs on General Fund loans.

The budget proposes an appropriation of \$20 million in Item 9620 to pay for interest costs on funds borrowed by the General Fund to meet its cash-flow requirements in 1982-83. In our analysis of Item 9620, we indicate that a *fixed dollar* Budget Act appropriation may not be the most appropriate method of funding these interest costs, given the difficulty in estimating the General Fund's cash flow needs prior to the start of a budget year. We recommend that a continuous appropriation be used, instead, so that the Controller can pay these interest costs as necessary. This would eliminate the need for a deficiency appropriation in the event that a fixed amount proved to be insufficient.

Accordingly, we recommend the establishment of the following control section:

12.25. There is hereby continuously appropriated from the General Fund to the Controller amounts necessary to pay interest costs on the funds transferred in 1982-83 to the General Fund pursuant to Section 16310 of the Government Code. The interest costs are to be computed at a rate determined by the Pooled Money Investment Board in accordance with Section 16310 of the Government Code.

SECTION 12.30
RESERVE FOR ECONOMIC UNCERTAINTIES

ANALYSIS AND RECOMMENDATIONS

We recommend that the Legislature give a high priority to funding the Reserve for Economic Uncertainties at its historical level of 3 percent of General Fund appropriations.

This section, which is similar to Section 12.3 of the 1981 Budget Act, provides for the Reserve for Economic Uncertainties in the General Fund. The section has two main provisions.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

First, it appropriates from the General Fund on July 1, 1982, an amount necessary to bring the fund balance of the Reserve for Economic Uncertainties up to \$500 million. The Governor's Budget estimates a 1981-82 year-end reserve balance of \$116 million; consequently, this provision would result in July 1, 1982 appropriation of \$384 million.

Second, this section provides for a June 30, 1983 transfer into or out of the reserve, depending on the status of the 1982-83 year-end General Fund balance. If the General Fund is in a deficit situation, this section would provide for a transfer from the reserve to the General Fund in order to eliminate the deficit. If, on the other hand, there is year-end surplus in the General Fund, this section would appropriate such surpluses to the reserve account, as long as the reserve fund balance did not exceed 5 percent of General Fund appropriations and as long as there was "room" within the state's Article XIII B appropriations limit.

Language Modification Recommended

This section provides the mechanism whereby the Legislature establishes its planned reserve, in order to ensure against a revenue shortfall due to such factors as declines in the economy and unforeseen spending needs.

For the past two years, the Legislature has established the reserve balance at the start of the fiscal year at an amount equal to 3 percent of General Fund appropriations. For July 1, 1982, however, the administration proposes a reserve fund balance of \$500 million, which is 2.16 percent of proposed 1982-83 appropriations. A 3 percent reserve balance in 1982-83 would equal approximately \$700 million, \$200 million more than proposed.

Recent experience indicates that a 2 percent reserve is not adequate to cover economic and other uncertainties. For instance, it is now estimated that current-year General Fund revenues will be about \$860 million *below* the amount estimated at the time the 1981 Budget Act was passed. Further, expenditures are estimated at almost \$300 million greater than anticipated in the Budget Act, for a total shortfall of about \$1.1 billion.

Furthermore, two initiatives on the June 1982 ballot could severely deplete the proposed reserve if these initiatives are enacted. The budget is predicated on their failure to pass.

For these reasons, we recommend that the Legislature give a high priority to increasing the level of the reserve beyond that proposed by the Governor.

**SECTION 12.35
SPECIAL FUND RESERVES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is almost identical to Control Section 12.35 of the 1981 Budget Act, relates to special fund reserves.

This section would appropriate the balances existing in *each* special fund as of June 30, 1983, into a reserve account within each fund. If these funds are not so appropriated, they would be subject to Section 2 of Article XIII B of the State Constitution, which requires the state to return to

taxpayers year-end unappropriated surpluses.

The Legislature established these special fund reserve accounts in the 1981 Budget Act in order to prevent the return of monies which are not truly "surplus" in nature. For instance, many special fund balances are earmarked for expenditure but are not yet appropriated. Thus, in order to prevent the return of monies not excess to the state's needs, we recommend approval of this section.

SECTION 12.40
ENERGY AND RESOURCES FUND,
TRANSFERS BETWEEN THE RESOURCES ACCOUNT
AND THE ENERGY ACCOUNT

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of this section and consolidation of the contents, in modified form, with Section 12.45.

Section 12.40 authorizes the Director of Finance to transfer money between the Energy Account and the Resources Account in the Energy and Resources Fund for the purpose of meeting cash flow needs. Section 12.45 authorizes tidelands oil revenues deposited in the Energy and Resources Fund to be allocated between the Energy Account and the Resources Account. Because transfers between the two accounts can be made only after funds are allocated to the accounts, it is logical to consolidate the provisions of Section 12.40 with those of Section 12.45. Consolidation will also eliminate some redundant language.

In addition, we recommend modifications to the language in Section 12.40 and in Section 12.45. We discuss these modifications in our analysis of Section 12.45.

SECTION 12.45
ALLOCATION OF REVENUE BETWEEN THE ENERGY ACCOUNT
AND THE RESOURCES ACCOUNT OF THE ENERGY AND RESOURCES FUND

ANALYSIS AND RECOMMENDATIONS

We recommend the consolidation of Section 12.40 with Section 12.45 in order to place the provisions of these two sections in a more logical sequence and to eliminate redundancies. We further recommend modified language to (1) make these provisions conform with existing law which requires a legislative reorganization of the Energy Commission before funds may be transferred to the Energy Account and (2) correct an omission in the language.

Section 12.45 directs the State Controller to allocate tidelands oil revenues deposited in the Energy and Resources Fund (ERF) between the Energy Account and the Resources Account in proportion to the amount appropriated from each account. Section 12.40 authorizes the Director of Finance to transfer money between the Energy Account and the Resources Account for the purpose of meeting cash flow needs. This transfer authority is necessary because projects funded from one of the accounts may be ready to proceed earlier in the year than projects funded from the other account.

We recommend that Section 12.40 be consolidated with Section 12.45 because transfers between the two accounts may only take place after funds have been deposited in them pursuant to Section 12.45, and because consolidation will eliminate some redundant language.

ANALYSIS AND RECOMMENDATIONS WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued

Both Section 12.40 and Section 12.45 contain language that prohibits the transfer or allocation of funds to the Energy Account after June 30, 1982, unless (1) a Department of Energy has been created or (2) a reorganization of the Energy Commission has been accomplished by (a) legislation or (b) a Governor's reorganization plan which was not disapproved by the Legislature. The two sections include this prohibition because existing law (Section 6217 of the Public Resources Code) prohibits transfers to the Energy Account unless the required reorganization of the Energy Commission has been enacted.

Although the reorganization requirement in Section 6217 originally allowed the reorganization to be accomplished by either legislation or a Governor's reorganization plan, the latter alternative was deleted by Ch 886/81. Under Section 6217, as amended by Chapter 886, transfers to the Energy Account after June 30, 1982 can be made only if a reorganization of the Energy Commission has been enacted by the Legislature. Therefore, the control section should be revised to conform with existing law.

Due to an omission, Section 12.45 does not include the language which specifies how funds are to be divided between the Resources Account and the Energy Account.

We recommend adoption of the following language for Section 12.45:

"Section 12.45. The State Controller shall allocate the amounts deposited in the Energy and Resources Fund in accordance with Section 6217 of the Public Resources Code, or any statutory modification thereof, between the Energy Account and the Resources Account in the same ratio as the amount appropriated from each account bears to the total amount appropriated from both accounts. The allocations shall be made until the two accounts have sufficient funds available for the amounts appropriated from those accounts.

The Director of Finance may direct the Controller to make transfers between the two accounts or between either account and the Energy and Resources Fund for cash-flow purposes, provided, however, that if the provisions of Section 6217 that prohibit the transfer of funds to the Energy Account become operative, only those amounts necessary for increases in employee compensation or price increases authorized by this act and augmentations of capital outlay appropriations pursuant to Section 16352 of the Government Code may be transferred to the Energy Account after June 30, 1982.

The Director of Finance shall notify the chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house which considers appropriations 10 days prior to taking any action pursuant to this section."

SECTION 12.50 AIR RESOURCES BOARD

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section postpones until June 30, 1984, the repayment date for three loans from the Motor Vehicle Account, State Transportation Fund, to the Air Resources Board. These loans supported the early costs of planning, designing and operating the vehicle emission inspection program in the

South Coast Air Basin.

Previous requests for postponement of these loan repayments were approved by the Legislature in the 1978, 1979, 1980 and 1981 Budget Acts. This approval was granted partly on the basis that the early costs of the South Coast vehicle inspection system, funded by these loans, provided information that will be of benefit statewide if a statewide annual inspection program is instituted. It was not considered equitable to repay these loans from fees generated solely in the South Coast Air Basin.

To date, the Legislature has not authorized a statewide annual program. If the Legislature does not approve such a statewide program, these loans cannot be repaid from statewide inspection revenues and must be financed in some other manner. Possibilities include repayment from South Coast Air Basin inspection fees or forgiveness of the loans.

**CONTROL SECTION 13.00
DEPARTMENT OF MENTAL HEALTH**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section requires the Department of Mental Health to submit quarterly reports to the Joint Legislative Budget Committee and the fiscal committees of each house containing the following information:

- local mental health expenditures, by county,
- any changes to county mental health allocations, and
- all requests for new county mental health programs, together with the action taken by the department.

The Budget Act of 1975 first included this requirement because changes were being made in county mental health allocations after the Legislature approved the department's budget. These reports provide the Legislature with information as to how the appropriated funds are allocated and what changes occur during the fiscal year.

**SECTION 15.00
BUDGETARY CONTROL**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 15 of the Budget Act of 1981, prohibits the use of funds from any appropriation or combination of appropriations to support any position or activity which the Legislature previously has considered and denied.

**SECTION 16.00
SUPPLEMENTAL LANGUAGE REPORT**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section states that the supplemental report of the Committee of Conference on the Budget Bill, which is prepared by the Legislative Analyst, reflects legislative intent in enacting the Budget Act. This section requires the Legislative Analyst to send the report to all affected agencies.

This is the fifth year that this statement has been included in a control section. In prior years, it was included in a concurrent resolution carried

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

by the author of the Budget Act.

**SECTION 18.00
OVERSIGHT OF CONSULTANT CONTRACTS**

ANALYSIS AND RECOMMENDATIONS

We recommend that the proposed modifications to existing procedures for review of consultant and personal services contracts be disapproved, and that the language in Section 18.00 of the Budget Act of 1981 be restored.

This section would revise current procedures for the review and approval of contracts for consultant or personal services.

Section 18.00 of the 1981 Budget Act requires that, with specified exceptions, all contracts and interagency agreements for consultant or personal services be routed to the Department of Finance (DOF) for review and approval prior to being approved by the Department of General Services (DGS). Within 30 days of approving such a contract, the Director of Finance is required to so notify the Chairman of the Joint Legislative Budget Committee and the chairmen of the fiscal committees of the Legislature.

The proposed amendments to Section 18.00 would:

- Eliminate the mandatory routing of these contracts to the Department of Finance and substitute an optional review, upon demand, by the Department of Finance; and
- Transfer the responsibility for reporting the approval of these contracts from the Director of Finance to the Director of General Services.

The Department of Finance is proposing these changes because it believes that the workload related to its review of these contracts is not an effective use of staff. The department maintains that it finds only a few questionable agreements each year.

The Legislature currently exempts 16 categories of contracts from Section 18.00, to relieve the department of unnecessary workload. There are 4 major justifications for such exceptions:

- The amount of the contract is less than \$18,900. (This is proposed to increase to \$20,200 in 1982-83).
- The service is repetitive and standard for many agencies, such as contracts for hearing reporters and maintenance.
- The service is subject to review under other control sections. For example, electronic data processing contracts are subject to Department of Finance review procedures specified in Control Section 4, and construction must be approved by the Public Works Board.
- The service is performed under a standard agreement in cases where the state contracts with agents to carry out a specific program approved by the Legislature. For example, Section 18.00 exempts (1) contracts for employer training programs which provide on-the-job training for workers and (2) contracts for family planning contraceptive services entered into by the Department of Health Services.

Control agencies currently review three aspects of consulting and personal services contracts. The State Personnel Board, in accordance with Article VII, Section 1 of the state Constitution, certifies that the

contracted services cannot be performed effectively within the civil service system. The Department of General Services examines the legality of the contract and the Department of Finance certifies that the services are necessary to carry out approved programs.

Our analysis indicates that the Department of Finance should remain responsible for approving these contracts.

Section 18.00 primarily affects large, nonstandardized contracts. Departments have more discretion in specifying the work to be done under the nonexempt agreements, and the current procedure subjects them to timely and consistent comparison with program objectives and policies outlined by the Legislature and administration. Contracts which are clearly consistent with legislative intent and administration policy should require little time to review. Those which are of questionable value do and should require more intensive examination.

Second, the transfer of the review and reporting requirements from the Department of Finance to the Department of General Services effectively eliminates the program-related review of these contracts. This is because the Department of General Services has neither the staff nor the expertise to perform such evaluation.

Third, in a report published in April 1981, the Auditor General found that the current state system of reviewing consultant and personal services contracts is inadequate and lacking in coordination between the control agencies. That report recommended a restructuring, not a curtailment, of the agencies' oversight responsibilities.

For these reasons, we recommend that the proposed modifications be disapproved and that the language in Section 18.00 of the Budget Act of 1981 be continued in the 1982 Budget Bill.

For the budget year, the Department of Finance also proposes to revise the maximum level of contracts which can be excluded from its review and reporting requirements, from \$18,900 to \$20,200 per party per 12-month period. The purpose of this revision is to maintain the existing threshold in real terms (that is, when allowance is made for inflation). We believe the proposed revision is warranted.

SECTION 19.00

DEPARTMENT OF GENERAL SERVICES

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section includes five provisions which require that:

1. Any amount of accumulated surplus in the Service Revolving Fund as of June 30, 1982, in excess of (a) \$12,723,768 for the Office of State Printing and (b) \$49,974,423 for the remainder of the Department of General Services operations shall be transferred by September 30, 1982 to the General Fund.

2. No machinery or equipment shall be purchased for the Office of State Printing except as provided by the Budget Act or emergency replacements. Funds may be expended for emergency replacements only after the Chairman of the Joint Legislative Budget Committee has received 30 days' in advance notification (or such shorter period as the Chairman may designate). Notification must also be provided to the Chairpersons of the Senate Finance and Assembly Ways and Means Committees.

3. No augmentation shall be made to the capital of the Service Revolving Fund for the benefit of the Office of State Printing during 1982-83

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

unless authorized by the act.

4. Any proposed capital addition to the Service Revolving Fund for the benefit of the Office of State Printing during the 1983-84 fiscal year shall be included in the proposed budget for that year as an appropriation.

5. Any surplus resulting from legislative printing shall be shown as a reimbursement to Item 0130-021-001, which provides for legislative printing.

This section was added by the Legislature to the 1959 Budget Act in response to the Office of State Printing's (OSP) practice of using surplus funds to acquire equipment without legislative approval. Subsequent experience has indicated the continuing need for these restrictions. For instance, in 1976-77 the OSP attempted to purchase a \$710,200 press without going through the budget process.

This section also attempts to limit the amount of the surplus which the department can maintain in the Service Revolving Fund. This is designed to reduce the incentive to make a profit on services provided to other state agencies. The projected June 30, 1982 surplus of \$56,998,000 will consist primarily of equipment, inventory, accounts receivable and prepaid expenses. This section would allow the department to retain up to 10 percent more than this amount if the actual June 30, 1982 surplus exceeds the estimate.

SECTION 19.02

STATE SCHOOL BUILDING LEASE-PURCHASE FUND

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section transfers \$52.8 million from the State School Building Lease-Purchase Fund to the General Fund on June 30, 1982. Our analysis of this section appears in Item 6100-001-344.

SECTION 19.04

STATE SCHOOL FUND

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section specified the allocation of State School Fund revenues between K-12 education and community colleges. Our analysis of this section appears in Item 6870-101-001.

SECTION 19.05

TRANSFER OF SCHOOL FUNDS

ANALYSIS AND RECOMMENDATIONS

Recommend this section, if necessary, be amended to conform to final legislative action on the Budget Bill.

This section prohibits the transfer of excess repayments for State School Building Aid Fund loans from the General Fund to the State School Deferred Maintenance Fund. Our analysis of this section appears in Item 6100-001-344.

SECTION 19.06
SOLID WASTE MANAGEMENT BOARD

ANALYSIS AND RECOMMENDATIONS

We defer recommendation on the amount to be transferred from the General Fund to the Solid Waste Management Fund pursuant to this section, pending completion of legislative action on the Solid Waste Management Board's budget.

This control section, which has not appeared in previous Budget Acts, provides for a transfer of \$7,368,000 from the General Fund to the Solid Waste Management Fund in lieu of the amount transferred by Section 68030 of the Government Code. We estimate that Section 68030, which was added by Chapter 1150, Statutes of 1979 (AB 66), would provide for a transfer of approximately \$15,947,000 to the fund in 1982-83. The \$8,579,000 difference between the AB 66 transfer and the proposed in-lieu transfer will remain in the General Fund.

In the 1981 Budget Act, the Legislature significantly reduced the amount available for expenditure by the Solid Waste Management Board by reducing specific grant expenditures. (This is discussed more fully in our analysis of Item 3380.) The 1982-83 budget request continues this reduced level. We recommend approval in concept of the in-lieu transfer proposed by this section because it is consistent with legislative action on the 1981 Budget Act.

The exact amount to be transferred pursuant to this section, however, cannot be determined until the fiscal subcommittees have completed action on the Solid Waste Management Board's proposed budget. This is because any funds saved through legislative reductions in the board's proposed expenditures can only be made available to the General Fund through a reduction in the amount transferred from the General Fund to the Solid Waste Management Fund, as this control section would do. We, therefore, defer recommendation on the amount to be transferred, pending completion of legislative action on the board's requests.

SECTION 19.07
CHILD CARE SERVICES

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section requires the Department of Education to ensure that counties maintain their 1970-71 level of effort for child care services. Our analysis of this section appears in Item 6100-196-001.

SECTION 19.09
INSTRUCTIONAL MATERIALS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section restricts financing of contracts for instructional materials, textbooks, and teachers' manuals. Our analysis of this section appears in Item 6100-186-001.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**SECTION 19.11
HEALTH INSURANCE PREMIUMS**

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation relative to monthly state contribution rates for employee health insurance specified in this section, pending determination of (1) the actual increase in health insurance premiums and (2) rate changes negotiated under collective bargaining.

The state pays the major portion of premiums for health insurance provided to active and retired civil service and related employees and employees of the California State University (CSU). Legislative intent, as expressed in Section 22825.1 of the Government Code, is that the state pay 100 percent of the premium cost for coverage of these employees and annuitants and an average of 90 percent for coverage of their dependents.

This control section, which is identical to Section 19.11 of the Budget Act of 1981, specifies the monthly amounts which the state contributes toward employee health insurance, thereby enabling the Legislature to adjust state contribution rates by changing these amounts.

Current state monthly contributions toward such health insurance are (1) \$58 for the employee (or annuitant) only, (2) \$107 for an employee and one dependent and (3) \$138 for an employee and two or more dependents. These contribution levels were authorized by the 1981 Budget Act, and became effective July 1, 1981, for August 1981 coverage. The prior state contribution rates were \$49, \$90, and \$117 respectively.

Annual premium increases depend on:

- **Inflation.** The additional amount required for providing the same coverage.
- **New mandated benefits.** The cost of providing a new benefit required by federal or state law.
- **Benefit enhancements.** The cost of providing an additional or increased benefit.

The 1981 increase in health benefit costs was due entirely to the increased cost of maintaining existing coverage.

Changes in the coverage of and premiums for state employee health insurance result from negotiations between PERS staff and the insurance carriers. These annual negotiations typically are completed late in May and are subject to approval by the PERS Board. Funding for the state portion of the increased costs pursuant to these negotiations is included in the annual Budget Bill.

Changes in coverage and premiums for annuitants correspond with those made for active civil service and related employees and employees of the CSU. Because most University of California (UC) employees are not eligible for health insurance coverage under the PERS, traditionally funds have been appropriated to UC to provide their employees with comparable benefit improvements.

The state contribution rate for employee health insurance is now a negotiable issue under collective bargaining. Therefore different rates for employees in the various bargaining units could result pursuant to the collective bargaining process. Any additional funds needed for implementing negotiated changes, however, are subject to approval by the

Legislature in the annual Budget Act.

Before acting to adjust the state contribution rate for annuitants or employees *not* subject to collective bargaining, the Legislature may want to consider negotiated changes, if any, made in the state rate with respect to employees covered by collective bargaining.

We withhold recommendation on contribution rates, pending determination of (1) the actual increase in health insurance premiums and (2) rate changes, if any, negotiated under collective bargaining.

SECTION 19.15

DRIVER TRAINING PENALTY ASSESSMENT FUND

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section was first added to the Budget Act in 1979. It provides that \$4 million from the Driver Training Penalty Assessment Fund be used to support the post-licensing control activities of the Department of Motor Vehicles. These activities include treatment of negligent drivers. The appropriation of Driver Training Penalty Assessment Funds for this purpose is based on the concept that funds derived from negligent drivers should be used to help underwrite the cost of the treatment program. Driver Training Penalty Assessment Funds are derived from fines imposed on traffic violators.

SECTION 19.17

DRIVER TRAINING

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section transfers the Driver Training Penalty Assessment Fund unencumbered surplus on June 30, 1983, to the General Fund. Our analysis of this section appears in Item 6100-171-178.

SECTION 19.70

UNIVERSITY OF CALIFORNIA HOSPITAL LOAN AUTHORIZATION

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This control section permits the Director of Finance to authorize the accelerated expenditure of budget funds by the University of California (UC) following the adoption of a resolution by the Regents of the university declaring a teaching hospital fiscal emergency. This would be done in anticipation of a supplementary General Fund appropriation. The increased expenditure, however, may not exceed \$2,450,000. Our analysis of this section appears in Item 6440-001-001.

CONTROL SECTION 19.91

TRANSFER OF AMOUNTS IN SPECIAL FUNDS TO THE GENERAL FUND

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation, pending clarification by the Department of Finance of the amounts available within specified special funds.

This section transfers \$128,150,000 from various special funds to the

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

General Fund. The transfer is to be made by the State Controller during 1981-82, upon order of the Director of Finance. This transfer is to aid in avoiding a General Fund deficit in 1981-82. The special funds and the amount to be transferred from each is as follows:

- Capital Outlay Fund for Public Higher Education (COFPHE)—\$31,321,000
- Energy and Resources Fund (ERF)—\$21,400,000
- Parks and Recreation Fund (SPRF)—\$11,128,000
- Special Account for Capital Outlay (SAFCO)—\$50,834,000
- Off-Highway Vehicle Fund—\$8,500,000
- Employment Development Contingent Fund (EDCF)—\$4,967,000

Availability of Funds. The amount of funds available for transfer from these funds to the General Fund is unclear. Nearly all the amounts specified for transfer represent funds freed up as a result of the administration's freeze on capital outlay expenditures during 1981-82. Under the Governor's Executive Order B87-81, the State Public Works Board was directed to defer allocation of funds for capital outlay purposes unless a project satisfied certain specified criteria. According to the Department of Finance, the savings from projects deferred under the executive order are as follows:

• COFPHE	\$31,425,000
• ERF	20,797,000
• PRF	4,052,000
• SAFCO	58,325,000
• Off-Highway Vehicle Fund	8,500,000
• EDCF	5,177,000
• Total	<u>\$128,276,000</u>

Although the total savings identified by the Department of Finance approximates the amount to be transferred under Section 19.91, the individual amounts from the various special funds vary substantially. For example, the amount transferred from the SAFCO is \$7.5 million less than the savings realized under Executive Order B87-81. It is not clear why the administration would defer capital outlay projects—and thereby cause project costs to increase as a result of inflation—if the \$7.5 million is not to be transferred to the General Fund. Under the Parks and Recreation Fund, the amount transferred is \$7.1 million *more* than the savings from the executive order. The difference appears to represent an unappropriated balance in the PRF. The Department of Finance, however, should verify that this balance is available.

In addition, the fund conditions of the various special funds, as identified in the Governor's Budget, are inconsistent and do not appear to reflect accurately either prior appropriations/expenditures, or the proposals contained in the Governor's 1982-83 Budget. It is our understanding that the Department of Finance is reviewing the condition of each fund, and that it will provide additional detailed information prior to budget hearings.

Finally, at the time this analysis was prepared, the Legislature was considering AB 7x which, in part, proposes to transfer \$9 million and \$27 million from the ERF and SAFCO, respectively, to the General Fund. Based on available information and taking into account the proposed transfers under Section 19.91, the amounts contained in AB 7x are surplus

unappropriated funds. If AB 7x is enacted, the Department of Finance should include these transfers in the revised fund condition report.

State Public Works Board Action. Under Executive Order B87-81, the Public Works Board has been directed to defer all projects except those which satisfy certain specific criteria. The Department of Finance, however, is continuing to present to the board all capital outlay requests from the various departments. In some cases, the board has allocated funds which are proposed for reversion and transfer to the General Fund in the Budget Bill. At its February 1, 1982 meeting, the board allocated \$1.1 million from the COFPHE for projects which are included in the Governor's Budget for reversion. The associated funds are proposed for transfer to the General Fund under Section 19.91. It is uncertain what actions the board will take prior to June 30, 1982. It is clear, however, that the administration's actions are not consistent with its proposal to revert specific projects and to transfer the funds to the General Fund. The Department of Finance should clarify the administrator's policy and actions prior to budget hearings.

SECTION 19.92

CAPITAL OUTLAY AUGMENTATION FUNDS IN THE SPECIAL ACCOUNT FOR CAPITAL OUTLAY

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section specifies that the unappropriated balance in the Special Account for Capital Outlay (SAFCO) may be used during 1982-83 to augment construction and acquisition projects, in accordance with Section 8.00, for projects funded from the Capital Outlay Fund for Public Higher Education and the SAFCO. According to the Governor's Budget, the SAFCO will have an unappropriated surplus balance of \$29.2 million on June 30, 1983. In contrast, the Capital Outlay Fund for Public Higher Education will have a balance of only \$1.8 million on June 30, 1983. Based on these anticipated balances, we believe it is reasonable to allow augmentation of COFPHE projects from the balances available in SAFCO.

SECTION 19.93

LEVEL OF AUGMENTATION ALLOWED FOR PROJECTS DEFERRED UNDER GOVERNOR'S EXECUTIVE ORDER B87-81

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of Control Section 19.93 because rebudgeted projects should be reevaluated and budgeted at the proper level in the 1982-83 Budget Bill.

This section specifies that, notwithstanding the provisions of Section 8.00, the State Public Works Board is authorized to augment appropriations for capital outlay projects which were deferred under the Governor's Executive Order B87-81 by a maximum of 28 percent of the original appropriation. Section 8.00 of the Budget Bill would allow a maximum augmentation of 20 percent. Throughout our analysis of the capital outlay program, we have recommended that the Department of Finance reassess the construction cost associated with each project that was deferred by the Governor's executive order. In many instances, the change in the anticipated cost of a project may be less than inflation during 1981-82; in other cases, it may be more. In any case, the department should follow

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

proper budget procedures by reevaluating the current anticipated costs of each project and adjusting the requested amount to reflect the most recent information. To simply increase the maximum allowable augmentation level is not a prudent allocation of limited state funds.

**SECTION 20.00
VACANT POSITIONS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section provides that all positions (other than California State University positions and exempt positions) which are continuously vacant for nine months (between October 1, 1981 and July 1, 1982) or longer are automatically abolished September 1, 1982. Provisions requiring automatic abolishment were first added in the Budget Act of 1972. Prior to that, vacant positions could be continued by specific Department of Finance authorization.

**SECTION 20.10
LEGISLATIVE COUNSEL BUREAU**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section permits the appropriation for support of the Legislative Counsel Bureau to be expended as authorized by the Joint Committee on Rules, rather than as submitted in the Governor's Budget, thereby retaining flexibility in the legislative branch to adjust the bureau's operating costs and staffing (within established classifications) to meet workload conditions. The section also exempts the bureau from certain Government Code and Budget Act sections which place restrictions on administrative and related matters.

**SECTION 21.30
TAX PREPARERS FUND**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 9891.44 of the Business and Professions Code provides that funds in the Tax Preparers Fund shall be continuously appropriated by the Legislature to support the activities of the Tax Preparers program. The Legislature, however, has appropriated specific amounts for support of the program annually through the Budget Act, instead of allowing for a continuous appropriation.

The 1981 Budget Act appropriated only \$1 for the Tax Preparers program for the current year. This appropriation has the effect of eliminating all program activities. Various bills repealing statutory authorization for the program have been introduced but none has passed.

For 1982-83, the Governor's Budget proposes that a control section be included in the Budget Bill prohibiting expenditures from the continuous appropriation. Section 21.30 would implement this proposal by providing that no money from the Tax Preparers Fund shall be encumbered in 1982-83 for support of the Tax Preparers program.

**SECTION 21.40
TEXTBOOK PRINTING**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section permits the Departments of Education and General Services to incur textbook printing obligations in 1982-83 for books which will be delivered in 1983-84. Our analysis of this section appears in Item 6100-186-001.

**SECTION 21.41
CHILD CARE FUNDS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section allows the Superintendent of Public Instruction to use funding agreements for allocating child care funds. Our analysis of this section appears in Item 6100-196-001.

**SECTION 21.42
HANDICAPPED CHILD CARE CENTERS**

We withhold recommendation, pending completion of a study by the Department of Education regarding reimbursement rates paid to child care centers serving handicapped individuals.

This section specified reimbursement rates and eligibility for handicapped children centers specially funded through the Budget Act. Our analysis of this section appears in Item 6100-196-001.

**SECTION 21.50
STATE FAIR ENTERTAINMENT CONTRACTS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section permits Cal-Expo to encumber up to \$300,000 for State Fair entertainment contracts in the fiscal year preceding the year in which the fair will be held. This authorization provides Cal-Expo with sufficient lead time to secure quality entertainment for the State Fair.

We recommend approval with the understanding that the \$300,000 appropriation will not increase Cal-Expo's total expenditures, and that the disbursements to pay for the contracts will be from Cal-Expo's General Fund support appropriation. In the past, the Department of Finance has administered Section 21.50 in this manner.

**SECTION 22.00
PURCHASE OF MOTOR VEHICLES**

ANALYSIS AND RECOMMENDATIONS

We recommend that this section be amended to exempt pick-up trucks from the requirement that passenger vehicles purchased by state agencies must be manufactured in the United States.

This section provides that the Department of General Services must

ANALYSIS AND RECOMMENDATIONS WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued

investigate and establish the necessity for the acquisition or replacement of motor vehicles. It also provides that all passenger automobiles shall be American-made and of the light class, unless the Director of the Department of General Services determines that unusual requirements, such as use by the California Highway Patrol, justify a heavier class automobile. Automobiles for constitutional officers are exempt from the provisions of this section.

In addition, the section prohibits a state agency from renting or leasing from a nonstate source "general use mobile equipment" having a purchase price of \$25,000 or more until the Department of General Services determines that comparable state-owned equipment is not available, unless waiting for prior approval would endanger life or property. "General use mobile equipment" refers to items such as air compressors and buses which could be used by various agencies, and excludes equipment such as fire trucks having specific uses which are limited to the controlling agency.

Effects of the State's "Buy-American" Policy

Last year the Legislature adopted supplemental language requesting our office to study the effects of the state's policy of buying only American-made passenger vehicles. The Legislature expressed interest in the effects of the policy on statewide employment and income as well as on direct state costs.

Because car manufacturers must keep certain production information confidential, we were unable to thoroughly analyze the statewide effects of this policy. The information we did gather suggests that the effect on employment and income would not be major if the buy-American restriction were removed.

We focused our review on the procurement of 1982 model vehicles by the Department of General Services. In particular, we studied the contract awards for subcompact automobiles and small trucks, because those are the only vehicle classes in which foreign models are competitive. Our analysis indicates that the bids on American-made subcompacts were no higher than the bids on foreign subcompacts, when the bids were adjusted for differences in fuel economy and equipment. Therefore, we have no fiscal basis to recommend a change in policy on subcompact automobiles.

We did find, however, that substantial savings would result from removing the place-of-manufacture restriction on small pick-up trucks.

Small Trucks Offer Savings

The Procurement Division in the Department of General Services (DGS) purchases two types of light utility trucks. Group I trucks are small four-cylinder vehicles which, until 1982, have all been manufactured abroad. DGS purchases them only for local governments which participate in its cooperative buying program. The three major car companies will start to produce this type of truck in the United States during 1982.

Group II trucks are half-ton, six-cylinder vehicles. They are the smallest trucks that state agencies are allowed to purchase, because until this year they were the smallest trucks manufactured in this country. Some departments still operate Group I trucks that DGS purchased for state use during the early 1970s.

We compared the life-cycle costs of the two categories of trucks, using

the data submitted by car dealers on bids to provide 1982 model vehicles to the state. The life-cycle cost is the sum of the price of the car and the cost of enough gasoline to operate it for 100,000 miles. Because of the lower initial price and the higher mileage ratings of Group I trucks, they had significantly lower life-cycle costs than Group II trucks. Table I shows the average vehicle price and the life-cycle cost of the trucks that will be purchased for local and state agencies.

Table 1
Average Price and Life Cycle Cost
1982 Model Procurement Awards

	<i>Group I</i> <i>(4 cylinder)</i>	<i>Group II</i> <i>(6 cylinder)</i>
Contract price	\$5,559	\$6,734
Life-cycle cost	9,391	12,269

The life-cycle cost difference between the two types of vehicles is \$2,878.

In many cases the work to be performed by an employee does not require a full-size truck. For example, construction inspectors in the Department of Transportation need to carry only a few pieces of equipment that are too bulky for an automobile but would easily fit into a small truck. In 1978, the State Equipment Council estimated that agencies could substitute 350 small trucks for the same number of six-cylinder pick-ups over the course of a replacement cycle, which lasts approximately seven years.

Our analysis indicates that the purchase of group I trucks in lieu of the larger six-cylinder trucks would save the state \$1 million in vehicle and gasoline costs over the lives of the small trucks. On this basis, we recommend that the restriction on place of manufacture be eliminated for pick-up trucks.

SECTION 24.00 RESIDENTIAL FURNISHINGS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section prohibits the expenditure of any funds appropriated by the Budget Act for the purchase of furnishings for any house, mobilehome, or apartment of three or more rooms. Dormitories which are rented to a state employee are exempted. This provision does not apply to refrigerators, heaters, air conditioning equipment, stoves, linoleum, or equipment normally furnished in the construction of the house, as may be determined by the State Board of Control. This control section continues a long-standing policy of the Legislature.

SECTION 24.50 RENT FROM EMPLOYEE HOUSING

ANALYSIS AND RECOMMENDATIONS

We recommend that this section be amended to require that support appropriations of departments having employee-rented housing be reduced by \$2.2 million (\$1.9 million General Fund) to offset additional reimbursements these agencies should receive as a result of increased rental rates paid by employees for state-owned housing to reflect market values.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

This section, which is identical to Section 24.50 of the 1981 Budget Act, prohibits expenditures from any increase in reimbursements resulting from rent increases charged to state employees in state-owned housing.

Through control language in the Budget Act of 1980, the Legislature directed the Board of Control to revise the rental structure for state-owned housing to reflect market values. This section was added to the 1981 Budget Bill in order to prevent agencies from expending unbudgeted increases in reimbursements received as a result of the new policy. The administration, however, did not implement the legislative policy in 1981-82.

In our analysis of the Department of Personnel Administration's budget (Item 8380), we discuss this issue and make recommendations for implementing the increased rent policy in 1982-83.

If the Legislature adopts our recommendations in Item 8380, Section 24.50 should be modified to read as follows:

"Notwithstanding any other provision of this act, support appropriations of departments having employee-rented housing are hereby reduced by a total of \$2.2 million (\$1.9 million General Fund) to offset additional reimbursements these agencies should receive as a result of the adjustment, effective July 1, 1982, of rental rates paid by employees for state-owned housing to reflect market values. The Department of Finance shall apportion this reduction among the departments."

**SECTION 25.00
CARPET PURCHASES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section limits the purchase of rugs or carpets for state offices to those occupied by elected officials, department heads, the President of the University of California, Chancellors of the University of California, the Chancellor of the California State University, Presidents of the California State University, and other facilities or areas in accordance with Department of General Services standards. It requires the Director of General Services to report annually to the Joint Legislative Budget Committee, giving details of all rugs or carpets purchased, and requires the director's approval prior to procurement and installation of such materials.

Further, the Director of General Services is required to submit to the Chairman of the Joint Legislative Budget Committee a cost/benefit analysis of open office landscape proposals 30 days prior to implementing such proposals.

**SECTION 25.10
OFFICE COPY MACHINES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section prohibits the Director of General Services from approving a lease agreement for an office copy machine until 30 days after he has advised the Joint Legislative Budget Committee as to why the copier

should be leased rather than purchased. This section was added to the 1978 Budget Bill because state agencies were leasing copiers even when it was economically advantageous to the state to purchase them. The intent of the section is to encourage the state to obtain office copy machines in the most cost-efficient manner possible.

SECTION 26.00
BUDGET ACT DEFINITIONS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section sets forth various conditions under which appropriations for support, capital outlay, and acquisition of land are to be made. It restricts expenditures to categories or projects set forth in the Budget Act schedule, unless otherwise provided in other sections of the act. Also, various words, terms and phrases found in the categorical schedules of the Budget Act items are defined by this section. This control section is identical to Section 26.00 of the 1981 Budget Act.

SECTION 26.50
EMPLOYEE BENEFITS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 26.50 of the Budget Act of 1981, provides that state contributions for payment of employee benefits, such as retirement, disability, unemployment, health insurance, survivors' insurance and workers' compensation insurance, which have continuing statutory appropriations, shall be included in the appropriation for each support budget item of the Budget Act.

In addition, this section continues the authority to use the statutory appropriations for expenditures not chargeable to Budget Act appropriations. It also authorizes the use of these statutory appropriations for expenditure of current-year funds to meet prior-year obligations, if sufficient funds are not available.

SECTION 26.60
MERIT SALARY ADJUSTMENTS—REVERSION

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation, pending submission of employee compensation increases negotiated through collective bargaining.

The Government Code (Section 19834) requires that automatic salary adjustments be made for state civil service employees in accordance with certain provisions and Department of Personnel Administration rules, unless there are not sufficient funds available.

Pursuant to these provisions and rules, almost all state civil service employees who remain in the same salary range receive annual salary increases of 5 percent until they reach the top step of their range.

Automatic salary adjustments are a negotiable issue under collective bargaining. Funding needed to provide for such adjustments during the budget year has been included within the budgets of the individual state agencies. According to the Department of Finance, a total of \$77.4 million

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

(\$55.3 million General Fund) has been budgeted for this purpose. Control Section 26.60 would cause all funds budgeted for the automatic increases to revert and, thereby, would make these funds available under the bargaining process for other purposes, including other forms of employee compensation.

We withhold recommendation on this section until state employee compensation increases have been negotiated and the negotiated agreements have been submitted for consideration by the Legislature.

**SECTION 26.70
STATUTORY SALARIES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section is identical to Section 26.70 of the Budget Act of 1981 and provides that the statutorily established salaries and wages of state officers are included in the appropriate support items of the Budget Act of 1982 in the amount in effect on June 30, 1982. Without the provisions of this section, the salary increases previously approved by the Legislature could not be continued and the salaries for these positions would be reduced to the base salary authorized in the statutes.

**SECTION 26.80
SALARIES FOR CAREER EXECUTIVE APPOINTMENTS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 26.80 of the Budget Act of 1981, prohibits funds appropriated by the Budget Act from being used to pay a civil service employee a salary which is above the maximum of the employee's present salary range for more than 90 calendar days following termination of a career executive appointment (C.E.A.). The stated intent of permitting payment above the maximum salary range for the 90-day period is to facilitate the employee's adjustment to a lower salary level.

This section does not apply with respect to employees who accepted C.E.A.s between June 20, 1976 (the date the State Personnel Board implemented a policy of paying an employee above the maximum of the employee's present salary range following termination of a C.E.A.) and July 1, 1977 (the effective date of Control Section 26.8, which the Legislature added to the Budget Act of 1977), because it could be construed as a breach of contract.

SECTION 27.00

**ANALYSIS AND RECOMMENDATIONS
DEPARTMENT OF FINANCE TRANSFER OF AMOUNTS WITHIN SCHEDULES**

We recommend approval.

This section, which is identical to Section 27.00 of the Budget Act of 1981, authorizes the Director of Finance, when requested by the agency to which the appropriation is made, to transfer amounts between categories or projects within the same schedule in any item of appropriation. The

Director of Finance is required to report quarterly to the fiscal committees of each house and to the Joint Legislative Budget Committee all transfers approved pursuant to this authority.

Transfers made under this section, with one exception, are limited to 20 percent of the amount authorized for the line item to be augmented. Transfers in the Department of Transportation Highway Program are limited to 10 percent of the line item amount, in order to conform to other statutory restrictions on the department's expenditures.

SECTION 27.50

STATE EXPENDITURE REVOLVING FUND

ANALYSIS AND RECOMMENDATIONS

We recommend that this section be amended to clarify that both the Department of Finance and the State Controller must concur if transfers to the State Expenditure Revolving Fund in excess of 10 percent of any one appropriation are to be authorized.

This section, initiated in the 1981 Budget Act, allows departments to make expenditures against a pool of their support funds and allocate the costs to programs later, through submittal of a plan for financial adjustment (PFA).

Under Ch 1284/78, the Department of Finance was directed to develop and implement a departmental program cost accounting system to account for expenditures by line item, program, organization unit, and funding source. The Legislature budgets by program for departments using the new system, and the State Controller is required to limit expenditures from the department's support appropriations to the amount specifically budgeted for each item.

Recognizing that departments may not be able to precisely identify the correct allocation of overhead and other indirect costs to various programs when they request the Controller to pay a claim, the Legislature established the State Expenditure Revolving Fund (SERF) to facilitate the timely payment of claim.

The Department of Finance is proposing several changes to this section for 1982-83. First, the language would be changed to specify that the Department of Finance "and the State Controller may approve transfers in excess of 10 percent. . . ." This language is intended to formalize current practice whereby the approval of both agencies is necessary to effect such transfers. We believe, however, that the language should be amended to clarify that the approval of both agencies, rather than either agency, is necessary. Accordingly, we recommend that the language of Section 27.50 be amended as follows:

On page 273, line 37 "The Department of Finance and the State Controller may jointly approve transfers in excess of 10 percent from any one appropriation."

Second, the department proposes that provisions precluding the transfer of local assistance or capital outlay funds to SERF be adopted. Our analysis indicates that this is a reasonable prohibition, and we recommend it be approved.

Finally, the department is proposing language which would allow the State Controller to transfer any funds deposited in SERF (including special fund monies) to the General Fund, in order to meet cash needs of the General Fund. These funds would be repaid, without payment of interest,

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

as soon as sufficient monies are available to the General Fund.

**SECTION 28.00
REPORTING NEW OR EXPANDED PROGRAMS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 28.00 of the Budget Act of 1981, authorizes the Director of Finance to: (1) Increase or decrease the amounts available for expenditure by an agency when funds received from any other source exceed or fall short of the amounts scheduled in the Budget Act, (2) approve expenditures for new programs not identified in the Governor's Budget or for purposes which constitute an increase in the level of service above that authorized by the Budget Act. These actions may be taken provided that the fiscal committees of each house and the Joint Legislative Budget Committee are notified in writing of such changes at least 30 days in advance. Upon request of the Director of Finance, the chairman of the committee is authorized to waive the 30-day waiting period.

This section also includes a provision whereby a Section 28.00 authorization which spans both the current fiscal year and the budget year (because it was too late for inclusion in the Governor's Budget) will not have to be reauthorized by the Director of Finance or be subject again to legislative review for the specified budget year.

**SECTION 28.05
BUDGET ACT CODES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which has not appeared in previous Budget Acts, authorizes the Department of Finance to amend the codes used in the Budget Act in order to provide compatibility between the Budget Act, the Governor's Budget, and the State Controller's records. It also specifies legislative intent that these codes do not affect the scope, meaning, or intent of Budget Act provisions.

Pursuant to the requirements of Government Code Section 13338, the Budget Act now incorporates a uniform coding scheme for items of appropriation, programs, funding source, and appropriation schedules. These uniform codes are intended to facilitate the comparison of accounting records maintained by the Department of Finance, the State Controller, and the individual agencies.

This control section allows the Department of Finance to amend the codes used in the Budget Act (presumably, through a budget revision letter) when discrepancies between the Budget Act codes and agency codes are discovered, or when necessary to facilitate program accounting.

SECTION 28.10**LEASE-PURCHASE AGREEMENTS—UNIVERSITY OF CALIFORNIA****ANALYSIS AND RECOMMENDATIONS**

We recommend approval.

This section provides for legislative review and approval of lease-purchase agreements proposed by the University of California. This procedure applies only to agreements involving building space, and does not apply to equipment, other types of materials or facilities.

SECTION 28.20**LEGISLATIVE OVERVIEW OF LEASING FACILITIES FOR STATE OCCUPANCY****ANALYSIS AND RECOMMENDATIONS**

We recommend that this section be amended to require legislative review of proposals to lease facilities for state occupancy.

In prior years, this section provided a measure of legislative control over lease agreements, lease-purchase agreements or lease-with-purchase-option agreements for facilities for state occupancy.

Ch 919/81 modified the Government Code to allow the Director of General Services to enter into lease-purchase or lease-with-purchase option agreements if the Director solicits written bids for such proposals and if the agreement has been reviewed by the Legislative Analyst and notification has been given to the Joint Legislative Budget Committee. Thus, Chapter 919 provides for a modified degree of legislative review over leasing facilities under lease-purchase or lease-with-purchase-option agreements. Chapter 919, however, provides no review of lease agreements which do not contain provisions for purchase.

Section 28.20, as proposed in the 1982-83 Budget Bill, indicates that the requirements of this section are provided for pursuant to the provisions of Ch 919/81. As indicated above, however, Chapter 919 does not provide for legislative overview of lease agreements which do not contain lease-purchase or lease-with-purchase-option arrangements. At the present time, the state is leasing 10.6 million square feet at an annual cost of \$72 million. In Sacramento County alone, the state is leasing 4.4 million square feet at an annual cost of \$23.2 million. Given the magnitude of these expenditures, we believe that proposed increases should receive legislative review. Consequently, we recommend that the following language be reinstated under Section 28.20 so that a measure of legislative control over new leases will continue to be available:

“The Director of General Services may not execute a lease agreement between the state and other entity, public or private, in which the state is lessee when the agreement is to be for the lease of a building or building space or both which will be for the occupancy of any agency or agencies of the state with a firm lease period of five years or longer and an annual rental in excess of \$10,000, unless not less than 30 days prior to its execution he notifies the chairman of the committee in each house which considers appropriations and the Chairperson of the Joint Legislative Budget Committee or his or her designee in writing of his intention to execute such an agreement, or not sooner than such lesser time as the chairperson of said committee, or his or her designee, may in each instance determine, provided that no funds appropriated in this act may be encumbered or expended for any lease entered into on or after July 1, 1979, for office space in the County of Sacramento unless all solicitations for leases for office space in the County of Sacramento unless these conditions shall contain the statement, “The state is an-

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

icipating capital construction in the City of Sacramento and intends to eventually reduce the use of space on a leased basis.”

The above language is identical to the language contained in prior budget acts.

**SECTION 28.30
DEPARTMENT OF SOCIAL SERVICES**

ANALYSIS AND RECOMMENDATIONS

We recommend that Section 28.30 be amended to require the Department of Social Services to submit methodological statements on specified estimates to the Department of Finance, the Joint Legislative Budget Committee and the fiscal committees as part of the May 1983 revision of expenditure estimates.

This control section is similar to Section 28.30 of the 1981 Budget Act. It requires the Department of Social Services (DSS) to submit to the Department of Finance by specified dates all assumptions used to estimate welfare caseloads, costs and savings. In addition, this section requires that the Joint Legislative Budget Committee receive the approved assumptions, and cost and caseload estimates immediately after approval by the Department of Finance, but no later than January 10 and May 15.

The 1981 Budget Act required DSS to submit to the Department of Finance and the Joint Legislative Budget Committee a discussion of the methods used to derive the cost and caseload estimates for public assistance programs. The proposed 1982 Budget Bill continues this requirement. The proposed language, however, requires these methodological discussions only for the November 1982 estimates, but not for the May 1983 revision of expenditure estimates. Because the methodologies used in constructing these estimates may change significantly from November to May, we recommend Control Section 28.30 be amended to require the DSS to submit methodological discussions on the major estimates in May 1983 *in the event that the methodology used in November 1982 is altered*. The following language is consistent with this recommendation.

“The Department of Social Services shall submit to the Department of Finance, as part of the estimates compiled for November 1, 1982, a brief narrative description of the methodological steps employed in arriving at (a) the basic grant costs for the AFDC and SSI/SSP programs, (b) the basic administrative costs for the AFDC and Food Stamp programs, (c) all cost estimates for the In-Home Supportive Services program, and (d) any cost estimate, for new regulations or legislation which exceeds 2 percent of the total cost of the affected program. Such methodological discussions shall be forwarded to the Joint Legislative Budget Committee and the fiscal committees along with the November 1, 1982, estimates of expenditures. In addition, the Department of Social Services shall, upon request, develop and make available brief written narratives of the steps taken to arrive at specified estimates. Copies of the written narratives, working papers, and data employed in the construction of any estimate used to prepare the Governor’s Budget shall be made available by the Department of Social Services upon request to the Joint Legislative Budget Committee or the Department of Finance.

In the event that the methodological steps employed in arriving at these

estimates in May 1983 differ from those used in November 1982, the Department of Social Services shall submit a brief narrative description of the revised methodology to the Department of Finance, the Joint Legislative Budget Committee and the fiscal committees, along with other materials included in the May 1983 revision of expenditure estimates."

CONTROL SECTION 28.31

DEPARTMENTS OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES— COMPARISON OF POPULATION LEVELS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Control Section 28.31 requires the Department of Mental Health (DMH) and the Department of Developmental Services (DDS) to report to the Department of Finance and the Legislature three times a year on the population levels in the state hospitals. The language further requires that the departments include in their reports a comparison of actual population levels and estimated levels, and, where the estimated level differs substantially from the actual level, to analyze the causes of the difference.

The language was first included in the 1980 Budget Act because the departments separately submitted population estimates in the budget which were inconsistent with other estimates provided to the Legislature and the federal government.

CONTROL SECTION 28.35

DEPARTMENT OF HEALTH SERVICES—MEDI-CAL PROGRAM EXPENDITURES

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section requires the Department of Health Services to prepare and submit detailed estimates and assumptions regarding Medi-Cal program expenditures three times a year, by specified dates. Estimates cover (a) health care services, (b) county administrative cost of eligibility determinations, and (c) fiscal intermediary costs for processing providers' Medi-Cal claims.

The 1980 Budget Act first included this requirement because the Legislature was not receiving sufficient information on the assumptions used in estimating Medi-Cal costs.

SECTION 28.40

FUNDING OF COSTS DUE TO EXECUTIVE ORDERS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 28.40 of the Budget Act of 1981, provides that no moneys appropriated in the Budget Act shall be used to fund increased state or local costs arising from the issuance of executive orders unless (a) funds are appropriated for such purposes or (b) the chairman of each fiscal committee and the Chairman of the Joint Legislative Budget Committee are notified at least 30 days prior to any such expenditure or encumbrance of funds.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**SECTION 28.41
REIMBURSEMENTS OF LOCAL REVENUE LOSSES AND STATE-MANDATED
LOCAL COSTS**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which was first added in the Budget Act of 1980, allows the Director of Finance to redirect funds between appropriations made by the Budget Act for reimbursement of local revenue losses and state-mandated local costs pursuant to Revenue and Taxation Code Sections 2229, 2230 and 2231. In this way, a deficiency can be augmented from the unencumbered balance of another appropriation.

Authorization for such an augmentation cannot be made sooner than 30 days after written notification has been given to the chairpersons of the fiscal committees and the Joint Legislative Budget Committee.

**SECTION 28.50
DEFICIENCIES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 28.50 of the Budget Act of 1981, provides that when the Department of Finance approves the creation of deficiencies or approves expenditures at a rate which will create a deficiency, it shall file such approval in writing with the fiscal committee of each house and the Joint Legislative Budget Committee within 10 days, stating the reasons for, and the amount of, such authorization.

**SECTION 28.70
HOSPITAL RESERVE FUNDS—UNIVERSITY OF CALIFORNIA**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section requires approval by the Director of Finance and legislative review of University of California capital outlay projects costing over \$150,000 and funded from Health Sciences Hospital Reserve Funds. Projects costing less than \$150,000 are identified in an annual report submitted to the Chairman of the Joint Legislative Budget Committee. Equipment projects are exempt from this section, and urgent projects related to patient life or safety do not require prior approval but are included in the annual report.

The \$150,000 limit is higher than the \$100,000 level specified in prior years. This is consistent with the 1982-83 increase in minor capital outlay cost limits per project, and we recommend approval.

SECTION 28.71
RECLASSIFICATION OF PHYSICAL FACILITIES
UNIVERSITY OF CALIFORNIA AND CALIFORNIA STATE UNIVERSITY

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section requires approval by the Department of Finance before funds appropriated in the Budget Act can be used by the Regents of the University of California or the Trustees of the California State University to reclassify instructional capacity space, administrative space, library space or faculty offices to other uses. The Chairman of the Joint Legislative Budget Committee or his designee is provided a 30-day written notification of such proposed reclassifications.

There may be justification for some reclassification of space, and this section allows such reclassifications to occur while providing a reasonable degree of administrative and legislative control.

SECTION 28.90
UNIVERSITY OF CALIFORNIA AND CALIFORNIA STATE UNIVERSITY
ENROLLMENT FLUCTUATIONS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section provides administrative flexibility to correct the budget in case of enrollment fluctuations in the University of California and California State University. Our analysis of this section appears in Item 6610-001-001.

SECTION 28.91
CALIFORNIA STATE UNIVERSITY

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 28.91 of the Budget Act of 1981, exempts the California State University from certain provisions of Section 13320 of the Government Code and applicable Budget Act restrictions. Our discussion of this section appears under Item 6610-001-001.

SECTION 29.00
PREMIUMS FOR OFFICIAL BONDS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 29.00 of the Budget Act of 1981, permits the payment of premiums for official bonds, notwithstanding the period covered by such bonds.

SECTION 30.00
ACCOUNTING PROCEDURES

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 30.00 of the Budget Act of 1981, provides that for accounting purposes, certain authorized expenditures may be considered to be an augmentation of the appropriation made by this act. These expenditures include those authorized from the Reserve for Contingencies or Emergencies, from total equivalent compensation

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

funds, from the price increase funds, from the salary increase funds, or from special funds pursuant to Section 11006 of the Government Code.

**SECTION 31.00
ADMINISTRATIVE AND ACCOUNTING PROCEDURES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is similar to Section 31.00 of the Budget Act of 1981, defines certain administrative and accounting procedures required by the Department of Finance. It requires expenditures to be made in accordance with established allotments, and restricts promotions, reclassifications and the creation of new positions, unless approved by the Department of Finance. This section establishes a salary saving reserve to be reported by the agencies to the Department of Finance for approval, and limits the use of the reserve. It also requires certification by the agencies that expenditures have been made for the purposes stated in the budget, unless the purposes have been revised by the Department of Finance.

Additionally, this section requires all positions administratively established during 1982-83 to terminate on June 30, 1983, except those positions (a) included in the 1983-84 Governor's Budget as proposed new positions, or (b) approved by the Department of Finance and reported to the Legislature after submission of the 1983-84 Governor's Budget. Administratively established positions which are reported to the Legislature after the submission of the budget and reestablished in 1983-84 must be identified in the 1984-85 Governor's Budget or subsequent Department of Finance letters to the Legislature. However, any position deleted by the Legislature during the 1983-84 budget process cannot be reestablished during 1983-84.

Section 31.00 also requires the Director of Finance to notify the chairman of the fiscal committees and the Joint Legislative Budget Committee within 30 days of the creation or reclassification of those positions with a minimum pay scale of \$1,900 per month. This is an increase of \$100 over the monthly amount that is included in the 1981 Budget Act. The increase is reasonable when allowance is made for inflation, and recommend approval.

**SECTION 32.00
EXPENDITURES IN EXCESS OF AMOUNTS APPROPRIATED**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 32.00 of the Budget Act of 1981, prohibits and declares invalid any action by any public officer which would cause any expenditure to be in excess of amounts appropriated, except with the written consent of the Department of Finance. Any indebtedness thereby created against the state in violation of these provisions would be considered null and void. The Department of Finance is to submit copies of all written consent documents to the fiscal committees of each house and to the Joint Legislative Budget Committee quarterly.

SECTION 32.20
GOVERNOR'S REORGANIZATION PLANS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1242, Statutes of 1974, provides that the Governor may develop and implement a reorganization of state departments subject to disapproval by resolution of either house. This section, which is identical to Section 32.20 of the Budget Act of 1981, enables the Director of Finance to transfer the unexpended appropriations for activities which have been reorganized, in order that such activities may be continued in the new organizational structure. Such transferred funds can be used only for the purpose for which the appropriation was originally made.

SECTION 33.00
GOVERNOR'S VETOS

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 33.00 of the Budget Act of 1981, contains a severability clause which declares the intent of the Legislature that an item veto by the Governor shall not affect other items in the Budget Bill.

SECTION 34.00
LEGISLATIVE INTENT

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 34.00 of the Budget Act of 1981, contains a severability clause which states legislative intent that a finding of unconstitutionality with respect to any part of the Budget Bill shall not affect any other parts.

SECTION 35.00
IMMEDIATE EFFECT OF APPROPRIATION

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 35.00 of the Budget Act of 1981, specifies that, under provisions of Section 8, Article IV of the California Constitution, the Budget Act appropriation shall take effect immediately.

SECTION 36.00
URGENCY CLAUSE

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 36.00 of the Budget Act of 1981, provides that the Budget Act is an urgency statute and shall take effect immediately.

**ANALYSIS AND RECOMMENDATIONS
WITH RESPECT TO GENERAL CONTROL SECTIONS—Continued**

**SECTION 37.00
BUDGET BILL INDICES**

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This section, which is identical to Section 37.00 of the Budget Act of 1981, provides two indices: (a) by Budget Act code and (b) by department or budget title. Both indices show also the type of fund which is budgeted and references the related explanatory page in the Governor's Budget. The Budget Bill of 1981 introduces a new coding format for each item in the budget. The 10-digit code involves identification of the agency (first four digits), object of the appropriation (second three digits), and identification of the relevant fund (last three digits). The new format is a part of the implementation of a comprehensive statewide accounting and budgeting network, the California Fiscal Information System (CFIS), mandated by Chapter 1284 (Statutes of 1978).