

purposes of debt financing, and alternative methods of infrastructure financing. For 1984-85, the CDAC plans to conduct studies on the debt-related activities of redevelopment agencies (as required by Ch 1123/83) and the effects of overlapping and multiple jurisdictions issuing debt for the same purposes. The budget requests \$31,000 for these studies, which is \$26,000 less than the amount included for the current year.

Savings in Salaries and Wages

We recommend a reduction of \$4,000 from the California Debt Advisory Commission Fund (Item 0970-001-171) to correct for overbudgeting.

CDAC currently is authorized a Career Executive Assignment (CEA) position to manage the policy development and financial advisory assistance functions of the commission. Originally, this position was authorized at Level II, and the 1984-85 budget request includes personal services costs of approximately \$46,000 for the position. However, at its October 18, 1983 meeting, the State Personnel Board *reduced* the CEA position from Level II to Level I. As a result, the cost of the position in 1984-85 will be approximately \$42,000, or \$4,000 less than the amount included in the budget. Accordingly, we recommend deletion of this amount.

State and Consumer Services Agency MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General
Fund

Budget p. SCS 1

Requested 1984-85	\$6,944,000
Estimated 1983-84	4,884,000
Actual 1982-83	3,864,000
Requested increase (excluding amount for salary increases) \$2,060,000 (+42.2 percent)	
Total recommended reduction	322,000
Recommendation pending	1,484,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Museum Operating Costs. Recommend Legislature adopt supplemental report language directing the museum to study alternatives to the current method of funding and managing the museum. 146
2. Compensation of Museum Staff. Recommend that the museum and the Department of Finance justify the dual compensation arrangement provided the museum's top administrators. 147
3. Contractual Agreements. Recommend adoption of Budget Bill language requiring notification to the Legislature before the museum enters into certain real estate contracts. 149
4. *Electronic Security System. Reduce Item 1100-001-001 by \$322,000.* Recommend funding for proposed electronic security system be deleted, because the expenditure consti- 151

MUSEUM OF SCIENCE AND INDUSTRY—Continued

- tutes capital outlay and should be funded—on a priority basis—from Item 1100-301-036.
5. Museum Security Reorganization. Withhold recommendation on security-related expenditures totaling \$1,449,000, pending submission of further documentation by the museum. 151
 6. Equipment Purchase. Withhold recommendation on the requested expenditure of \$35,000 for equipment to be used in connection with the preparation of museum correspondence. 151

GENERAL PROGRAM STATEMENT

The Museum of Science and Industry (MSI) is an educational, civic, and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors appointed by the Governor. The museum's programs and exhibits are designed to stimulate the public's interests in and knowledge of science, economics, and industry. A portion of the program is financed by the Museum Foundation Fund, which is supported by private contributions. Several facilities of the museum are available to public and private groups for various functions.

Associated with the Museum of Science and Industry is the Museum of Afro-American History and Culture. Its exhibits, which first received state support in 1981-82, currently are displayed in MSI facilities. The Afro-American museum is scheduled to move into its own state-built facility in Exposition Park in July 1984.

The museum also owns and operates 26 acres of public parking, which are made available for the use of its patrons as well as those of the adjacent coliseum, sports arena, and swimming stadium. These facilities are all located in Exposition Park, which is owned and maintained by the state through the museum. In addition to providing security for its own facilities, the museum is responsible for security in Exposition Park.

The museum has approximately 164 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$6,944,000 from the General Fund to support operation of the Museum of Science and Industry and the Museum of Afro-American History and Culture in 1984-85. This is \$2,060,000, or 42 percent, more than estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefits increase approved for the budget year.

Total expenditures proposed for support of the museum in 1984-85 include \$19,000 financed from reimbursements and \$980,000 financed by the California Museum Foundation of Los Angeles. Table 1 shows the museum's expenditures for the past, current, and budget years.

The \$2,060,000 increase in expenditures proposed for 1984-85 reflects several program increases, as well as increases needed to maintain the museum's current level of activity. Table 2 indicates that the major program changes proposed for 1984-85 are: (1) \$161,000 and four positions for the new Aerospace Science Museum; (2) \$278,000 and 8.5 positions for the Afro-American Museum; and (3) \$1,478,000 for a major security reorganization, financed by \$393,000 in savings from the elimination of 19 security positions and a General Fund augmentation of \$1,085,000.

Table 1
Museum of Science and Industry
Budget Summary
1982-83 through 1984-85
(in thousands)

<i>Programs</i>	<i>Actual 1982-83</i>	<i>Estimated 1983-84</i>	<i>Proposed 1984-85</i>	<i>Change, 1984-85 Over 1983-84</i>	
				<i>Amount</i>	<i>Percent</i>
Education:					
Museum Operations	\$2,603	\$2,832	\$4,292	\$1,460	51.6%
Science Workshop	44	55	58	3	5.4
Aerospace Science Museum	52	100	291	191	191.0
Afro-American Museum.....	200	342	513	171	50.0
Hall of Economics and Finance	60	240	260	20	8.3
Subtotals, Education	(\$2,959)	(\$3,569)	(\$5,414)	(\$1,845)	(51.7%)
Administration	\$1,145	\$1,334	\$1,549	\$215	16.1%
Foundation	(814)	(944)	(980)	(36)	(3.8)
Totals	\$4,104	\$4,903	\$6,963	\$2,060	42.0%
<i>General Fund</i>	<i>\$3,864</i>	<i>\$4,884</i>	<i>\$6,944</i>	<i>\$2,060</i>	<i>42.2%</i>
Reimbursements	240	19	19	—	—
Personnel-years	114.9	142.9	148.8	5.9	4.1%

Table 2
Museum of Science and Industry
Proposed 1984-85 Budget Changes

	<i>General Fund</i>
1983-84 Expenditures	\$4,884,000
Baseline Adjustments	
Full-Year Funding for Salary Increase.....	117,000
Merit Salary Adjustment	32,000
Operating Expenses and Equipment	238,000
Miscellaneous	111,000
Workload Adjustments	
Business Office Staff (2 positions)	38,000
Program Changes	
Opening of Aerospace Science Museum (4 positions)	161,000
Completion of Afro-American Museum (8.5 positions)	278,000
Security Reorganization.....	(1,085,000)
Reduce Security Staff (-19 positions)	-393,000
Contract with State Police	972,000
Add Temporary Help (4.5 positions)	80,000
Add Exhibit Information Assistants (7.5 positions)	104,000
Install Electronic Security System	322,000
1984-85 Proposed Expenditures.....	\$6,944,000

Museum of Afro-American History and Culture

The budget proposes \$843,000 from the General Fund for support of the Museum of Afro-American History and Culture in 1984-85. This is an increase of \$247,000, or 41 percent, over estimated current-year expenditures.

The Museum of Afro-American History and Culture (MAHC) was au-

MUSEUM OF SCIENCE AND INDUSTRY—Continued

thorized within the Museum of Science and Industry by Ch 571/77. The Legislature expressed its intent that the MAHC preserve, collect, and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports, and history of the state and the nation. The MAHC is governed by a seven-member advisory board, four of whom are appointed by the Governor, with one each being appointed by the Senate, the Assembly, and the Museum of Science and Industry.

The 1982 Budget Act appropriated funds to construct a building to house the MAHC's program activities. The museum indicates that construction will be completed and the building opened to the public in July 1984.

ANALYSIS AND RECOMMENDATIONS**Museum Foundation Undertaking Major Fund Raising Effort**

Since October 1982, the nonprofit California Museum Foundation of Los Angeles has conducted a private fund raising effort to finance various capital and exhibit-related expenditures on behalf of the Museum of Science and Industry. Specifically, the foundation has set a goal of raising \$35 million by the end of 1984 in order to:

- Construct and provide exhibits for the Mark Taper Hall of Economics and Finance;
- Complete the new Museum of Aerospace Science, including the adjoining Air and Space Garden and Imax Theater;
- Remodel the existing Armory Building;
- Rehabilitate and replace most of the exhibits in the museum's main building and Hall of Health; and
- Build a pedestrian mall along the street in front of the main building.

The target date for completing most of these changes is July 1984, just prior to the start of the 1984 Olympic Games, which will be headquartered in Exposition Park. As of January 1984, the foundation had received approximately \$26 million in donations.

Museum Operating Costs Linked to Foundation Efforts

We recommend that the Legislature adopt supplemental report language directing the museum to study alternatives to the current method of funding and managing the museum.

The California Museum Foundation of Los Angeles has been the prime mover behind the expansion and upgrading of the Museum of Science and Industry. For example, the foundation has been instrumental in financing:

- The construction of the Mark Taper Hall of Economics and Finance;
- The exhibits in the Museum of Aerospace Science and the Air and Space Garden, and the construction of the adjacent Imax Theater; and
- The ongoing renovation of most of the exhibits in the museum's main building.

The level of the museum's state-financed operating costs are directly affected by the capital outlay and program expenditures of the foundation. As new buildings are constructed and exhibits upgraded, the state incurs increased costs related to security, plant maintenance, and general administration. The museum has, in fact, requested significant increases in its support budget in each of the last two years, reflecting the increased

operating and overhead costs associated with foundation-financed projects. In future years, the museum's budget requests will continue to be driven upward by the cost of *new* foundation-financed projects.

The fund raising and development activities of the foundation provide significant benefits to the museum and those served by it. Consequently, the foundation deserves credit for its fund raising efforts. At the same time, however, these efforts create the following problems for the Legislature: directing the state's limited financial resources to the highest priority programs and activities, and controlling the rising costs of operating the museum. It is possible that the Legislature would not have placed as high a priority on those projects initiated by the foundation (without legislative approval) as the foundation did. Once the projects are completed, however, the Legislature has little choice except to appropriate the money needed to staff, maintain, and secure them. It is likely that in some cases, the operation of new exhibits requires funds that the Legislature would have preferred to use for other purposes.

If the foundation is to continue playing a major role in initiating museum capital outlay and exhibit projects, the Legislature may want to consider options for *controlling or limiting* the state's responsibility for financing the projects' ongoing operating costs. These options would include: (1) requiring the foundation to secure private commitments to finance the operation of new projects *before* construction on them is begun, and (2) securing advance legislative approval of any new projects and the ongoing costs of maintaining them. Given its ability to raise private capital for the museum, the foundation may be a viable source of funding for future increases in museum *operating* costs, especially if greater managerial control of the museum were linked to the additional financial support.

In order to assist it in considering alternative funding arrangements for the Museum of Science and Industry that can increase legislative control of expenditures, we recommend that the Legislature adopt the following supplemental report language:

The Museum of Science and Industry shall conduct a feasibility study to determine the willingness and ability of the California Museum Foundation of Los Angeles to assume greater financial and managerial responsibility for the museum in the context of reduced state operating support. Specifically, the study shall address, but not be limited to, the following issues:

- (a) The appropriate level and form of continued state support for the museum;
- (b) The means by which the foundation could provide funding for the museum's current and future operations; and
- (c) The extent to which the state should be involved in the overall administration of the museum.

The museum shall submit a written report of the feasibility study to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1984.

Should the Museum's Top Staff Receive Two Salaries?

We recommend that during budget hearings the fiscal subcommittees direct the museum and the Department of Finance to present information documenting the need for and the propriety of the current arrangements for compensating the museum's Executive Director and chief deputy director.

MUSEUM OF SCIENCE AND INDUSTRY—Continued

Historically, the California Museum Foundation of Los Angeles has provided financial support for the museum's exhibit and educational programs, while the state generally has financed the administration of the museum as well as the maintenance of Exposition Park.

Two of the museum's employees—the Executive Director and chief deputy director—also work for the foundation. The museum's executive director serves as the foundation's executive vice president, and receives in compensation an annual consultant fee as well as the use of a limited expense account. The museum's chief deputy director acts as administrative vice president of the foundation. He also is paid an annual consultant fee and has the use of a limited expense account. Table 3 summarizes the compensation provided to these two museum employees.

Table 3
Museum of Science and Industry
Compensation of Top Administrators

<i>1983-84</i> <i>Compensation Element</i>	<i>Executive</i> <i>Director</i>	<i>Chief</i> <i>Deputy Director</i>
State Salary	\$50,784	\$45,393
Foundation Consultant Fee ^a	29,216	8,400
Total Annual Compensation	\$80,000	\$53,793
Foundation Expense Account—Annual Limit ^a	\$20,000	\$1,200

^a These financial arrangements were subject to change in October 1983, the anniversary month of each administrator's annual contract with the foundation.

The Auditor General recently reviewed the compensation arrangement for the museum's Executive Director and chief deputy director in connection with his study of museum operations. In a report dated April 1983, the Auditor General indicates that the Executive Director's official statement of duties *does* include responsibilities related to the management of the foundation. The report, however, also cites an opinion of the Department of Personnel Administration which questions the legality of the dual compensation received by the Executive Director.

The museum's chief deputy director performs administrative duties for the foundation, but according to the Auditor General's report, these duties are *not* part of this employee's official state responsibilities. The report also questions whether the chief deputy director is devoting his "full-time attention and efforts" to his state employment, as required by law, since in effect he holds two positions simultaneously.

In an official response to the Auditor General's findings, the State and Consumer Services Agency (which oversees the museum) stated that no action would be taken with respect to the dual compensation issue until the agency had conducted its own review. We have been informed by the agency that this review has been completed, and that a formal position statement has been sent to the Governor's Office for consideration.

The payment of compensation beyond a state salary to any state employee performing related or complementary work is highly unusual, to say the least. As the Auditor General's study indicates, the dual compensation arrangement enjoyed by the museum's top administrators may also be inappropriate. In order to facilitate legislative consideration of this matter, we recommend that during budget hearings the fiscal subcommittees direct both the museum and the Department of Finance to present

information documenting the need for and the propriety of the current arrangements for compensating the Executive Director and the chief deputy director.

Legislative Review of Museum Agreements Should Continue

We recommend that the Legislature once again adopt Budget Bill language providing for legislative review of certain agreements entered into by the museum involving the use of real property owned by the museum.

The museum has leased several parking lots to the Los Angeles Olympic Organizing Committee (LAOOC) for use during the period June 26, 1984 through August 14, 1984. Under the terms of the contract, the museum will receive from the LAOOC compensation worth \$800,000. Instead of being provided in the form of cash, compensation will consist of \$600,000 in general park improvements and \$200,000 in repairs and re-stripping of the leased parking lots following the Olympic competition.

In our *1983-84 Analysis* (page 147), we expressed two concerns regarding the museum's lease agreement with the LAOOC. First, it was not clear to us that the museum received adequate compensation for the state. Second, the barter-like arrangement between the museum and the committee bypassed the normal legislative procedure for reviewing and approving special repair and capital outlay projects.

In order to provide an opportunity for legislative review of future agreements involving the use of museum property, the Legislature added language to the museum's item in the 1983 Budget Act. This language requires the Director of General Services to delay for 30 days the approval of any agreements covering real property owned by the museum if the agreement would reduce state revenues or increase state costs by more than \$25,000. This provision allows the Joint Legislative Budget Committee to review any proposed agreement on behalf of the Legislature.

The Department of Finance has not included this language in the 1984 Budget Bill because it believes the notification requirement is no longer necessary. Since the requirement has been in effect for less than one year, we believe it is premature to conclude that there is no longer a need for this language. In order to assure that the Legislature continues to have an opportunity to review agreements with significant fiscal effects, we recommend that the Legislature again adopt the following Budget Bill language:

The Director of General Services may not approve a contract, permit, or lease agreement for any real property owned by the museum which reduces state revenues or increases state costs by \$25,000 or more, unless not sooner than 30 days prior to giving his approval, the Director submits in writing to the Chairperson of the Joint Legislative Budget Committee notification of his intent to approve such contract, permit, or lease, or not sooner than such lesser time as the Chairperson may in each instance determine.

Museum Again Proposes Major Security Reorganization

Background. Currently, safety and protective services for Exposition Park are provided by the museum's security department. The museum's security staff consists of 1 chief security officer, 23 security officers, and 3 security guards. The security department operates 24 hours a day, 7 days a week, and is responsible for exhibit surveillance, providing general information to the public, first aid, traffic and crowd control, citing parking violations, and the collection of money from parking facilities. The

MUSEUM OF SCIENCE AND INDUSTRY—Continued

museum informs us that although security personnel are certified for firearm skills, they do not possess peace officer status and therefore are not equipped or trained to deal with the criminal activity which occurs in Exposition Park.

The museum proposed a reorganization in its security department as part of its 1983-84 budget request. This proposal contemplated the replacement of the museum's existing security personnel with the California State Police through a contract calling for the police to provide security services throughout Exposition Park and the museum complex. The Legislature did not approve the planned reorganization.

1984-85 Budget Proposal. In anticipation of the increase in attendance that will result once the new buildings in Exposition Park are open to the public, and to ensure adequate protection for the museum's visitors, the children who attend the museum's summer educational programs, and the exhibits on the museum's premises, the museum is again proposing a major reorganization of its security arrangements. Specifically, the budget proposes to:

- Reduce from 27 to 8 the museum's authorized security positions, limit the remaining staff to security duties *inside* the museum's buildings, and provide \$51,000 in safety equipment for these positions;
- Contract with the California State Police for security services throughout Exposition Park, at a cost of \$972,000 in 1984-85;
- Purchase electronic surveillance and alarm systems for the museum's buildings and parking lots, at a one-time installation cost of \$322,000; and
- Add 4.5 limited-term temporary help positions, at a cost of \$80,000 in 1984-85, to supplement the remaining security services inside the museum's buildings.

The cost of the new security personnel and equipment would be \$1,667,000. This amount would be partially offset by the \$393,000 in savings realized from the elimination of 19 security positions. Thus, a General Fund augmentation of \$1,274,000 would be needed to implement the proposal.

Table 4 summarizes the museum's proposed security expenditures in the budget year.

Table 4
Museum of Science and Industry
Proposed Security Expenditures
1984-85

<i>Security Element</i>	<i>1984-85 Estimated Cost</i>
Electronic Surveillance and Alarm Systems.....	\$322,000
State Police Contract	972,000
Existing Museum Security Staff:	
Eight Positions	242,000
Safety Equipment	51,000
Related Security Positions:	
Building Guards (4.5 positions)	80,000
Exhibit Information Assistants (7.5 positions)	104,000
Total Proposed Expenditures	\$1,771,000

The budget also proposes to add \$104,000 in funding for an additional 7.5 temporary help positions in 1984-85. The function of these positions, which the museum calls Exhibit Information Assistants (EIAs), would be to provide information to the public, control crowds, and monitor the condition of exhibits. Two assistants would be assigned to daytime duty in each of the following facilities: the Hall of Economics and Finance, the Aerospace Science Museum, and the museum's main building. The Afro-American Museum would use 1.5 EIAs in its new building.

In sum, the museum is proposing a major change in the way security would be handled in Exposition Park.

Proposed Expenditures for Security Raise Concerns

We recommend deletion of \$322,000 requested for the installation of electronic security systems because these systems, if needed, should be funded as capital outlay. Furthermore, we withhold recommendation on the balance of the request—\$1,449,000—for the new security arrangement.

Given the high cost of the proposal, the number of positions involved, and the organizational issues it raises, the Legislature needs to be fully informed about the implications of the security reorganization.

Because of the lateness with which documentation for the proposed change in museum security was provided to us, we were not able to complete our analysis of this proposal in time to include it in the *Analysis*. Based on our preliminary review of the budget change proposal, however, we have the following concerns regarding the change in the security arrangement:

- The reduction of 19 existing security positions leaves an unusual staffing pattern in the museum's security department, consisting of four supervisors and four line personnel.
- The description of the contract services to be provided by the State Police is incomplete. The museum has not provided specific information regarding the duties which the state police officers would assume. Further justification is also needed for the requested state police supervisors and the estimated use of overtime funds.
- The requested temporary help funds for additional building guards and exhibit assistants seem duplicative, in light of the other proposed security expenditures.
- The museum's request to purchase safety equipment for its *existing* security staff is inconsistent with its proposal to reduce by 70 percent the number of security personnel.
- The need for a sophisticated electronic surveillance and alarm system has not been established. In any event, however, the proposed system would be a capital outlay project, and should not be budgeted as equipment purchases in the museum's support budget.

We therefore recommend deletion of the funds budgeted for the installation of the electronic security systems, for a General Fund savings of \$322,000. We withhold recommendation on the balance of the request—\$1,449,000—for security personnel and related expenditures, pending receipt and analysis of further information on the proposal.

Proposed Equipment Purchase Requires Further Explanation

We withhold recommendation on the requested expenditure of \$35,000 proposed for the purchase of equipment to be used in connection with the preparation of museum correspondence.

The budget proposes an augmentation of \$35,000 in 1984-85 for the

MUSEUM OF SCIENCE AND INDUSTRY—Continued

purchase of several equipment items that would be used in preparing and mailing museum correspondence. The museum reports that it currently maintains a mailing list containing 40,000 entries, and that on the average 24,000 pieces of mail are sent each month to announce various exhibit openings and other special events. These mass mailings are made using an addressing machine which the museum acquired in 1973.

The museum is requesting funds in the budget year to replace the addressing machine with a computer system capable of storing, sorting, and printing thousands of names and addresses contained on various specialized lists. In addition, the museum proposes to purchase a device which automatically folds letters and inserts them into envelopes. According to the museum, this new equipment is necessary to handle the museum's mail volume on a timely and efficient basis.

We recognize that the volume of museum correspondence is large, and can be expected to grow as the new exhibit facilities are completed. While the need for the requested equipment has been established, we have the following concerns about the proposed *level* of expenditure:

- We have been supplied inconsistent information regarding the actual items of equipment proposed to be purchased and the prices to be paid for them.
- We have been given no indication that the museum has explored more cost-effective alternatives to the purchase of a computer system and a letter-folding device.
- We have not been provided with complete information as to how the proposed mailing system would result in offsetting cost-savings, especially in the area of reduced personnel needs. If, for example, the equipment can be justified on a cost-savings basis, the request for additional funding might be unnecessary, as the museum could fund the equipment purchase out of existing resources.

Therefore, we withhold recommendation on the proposed expenditure of \$35,000 for this correspondence-related equipment, pending receipt and analysis of further information on the request.

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY

Item 1100-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. SCS 4

Requested 1984-85	\$159,000
Recommended approval	55,000
Recommended reduction	104,000

ANALYSIS AND RECOMMENDATIONS**Minor Capital Outlay**

We recommend that Item 1100-301-036, minor capital outlay, be reduced by \$104,000 to eliminate funding for two projects that have not been justified adequately.

The budget proposes \$159,000 under Item 1100-301-036 for four minor capital outlay projects (less than \$200,000 per project) for the Museum of Science and Industry at Exposition Park in Los Angeles. Three of these projects have been considered previously by the Legislature; the other project is new for 1984-85. The projects are summarized in Table 1. Those projects with which we have concerns are discussed in detail below.

Table 1
Museum of Science and Industry
Minor Capital Outlay Projects
(in thousands)

<i>Type of Project</i>	<i>Location</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recom- mendation</i>
Closed Circuit T.V. Surveillance System ^a	Museum-wide	\$34	—
Loading and Unloading Dock	Armory Building	50	\$50
Handicapped Drinking Fountains ^a	Museum-wide	5	5
Passenger Elevator for Handicapped ^a	Main Building	70	22.5
Totals.....		\$159	\$55 / 86

^a Considered previously by the Legislature.

T.V. Surveillance System. The budget includes \$34,000 to install the first phase of a closed circuit television system, to improve security for the museum's displays and exhibits. This project originally was approved by the Legislature in 1982-83, at a cost of \$26,000, but the funds were reverted because of the freeze on capital outlay expenditures.

According to museum officials, the scope of this project has been changed and no longer reflects either the project as proposed in the budget, or the project previously approved by the Legislature. The department has requested \$322,000 in its support budget to expand the project by installing all phases of the closed circuit T.V. system as well as a new burglar alarm system.

Because the department is no longer planning to proceed with this project as proposed in the budget, we recommend deletion of the \$34,000.

The new security proposal submitted by the department is discussed in our analysis of the Museum of Science and Industry's support budget. In that analysis, we have recommended deletion of the department's proposal because the information submitted for the project is inadequate and was not sent to us in time for proper review prior to publication of our *Analysis*. Moreover, if the new security proposal, or a modified version of it is approved, it would more appropriately be funded as a capital outlay item.

Elevator Replacement. The budget includes \$70,000 to convert an existing freight elevator to passenger use. This elevator would provide handicapped persons with access to museum exhibits on the second and third floors of the main building.

Previous Legislative Action. This project originally was approved by the Legislature in 1979. At that time, a total of \$60,000 was appropriated

no
approval
at
\$125,000

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY—Continued

for the installation of a hydraulic elevator. According to Office of State Architect (OSA) records, a total of \$23,000 of this appropriation was spent for the preparation of preliminary plans and working drawings. The balance of the appropriation has reverted and is no longer available.

In 1981-82, the Legislature appropriated another \$78,000 for this project. These funds were provided in order to expand the elevator conversion project by replacing the freight elevator with an *electric* unit instead of a hydraulic unit as originally proposed.

According to museum officials, construction of the electric elevator was never completed because of unspecified delays caused by the state architect, and difficulties encountered with designing the installation of the electric unit proposal. The State Controller indicates that the \$78,000 appropriation is available for encumbrance until June 30, 1985.

Information submitted in support of this year's funding request indicates that the museum and the state architect are proposing again to install a hydraulic elevator in the main building, and have requested an additional \$70,000 for this purpose. *OSA estimate for project is now \$147,000*

Justification Not Provided. The museum has submitted no new cost information to justify its request for the additional \$70,000. More importantly, as discussed above, the state architect indicates that preliminary plans and working drawings have been completed for installation of a hydraulic elevator. *Since there is already \$78,000 available for this project, in addition to the \$23,000 previously spent, and given that \$60,000 originally was sought for design and construction of a hydraulic elevator, additional funds should not be needed to complete the project and we recommend a reduction of \$70,000.* We have no information regarding what the

\$70,000 will be used for, ~~and~~ deduction.
The remaining projects—loading/unloading dock and drinking fountains—are reasonable and we recommend approval. The loading/unloading dock will be located at the rear of the Armory Building to receive and load crated exhibits. The drinking fountains, to be installed throughout the museum, will be accessible to mobility-impaired individuals.

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

Items 1120-1655 from various
funds

Budget p. SCS 5

Requested 1984-85	\$89,195,000
Estimated 1983-84	79,021,000
Actual 1982-83	59,684,000
Requested increase (excluding amount for salary increases) \$10,174,000 (+12.9 percent)	
Total recommended reduction	903,000
Recommendation pending	9,706,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1120-001-704—Board of Accountancy		Accountancy	\$2,228,000

1130-004-706—Board of Architectural Examiners	Architectural Examiners	1,230,000
1140-006-126—State Athletic Commission	Athletic Commission Fund	454,000
1150-008-128—Bureau of Automotive Repair	Automotive Repair	4,798,000
1150-008-420—Bureau of Automotive Repair	Vehicle Inspection Fund	18,562,000
1160-010-713—Board of Barber Examiners	Barber Examiners	653,000
1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	704,000
1180-014-717—Cemetery Board	Cemetery	231,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	642,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator and Adjustor	2,471,000
1230-020-735—Contractors' State License Board	Contractors' License	15,596,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	2,503,000
1260-024-741—Board of Dental Examiners	State Dentistry	1,833,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	540,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	998,000
1300-030-180—Bureau of Employment Agencies	Employment Agencies	537,000
1310-032-258—Nurses' Registry	Nurses' Registry	17,000
1320-034-745—Board of Fabric Care	Fabric Care	831,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	508,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	166,000
1350-040-001—State Board of Guide Dogs for the Blind	General	24,000
1360-042-752—Bureau of Home Furnishings	Bureau of Home Furnishings	1,449,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	230,000
1390-046-758—Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality	12,189,000
1390-047-175—Board of Medical Quality Assurance	Dispensing Opticians	145,000
1400-048-108—Board of Medical Quality Assurance	Acupuncturists	424,000
1410-050-208—Board of Medical Quality Assurance	Hearing Aid Dispensers	139,000
1420-052-759—Board of Medical Quality Assurance	Physical Therapy	273,000
1430-054-280—Board of Medical Quality Assurance	Physicians Assistant	183,000
1440-056-295—Board of Medical Quality Assurance	Podiatry	308,000
1450-058-310—Board of Medical Quality Assurance	Psychology	619,000
1455-059-319—Board of Medical Quality Assurance	Respiratory Care	451,000
1460-060-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	166,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	255,000
1480-064-763—Board of Optometry	State Optometry	295,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	2,178,000
1495-067-297—Polygraph Examiners Board	Polygraph Examiners Fund	78,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1500-068-770—Board of Registration for Professional Engineers	Professional Engineers	2,347,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	3,902,000
1520-072-771—Certified Shorthand Reporters Board	Certified Shorthand Reporters	203,000
1520-073-410—Certified Shorthand Reporters Board	Transcript Reimbursement Fund	264,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	1,936,000
1540-076-406—Tax Preparers Program	Tax Preparers	274,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	469,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	69,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Board of Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	1,858,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Board of Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	420,000
1640-086-001—Division of Consumer Services	General	1,046,000
1640-086-702—Division of Consumer Services	Distributed	(612,000)
1650-088-001—Consumer Advisory Council	General	87,000
1655-090-702—Administrative Services	Consumer Affairs	1,362,000
1655-090-702—Administrative Services	Distributed	(10,512,000)
Total State Funds Requested		\$89,195,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Division of Administration (Item 1655-090-702). Recommend enactment of legislation requiring all boards, bureaus, commissions, and committees to submit fiscal analyses of all pending legislation to the department for approval by the director prior to submitting them to the Legislature. 161
2. Division of Administration (Item 1655-090-702). Withhold recommendation on \$452,000 and 10 positions requested to conduct a feasibility study to determine the departmentwide need for information processing systems because the department's proposal is incomplete. Recommend that department explain to the fiscal subcommittees by April 1, 1984, how it will use resources of licensing entities to perform the study. 163
3. Division of Administration (Item 1655-090-702.) Withhold recommendation on \$76,000 and two positions requested to upgrade the budget office, until the department submits a plan for an effective management structure to direct the work of the budget unit. 164
4. Division of Administration (Item 1655-090-702.) Recommend that the day care licensing program remain in the Department of Social Services, and not be transferred to the Department of Consumer Affairs because there is no 165

- reason to believe a transfer would improve program performance.
5. ***Division of Consumer Services. Reduce Item 1640-086-001 by \$25,000.*** Recommend reduction because publication projects have not been identified. 165
 6. ***Division of Investigation (Item 1655-090-702).*** Withhold recommendation on \$3,623,000, pending the receipt of a legislatively required report on inspection, investigation and audit services. 166
 7. ***Board of Accountancy. Reduce Item 1120-001-704 by \$15,000.*** Recommend reduction of funds requested for expert witnesses because adequate funding for this purpose is already available in base budget. 167
 8. ***State Athletic Commission (Item 1140-006-126).*** Recommend commission report to the fiscal subcommittees by March 15, 1984, on what steps are being taken to eliminate the projected fund deficit. 168
 9. ***Bureau of Automotive Repair (Item 1150-008-420).*** Recommend that the bureau submit a progress report on the Biennial Vehicle Inspection Program to the fiscal subcommittees by April 1, 1984. 169
 10. ***Bureau of Automotive Repair (Item 1150-008-420).*** Contractual Services. Withhold recommendation on \$4,894,000 requested for the Biennial Vehicle Inspection Program, pending the award of quality assurance contracts in the current year. 172
 11. ***Bureau of Automotive Repair. Reduce Item 1150-008-420 by \$448,000.*** Disciplinary Actions. Recommend reduction of funds requested for Attorney General and Office of Administrative Hearings services because the bureau's estimate of disciplinary actions is unrealistic. 173
 12. ***Bureau of Automotive Repair. Reduce Item 1150-008-420 by \$173,000.*** Personnel Costs. Recommend a net reduction in the Biennial Vehicle Inspection Program to reflect a decrease in merit salary adjustments and increases in salary savings and cost-of-living adjustments. 174
 13. ***Bureau of Automotive Repair (Item 1150-008-420).*** Fresno Expenses. Recommend adoption of Budget Bill language prohibiting the expenditure of funds to implement the Biennial Vehicle Inspection Program in Fresno County unless and until Fresno County requests the program. 175
 14. ***Bureau of Automotive Repair. Increase Item 1150-008-128 by \$1,154,000 and reduce reimbursements by \$1,118,000.*** Recommend that funds for Motor Vehicle Pollution Control Program be appropriated directly to the bureau, rather than to the Air Resources Board. 176
 15. ***Board of Barber Examiners. Reduce Item 1160-010-713 by \$12,000.*** Recommend deletion of funds requested for Intermittent Examiners because administration of exams is overstaffed. 177
 16. ***Board of Behavioral Science Examiners. Reduce Item 1170-012-773 by \$24,000.*** Recommend deletion of funds for a Test Validation Specialist because the position does not appear to be needed. 178

DEPARTMENT OF CONSUMER AFFAIRS—Continued

17. Bureau of Collection and Investigative Services (Item 1210-018-769). Recommend bureau report to the fiscal subcommittees by March 15, 1984, on the steps being taken to eliminate the fund deficit. 178
18. Contractor's State License Board (Item 1230-020-735). Recommend enactment of legislation setting upper limits on license fees and enabling the board to set fees administratively within that limit. 178
19. Contractor's State License Board (Item 1230-020-735). Recommend enactment of legislation to extend sunset date for complaint disclosure program so that Legislature can determine the merits of the program. 179
20. *Bureau of Employment Agencies. Reduce Item 1300-030-180 by \$33,000.* Recommend reduction because funds for operating expenses and equipment are overbudgeted. 181
21. *Board of Fabric Care. Reduce Item 1320-034-745 by \$36,000.* Recommend reduction because operating expenses and equipment are overstated. 181
22. Board of Funeral Directors and Embalmers (Item 1330-036-750). Recommend that at the time of budget hearings the board report to the fiscal subcommittees on its progress in eliminating a projected fund deficit. 182
23. *Board of Funeral Directors and Embalmers. Reduce Item 1330-036-750 by \$12,000.* Recommend reduction because funds requested for enforcement activities are overbudgeted. 182
24. Bureau of Home Furnishings (Item 1360-042-752). Recommend bureau report to the fiscal subcommittees by March 15, 1984, concerning its proposal to increase fees. 182
25. Board of Medical Quality Assurance (Item 1390-046-758). Recommend adoption of supplemental report language directing the board to determine whether activities performed by staff of the Allied Health Committees can be performed more effectively by the board. 182
26. *Board of Medical Quality Assurance. (Item 1390-046-758). Withhold recommendation on \$428,000 requested for examinations, pending receipt of December 1983 exam figures. Rec. reduction of \$432,000 - Contingent Fund* 183
27. *Acupuncture Examining Committee. Reduce Item 1400-048-108 by \$66,000.* Recommend reduction because request for operating expenses and equipment exceeds the committee's needs. 183
28. *Board of Registration for Professional Engineers. Reduce Item 1500-068-770 by \$33,000.* Recommend reduction to correct technical error. 184
29. Board of Registered Nursing (Item 1520-070-761). Withhold recommendation on \$233,000 for school accreditation program, pending receipt of additional information. 184
30. *Structural Pest Control Board. Reduce Item 1530-074-775 by \$62,000.* Recommend reduction because enforcement costs are overbudgeted. 185

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Ch 1394/70) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

The department has four major components: (1) the 46 regulatory agencies, which include boards, bureaus, programs and commissions; (2) the Division of Administration; (3) the Division of Investigation; and (4) the Division of Consumer Services. Each of the department's constituent licensing agencies is statutorily independent of the department's control. Only the five bureaus are under the direct statutory control of the director.

Subject to the authority conferred upon the department director, each of the 46 agencies within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each entity seeks to accomplish its objective through licensure and the enforcement of laws, rules and regulations.

Licensing involves the issuance and renewal of licenses or certificates, and the registration of various occupational groups. It also includes the establishment of curricula, experience standards, and school accreditation. Enforcement activities include inspections, investigations, administrative hearings before an officer of the Office of Administrative Hearings and court proceedings.

The Division of Administration provides centralized support services, such as accounting, budgeting, personnel management, internal auditing, legal assistance and building operation and maintenance. Most of the costs incurred by the Division of Administration are distributed on a pro rata basis among the constituent agencies.

The department's Division of Investigation provides investigative and inspection services to most constituent agencies. A few boards and bureaus, however, have their own inspectors and investigators. Boards and bureaus are charged \$36.75 per hour for inspections and \$44.35 per hour for investigations during the current year. These charges are projected to increase to \$41.07 and \$47.27, respectively, in the budget year.

The Division of Consumer Services was established by Chapter 808/72. The division is responsible for the department's statewide consumer protection activities, which include research and advertising compliance, representation and intervention, consumer education and information, and consumer protection legislation.

The department is authorized 1,643.4 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$89,195,000 from various funds for support of the department and its constituent agencies in 1984-85. This is \$10,174,000, or 12.9 percent, more than estimated expenditures in the current-year. This increase will grow by the amount of any salary or benefit increase approved for the budget year.

The budget also proposes expenditures of \$2,662,000 from reimbursements, raising total expenditures to \$91,857,000 in 1984-85. This is \$8,526,000, or 10.2 percent, more than estimated total expenditures from all sources in the current year.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

The increase in the department's budget for 1984-85 is primarily attributable to the Bureau of Automotive Repair's (BAR) request for \$18,562,000 from the Vehicle Inspection Fund to implement the Biennial Vehicle Inspection Program on a full-year basis, as mandated by Ch 892/83 (SB 33). This program accounts for \$4.9 million of the \$10.2 million increase proposed by the department for the budget year.

The BAR's budget request for 1984-85 also reflects discontinuation of the Motor Vehicle Inspection Program that currently is conducted in the South Coast Air Basin. (This program will be replaced by the Biennial Vehicle Inspection Program.) In discontinuing the program, the bureau proposes to eliminate 50.1 positions and reduce expenditures by \$1,047,000. This reduction represents most of the Governor's "3 percent reduction" for the department.

The budget also proposes increases of \$428,000 for the Board of Medical Quality Assurance and \$124,000 for the Contractors' State License Board for increased examination-related activities.

Finally, the department proposes to redirect \$452,000 from various funds controlled by the licensing boards and bureaus in order to prepare a feasibility study to determine the departmentwide need for office automation and computer systems. This study would require the department to establish 10 positions and hire a consultant.

In total, the budget proposes \$7,114,000 for administrative costs, \$3,623,000 for investigative and inspection costs, and \$1,362,000 for building and maintenance costs. These costs will be paid from pro rata charges, reimbursements, and budget appropriations.

ANALYSIS AND RECOMMENDATIONS**Legislature Recognizes Information Processing Needs**

The Department of Consumer Affairs is unique and unlike any other state agency. Each of the department's constituent agencies, except the department's five bureaus, is an independent licensing and regulatory entity which is managed by a policy board or commission, and is not subject to direct control by the director of the department. In drawing the state's licensing boards, bureaus, and commission together into a single organization, the Legislature intended that the department provide common administrative and budget support for the various entities.

Generally speaking, this organizational approach appears to be working. The boards and commissions have independent policy control of their regulatory programs, while being able to take advantage of the economies that are possible in a large organization. Nevertheless, we find that there are serious problems plaguing the department's various support functions. These include (1) insufficient information processing capabilities, and (2) delays, inaccuracies and inconsistencies in the information provided to the Legislature on proposed legislation.

In the 1983 Budget Act, the Legislature recognized the problems in the department's support functions and appropriated (1) \$100,000 to the department for a feasibility study of its long-term information processing needs and (2) \$340,000 to purchase word processing equipment. In addition, the Legislature adopted language in the *Supplemental Report to the 1983 Budget Act* requiring the department and its constituent agencies to report to the Legislature on the various methodologies utilized to (1) develop fiscal analyses of proposed legislation, and (2) propose and advocate special legislation.

During the current year, the department completed a feasibility study for office automation systems, and has issued a request for proposals to secure word processing equipment. The department, however, was slow in responding to the Legislature's requirement that it take steps to prepare a study covering the potential for using advanced information processing technology within the department to handle information more effectively. As a consequence, little has been accomplished in this area by the department and its constituent entities.

Despite slow progress in the current year, the department indicates that it intends to aggressively address these issues in 1984-85. Specifically, the department proposes (1) \$452,000 to conduct a feasibility study to determine its long-term information processing needs and alternatives for meeting those needs, and (2) \$76,000 to add two positions to its budget unit.

In the following discussions, we provide the Legislature with our findings and recommendations relative to the policies and methodologies of the department and the licensing entities for (1) determining the fiscal impact of proposed legislation, and (2) proposing and advocating legislation. We also present our findings and recommendations pertaining to the department's proposals to (1) study its information processing needs and alternative solutions, and (2) increase its budget staff.

DIVISION OF ADMINISTRATION

Fiscal Analyses of Proposed Legislation Require More Uniformity and Quality Control

We recommend that legislation be enacted to require all of the department's boards, bureaus, commissions and committees to submit fiscal analyses for all pending legislation to the director for approval before the analyses are transmitted to the Legislature.

The Legislature adopted language in the *Supplemental Report of the 1983 Budget Act* which directed the Department of Consumer Affairs and the chairpersons of each occupational licensing board, bureau and commission to report to the Joint Legislative Budget Committee (JLBC) and the fiscal committees concerning their respective policies, approaches, and methodologies utilized in (1) determining the fiscal impact of pending legislation, and (2) proposing and advocating legislation. The language also requires our office to review the statements and report the results of this review to the JLBC and the fiscal committees.

Determining the Fiscal Impact of Legislation. It is the intent of the Department of Consumer Affairs that its legislative and fiscal units analyze the programmatic and fiscal impact of bills affecting the various licensing agencies, and that the resulting analysis be approved by the director prior to being presented to the Legislature. In preparing such analyses, the participation of the department's constituent agencies is voluntary.

Despite the fact that the department has attempted to institute a structured approach for the analysis of bills, no one approach, policy or methodology is in place. This is primarily due to the department's lack of statutory authority to institute and enforce a departmentwide process. As a consequence, the regulatory agencies often disagree with the department's final fiscal analysis and present their own fiscal analysis directly to members and committees of the Legislature. At times, this results in two analyses which conflict with each other being transmitted to the Legislature.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

In their reports to the JLBC and the fiscal subcommittees, the department and the licensing agencies cited the following reasons why fiscal information provided to the Legislature is not always timely, accurate or consistent:

1. The procedures governing the department's analysis of bills are new, and many problems are still being worked out.

2. The department's budget unit is not staffed adequately to perform the required tasks.

3. The quality of fiscal information varies because each regulatory agency compiles, researches, and evaluates fiscal information quite differently.

4. Some boards, such as the Board of Medical Quality Assurance, have a sophisticated staff capable of developing comprehensive information, while many smaller boards are primarily geared to perform clerical functions. In many cases, this results in inconsistencies between the rigor and quality of different analyses.

5. Each regulatory agency places a different priority on responding to the department's requests. This often delays the provision of information by the department.

6. The department's lack of word processing and computer capabilities requires many of the licensing agencies to compile information manually. This often results in delays, as well as the utilization of outdated and inaccurate information.

Proposing and Advocating Enactment of Legislation. The department, its five bureaus and the licensing agencies do not work together under uniform policies and procedures in deciding whether to propose or advocate new legislation.

On one hand, the department and its five bureaus adhere to legislative policy and procedures established by the director and the Governor. Following approval by the Secretary of the State and Consumer Services Agency and the Governor's Office, the department provides the Legislature with position papers and analyses. The director and his deputies may present information to committee members and other members, and provide testimony before committees whenever necessary.

On the other hand, most licensing agencies have established their own policies and procedures for proposing and advocating the enactment of legislation that are independent of the department's policies and procedures. Generally, legislation proposed by the individual regulatory agencies must be approved by the board, committee, or commission members. In certain instances, however, the members may delegate the authority to develop and advocate legislation to the Executive Officer (E.O.). In some cases, the department assists its constituent agencies in the development of legislation.

Director Needs Increased Statutory Authority. The department is not a unified consumer protection and professional and occupational licensing agency. Unlike other state departments, the director lacks clear statutory authority to compel the department's constituent agencies to adhere to its legislative policies and cooperate with the department's fiscal and legislative units. As a consequence, no uniform policy, approach, or methodology exists to analyze, propose and advocate legislation. We believe that this constitutes a major problem for the Legislature. Because there is no uniformity on overall quality control within the department

regarding legislative activity, the Legislature is often called upon to resolve issues without being given the kind of clear and coherent information it needs from the department and its licensing agencies.

In order to provide the Legislature with reliable and coherent fiscal information, we believe that the current fiscal analysis process should be altered so as to provide (1) more uniformity in approach and (2) more accountability for quality control. The best way of obtaining this uniformity and accountability is, we believe, to give the department greater statutory authority to oversee the fiscal analyses of pending legislation. On this basis, we recommend that legislation be enacted requiring all of the department's boards, commission, committees and bureaus to submit all fiscal analyses for all pending legislation to the department for approval by the director before the analyses are transmitted to the Legislature. In making this recommendation, however, we do not intend that the licensing agencies be required to submit their positions on pending legislation to the director for prior approval.

Recommend approval
Information Processing Feasibility Study Proposal is Incomplete

~~We withhold recommendation on \$452,000 (Item 1655-090-702) request for a feasibility study to determine the department's long-term need for improved information processing systems because the department's proposal is incomplete. We recommend that the department report to the fiscal committees by April 1, 1984, how it will use funds and staff provided by various licensing entities to perform the study.~~

The budget proposes to redirect \$452,000 from various funds controlled by the licensing agencies to the department for use in preparing a feasibility study of the department's long-term need for information processing systems. According to the department, 10 staff members with computer expertise and working knowledge of the regulatory processes will be drawn from the boards, bureaus and commissions to gather data and conduct the research for the feasibility study. The staff will serve on a one-year limited-term basis, and then be returned to the entity from which they were selected. A request for proposal (RFP) will also be issued to hire a consultant to analyze the data, prepare the feasibility report, and formulate possible solutions to problems identified in the report.

In recent years, the department has failed to improve its capability to meet the information processing needs of the regulatory agencies. This has contributed to serious delays in the issuance of licenses and the processing of public complaints and inquiries. Insufficient automation has also resulted in high administrative costs, because many tasks that could be performed inexpensively using information processing technology must instead be performed manually. The lack of computer capability has also limited the department's ability to develop accurate and timely fiscal information for the Legislature.

Since 1979, the department has made three attempts to upgrade and improve its existing computer system, which was installed in 1976. All three attempts failed. The problems that led to these attempts, however, still exist, and many new problems have been identified. According to the department, the primary problems involve:

- **Cashiering.** Revenues are processed manually, resulting in licensing delays, and providing opportunities for theft and foregone interest earnings due to delays in depositing funds.
- **Examination scheduling.** Exams are scheduled manually, resulting in high administrative costs, delays in licensing, and increased unlicensed activity.

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recommend SRL requiring quarterly report to legislature. fiscal committees on office automation & info. processing feasibility study.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

- **Complaint processing.** The regulatory agencies manually type responses to complaints, even though form letters are used for most of these responses. This results in higher labor costs and consumer dissatisfaction.
- **Application, complaint, and disciplinary tracking.** The current system cannot be adjusted to accommodate tracking activities; as a result, some of the regulatory agencies compile this information manually.

Clearly, the serious deficiencies in these areas make it difficult for the department and its constituent agencies to serve their licensees and consumers in a timely and effective manner.

In order to help the department address its information processing problems, the Legislature in the 1983 Budget Act appropriated \$100,000 to the department for a feasibility study to assess the department's long-term information processing needs. The department indicates that although no funds will be spent in the current year for this purpose, the study will be performed in the budget year, with an anticipated completion date of July 1, 1985.

We believe that a comprehensive study of departmentwide information processing needs must be accomplished before a new information processing system is selected.

Accordingly, we agree with the department's proposal to use (1) experienced staff drawn from the various regulatory agencies to study internal processes, and (2) an outside consultant to determine methods for automating the processes, in performing the study. In its current form, however, the proposal is incomplete. The department has not explained which board, bureaus, and commissions will provide funds and experienced staff for this project and how they will continue to operate during the budget year without the services of these staff members.

Given the department's past failures in developing improved computer capabilities, we believe the Legislature should be provided with a complete proposal before it appropriates funds for yet another effort. Consequently, we withhold recommendation on \$452,000 requested for the study until the department explains what boards, bureaus and commissions will provide funds and staff members to perform the study, and how they will operate without these resources in the budget year.

Recommend approval
Budget Office Requires Reorganization to Improve Efficiency

~~We withhold recommendation of \$76,000 (Item 1655-040-702) and two budget analyst positions requested to upgrade the department's budget office, pending receipt of a plan from the department providing for effective management structure to direct the work of the office.~~

The department's budget office provides fiscal information and assistance to the department, its constituent agencies, the Department of Finance, and the Legislature. In the current year, the budget office is authorized \$218,610 and 10 positions. The budget proposes an increase of \$76,000 to add two associate budget analyst positions to the budget unit.

Our analysis indicates that during the past several years, the office has experienced a significant increase in workload, extremely high turnover both in management and staff, and heavy use of overtime. Based on a review of workload requirements, we find that the office needs additional

staff. We question, however, whether additional staff can be used effectively *unless* the department takes positive steps to provide for an effective management structure to train the budget staff and direct their daily work.

Consequently, we recommend that the department submit a plan for an effective management structure of the budget unit to the legislative fiscal committees by April 1, 1984. We withhold recommendation on the \$76,000 requested for the proposed positions pending receipt of this plan.

Continue Day Care Licensing Program in the Department of Social Services

We recommend that the day care licensing program remain in the Department of Social Services, and not be transferred to the Department of Consumer Affairs because there is no analytical reason to believe that a transfer would improve the program.

The *Supplemental Report to the 1983 Budget Act* requires the Legislative Analyst to consider the feasibility of transferring responsibility for child day care licensing from the Department of Social Services (DSS) to the Department of Consumer Affairs (DCA). Specifically, the report required us to evaluate (1) the organizational structure of the two departments, (2) the costs of day care licensing, (3) the need for fees, and (4) the ability of each department to perform specified functions.

Our analysis indicates that there is no apparent difference in the abilities of the two departments to perform the functions of licensing day care providers and centers. Moreover, based on the cost estimates submitted by the departments, it does not appear that a transfer to the Department of Consumer Affairs would result in major reductions in program costs. For these reasons, we have no analytical basis on which to conclude that transferring day care licensing to the department would result in a substantial improvement in the licensing program. Consequently, we recommend that the responsibility for day care licensing remain with the DSS.

For a detailed discussion of this issue, please refer to the support item for DSS (Item 5180).

DIVISION OF CONSUMER SERVICES

Consumer Education Publications

We recommend a reduction of \$25,000 in Item 1640-086-001 requested for consumer newsletters and brochures, because publications scheduled for production in the budget year are not specifically identified.

The Consumer Affairs Act charges the department with the responsibility to promote consumerism and protect the public from fraudulent business practices. During the past several years, the department's ability to provide the public with consumer education materials has been limited by a shortage of funding. Currently, the department has approximately \$17,000 to reproduce consumer education materials which were developed in prior years. The department, however, has no funds in the current year to develop and print *new* consumer education materials.

The department is proposing \$45,000 in the budget year for use in contracting with the University Services Department of the California State University System to develop *new* consumer education pamphlets and brochures. At the time this *Analysis* was prepared, however, the department had not identified specific publications that will be developed and produced. Although the department has numerous ideas, it is not able to indicate which projects would be undertaken in the budget year and

DEPARTMENT OF CONSUMER AFFAIRS—Continued

what the potential cost of publishing these documents would be.

While we believe that the department *does* require additional funds to comply with the mandate of the Consumer Affairs Act, we cannot recommend the full augmentation for this purpose in the absence of specific information on how the money will be spent. Accordingly, we recommend a reduction of \$25,000 requested for the development of new consumer education materials. We believe the remaining amount—\$20,000 will provide the department with a reasonable amount of funding to develop additional consumer education materials.

Division of Investigation

We withhold recommendation on \$3,623,000 (Item 1655-090-702) requested for the Division of Investigation, pending receipt of a legislatively required report on investigation, inspection, and audit services.

The Legislature adopted language in the *Supplemental Report of the 1983 Budget Act* which directed the Department of Consumer Affairs to review all investigation, inspection, and auditing positions in all agencies in the department other than those in the Division of Investigation (DOI) and identify (1) those positions which could be transferred to the DOI in the interest of greater cost-effectiveness, and (2) those boards and bureaus, if any, that warrant in-house enforcement staff because it can be documented on a workload and cost-effectiveness basis that the hourly costs of in-house staff would be less to the board or bureau than the cost of contracting with the DOI. This review was due to the Legislature on January 1, 1984. At the time this *Analysis* was prepared, the required report had not been submitted to the Legislature. Pending the receipt of the required report, we withhold recommendation of \$3,623,000 requested for the division.

CONSUMER ADVISORY COUNCIL

We recommend approval.

The Consumer Advisory Council was established by the 1970 Consumer Affairs Act to (1) study consumer issues, (2) conduct hearings, and (3) make recommendations to the Governor, Legislature, and department concerning consumer issues. The council consists of seven members appointed by the Governor, and two ex-officio members appointed by the Chairman of the Senate Rules Committee and the Speaker of the Assembly. The council anticipates holding eight meetings in the budget year.

The budget proposes \$87,000 to support the council's activities in the current year. We recommend approval of the amount as budgeted.

BOARDS AND BUREAUS**Boards, Bureaus and Committees For Which No Significant Budget Changes are Proposed.**

Our analysis indicates that no significant budget changes are proposed for a number of boards, bureaus, and committees in the budget year. In addition, for many of these entities we have identified no major issues regarding proposed budgets that warrant consideration by the Legislature.

Accordingly, we recommend approval of the proposed budgets for the following regulatory entities: (1) Board of Architectural Examiners, (2)

Cemetery Board, (3) Board of Cosmetology, (4) Bureau of Electronic and Appliance Repair, (5) Nurses' Registry, (6) Board of Registration for Geologists and Geophysicists, (7) State Board of Guide Dogs for the Blind, (8) Board of Landscape Architects, (9) Hearing Aid Dispensers Examining Committee, (10) Physical Therapy Examining Committee, (11) Physicians Assistant Examining Committee, (12) Psychology Examining Committee, (13) Podiatry Examining Committee, (14) Respiratory Care Examining Committee, (15) Speech Pathology and Audiology Examining Committee, (16) Registered Dispensing Opticians, (17) Board of Examiners of Nursing Home Administrators, (18) Board of Optometry, (19) Board of Pharmacy, (20) Polygraph Examiners Board, (21) Certified Shorthand Reporters Board, (22) Tax Preparers Program, (23) Board of Examiners in Veterinary Medicine, (24) Animal Health Technician Examining Committee, and (25) Board of Vocational Nurses and Psychiatric Technicians.

BOARD OF ACCOUNTANCY

Funds for Expert Witnesses are Overbudgeted

We recommend a reduction of \$15,000 from Item 1120-001-704 requested to hire expert witnesses because adequate funds for expert witnesses are available within the board's baseline budget.

In recent years, the board has experienced a significant increase in the number of complaints filed and cases under investigation. Complaints filed from 1979-80 through 1982-83 have increased from 397 to 1,680. During the same period, cases placed under investigation have increased by 51 percent. As a result, the board's backlog of cases under investigation has increased steadily. In order to handle this workload, the budget proposes \$80,000 to (1) hire a consultant to assist the board in the technical aspects of cases under investigation, (2) increase funds for investigative services, and (3) add funds to hire expert witnesses to testify in cases against international accounting firms.

Our analysis of the board's enforcement needs indicates that the investigative process would be improved and the backlog reduced if \$65,000 is provided to (1) hire a technical consultant and (2) increase investigative services. We question, however, the board's proposal to spend \$15,000 for expert witnesses to testify in cases brought against *international* accounting firms.

The increased funding requested for expert witnesses would enable the board to contract for 100 hours of expert witness time at \$150 per hour. Currently, the board pays expert witnesses \$50 an hour.

During the period 1981-82 through 1982-83, the board reverted most of the funds appropriated for expert witnesses. Moreover, the board has spent only 6.5 percent of the funds appropriated for this purpose in the current year. Given the board's history of reverting most of the funds available for hiring expert witnesses, we believe there are sufficient funds in the board's baseline budget to pay the higher hourly rate for special international cases. Thus, we recommended that \$15,000 requested for expert witnesses be deleted.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**STATE ATHLETIC COMMISSION****Fund Deficit**

We recommend that the State Athletic Commission (Item 1140-006-126) report to the fiscal subcommittees by March 15, 1984, on what additional steps are needed to eliminate the estimated deficiency in the Athletic Commission Fund.

The 1983 Budget Act transformed the State Athletic Commission from a General Fund agency to a self-supporting *special fund* agency. In addition, Ch 975/83 (SB 764) amended the law relating to the regulation and licensure of boxing, wrestling, and karate activities to establish new license categories and fees. As a result, the commission projected a one-time increase of 500 licensees and an increase of \$19,000 in revenue in 1983-84 and annually thereafter.

Despite the recent increase in fees, the budget indicates that the Athletic Commission Fund will have a deficit of \$36,000 by June 30, 1985, if no action is taken by the commission to further increase fees or reduce expenditures. Consequently, we recommend that the commission report to the fiscal subcommittees by March 15, 1984, on what additional steps are needed to eliminate the estimated deficit in the fund.

BUREAU OF AUTOMOTIVE REPAIR

The Bureau of Automotive Repair (BAR) is responsible for (1) the registration of automotive repair dealers, (2) the licensing of official lamp and brake inspection stations, (3) the protection of consumers through a program of inspection and complaint handling and (4) the administration of automobile exhaust emissions inspection programs designed to reduce the level of pollutants emitted by motor vehicles registered in California.

Existing Motor Vehicle Inspection Programs

In areas outside the South Coast Air Basin, the Motor Vehicle Pollution Control Program (MVPC) requires a vehicle owner, upon initial registration or change-of-ownership, to obtain a "certificate of compliance" from a service station, car dealer, or garage licensed by the BAR. Within the South Coast Air Basin, the Motor Vehicle Inspection Program (MVIP) requires vehicle owners, upon initial registration or change-of-ownership, to obtain an exhaust emissions compliance certificate from one of 17 specified inspection stations operated throughout southern California.

Vehicles registered in the South Coast Air Basin currently are subject to a *variable* engine speed test (which measures NOX emissions in addition to HC, CO, and CO₂), while those outside the basin are tested at *idle* engine speed.

SB 33 Inspection Program

The MVPC and MVIP programs *do not* comply with provisions of the Federal Clean Air Act of 1977. This act requires California to establish a *periodic* inspection program in "nonattainment urban areas"—those areas in which federal air quality standards are not being met. In response to the federal mandate, the Legislature enacted CH 892/82 (SB 33). This measure authorizes local air quality districts to request that DCA implement the mandatory Biennial Vehicle Inspection Program (BVIP) in their district. Specifically, SB 33:

- Discontinues the MVIP in the South Coast Air Basin as of March 20,

1984, and replaces it with the Biennial Vehicle Inspection Program for all vehicles less than 20 years old, with the exception of motorcycles, heavy-duty, and diesel-powered vehicles.

- Discontinues the MVPC program in the Bay Area, San Diego, Sacramento and Santa Barbara-Ventura air quality districts as of March 20, 1984, and replaces it with a BVIP similar to that required in the South Coast Air Basin.
- Requires that (1) the BVIP rely on privately operated test repair stations to issue certificates of compliance and (2) all tests and repairs be performed by mechanics who have successfully completed a course prescribed and administered by the bureau.
- Establishes a maximum fee of \$6 to be charged licensed test and repair stations by the bureau for each certificate of compliance issued.
- Establishes an initial cost limitation of \$50 for low emissions repairs and adjustments, except that no limit applies in cases where emission control equipment on a vehicle is partially or totally inoperative due to tampering.
- Requires the Department of Consumer Affairs to contract with more than one private entity statewide to provide both a consumer protection (referee stations) and a quality assurance program.
- Authorizes affected air quality districts to choose either a *variable* engine speed or *idle* engine speed test for vehicles registered within their jurisdictions, but makes NOX testing optional.
- Continues the MVPC program (inspection upon change-of-ownership or initial registration) for areas not affected by SB 33 requirements.

As discussed earlier, the budget proposes total expenditures of \$18,562,000 in 1984-85 to finance the Biennial Vehicle Inspection Program.

Biennial Vehicle Inspection Program is Off to a Poor Start

We recommend that the Bureau of Automotive Repair submit a program progress report to the Legislature by April 1, 1984, on all elements of the Biennial Vehicle Inspection Program (BVIP) and, as part of that report, provide a thorough discussion of (1) all operational problems it is encountering and (2) alternatives for overcoming these problems.

In early 1983, the Bureau of Automotive Repair developed a schedule of critical tasks associated with implementation of the Biennial Vehicle Inspection Program. This schedule, which was presented to the Legislature during hearings on the 1983 Budget Bill, indicated that vehicle inspections were scheduled to begin January 1, 1984 in urban areas *outside* the South Coast Air Basin and by March 20, 1984 *within* the basin. The bureau's budget request for the 1983-84 fiscal year was based largely on the assumption that the scheduled tasks would be completed on time.

Major Slippages in Schedule. Our analysis indicates that the bureau has experienced major slippages in its schedule since July 1, 1983. Consequently, the start-up of inspections outside the South Coast Air Basin has been delayed from January 1, 1984, to March 20, 1984. This means that inspections are now scheduled to begin on a *statewide basis*, instead of being progressively phased in over a two-month period as originally planned.

Table 1 shows the critical tasks associated with implementation of the BVIP, the original schedule for completion, and the current schedule for completion.

28/84
recommend SRL requiring Bureau to submit detailed report to Legislature by 12/1/84 on status of program.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 1
Implementation Schedule
Biennial Vehicle Inspection Program

<i>Critical Task</i>	<i>Original Schedule of Completion</i>	<i>Revised Schedule of Completion</i>
1. Issue emissions analyzer specification and notify auto repair shops of procurement requirements	March 1983	May 1983
2. Issue RFP for QA contracts.	June 1983	September 1983
3. Adopt regulations for testing and quality control	June 1983	September 1983 ^a
4. Adopt emission standards	June 1983	July 1983 ^a
5. Begin mechanic training and qualification	June 1983	December 1983
6. Begin licensing of garages	June 1983	January 1984 ^b
7. Begin sale of certificates of compliance	July 1983	January 1984 ^b
8. Begin notifying motorists	November 1983	March 1984
9. Award quality control contract	November 1983	January 1984 ^b
10. Emission analyzer units available for purchase by garages	December 1983	December 1983
11. Begin biennial inspection program	January– March 1984	March 20, 1984 ^b

^a Still subject to approval by the Office of Administrative Law.

^b Schedule revised as of January 9, 1984.

According to the bureau, the delays in meeting critical program milestones were primarily the result of (1) the Governor's hiring freeze, (2) difficulties in leasing facilities, and (3) major changes in program plans. The bureau indicates that it foresees no further slippages and that the program will be *fully* operational statewide on March 20, 1984.

Given the bureau's failure to complete critical program tasks on a timely basis, there is reason to question the bureau's ability to successfully implement this complex program within the remaining time period before inspections are to begin. Clearly, the board must quickly resolve serious problems in several important areas before it can develop full capability to perform the required inspections.

Program Hiring Has Been Slow. As of January 9, 1984, the bureau had filled only 136 of the 264 positions authorized for the program in 1983-84. Moreover, 49 of the 128 vacant positions were Program Representatives. It is these staff who will be responsible for inspecting the garages and service stations participating in the program, prior to the issuance of a license. Although the bureau contends that many of the positions had been purposely left vacant in order to avoid premature hiring, we find the vacancy rate (48 percent) to be a serious problem, because there may not be sufficient time to recruit and adequately train persons to fill these important positions.

Licensing of Test and Repair Facilities Has Been Delayed. Although the licensing of test and repair facilities did not start until mid-January 1984, seven months later than originally scheduled, the bureau estimates that approximately 4,500 test and repair stations will be licensed by May 8, 1984, when statewide demand for test and repair services is likely to reach the high-point of 20,500 vehicles per day. Eventually, the bureau anticipates that 7,500 licensed facilities will participate in the program. If, however, the number of licensed inspection and repair stations

should fall substantially short of the 4,500 stations scheduled by May 8, 1984, motorists could experience serious difficulties in locating stations to inspect and repair their vehicles prior to the lapse of their vehicle registration.

Training of Mechanics is Behind Schedule. On December 12, 1983, over five months later than scheduled, the bureau started the training of over 22,000 mechanics in the use of exhaust emissions analyzer units and smog equipment repair procedures. This initial phase of training, which is to be completed by March 20, 1984, is being conducted at 13 training centers throughout the state. Based on an anticipated course completion rate of 75 percent, the bureau estimates that it will actually certify only 17,000 of the 22,000 mechanics needed to perform the inspections and repairs at 7,500 stations.

It is obvious that the bureau has allowed itself very little time to accomplish the training and certifying of the mechanics. Public acceptance of the program will depend primarily on the effectiveness of the training and the quality of the inspections and repairs performed by the mechanics.

Delays in Awarding Quality Control Contracts. The Biennial Vehicle Inspection Program undoubtedly will have a wide-reaching and profound impact on motorists in California. According to the bureau's estimates, approximately 45 percent of the over 6,000,000 vehicles inspected annually will fail to meet emissions standards when first tested. This will require a large number of motorists to pay up to \$50 for smog adjustments and repairs. Thus, it is extremely important that the bureau carefully establish effective quality controls in order to maintain the integrity of the program in the minds of the motoring public. The bureau is responsible for providing a consumer protection-oriented quality assurance (QA) program through contracts with private vendors. On a quarterly basis, vendors will be required to inspect the test and repair facilities, and analyzer units and, on a monthly basis, collect the magnetic tapes which record emission and service data from the analyzer units. The bidding on the QA contracts was delayed two months, until December 1983. At the time this analysis was proposed, the bureau was in the process of awarding these important contracts.

Presumably, vendors selected by the BAR will require sufficient time to hire needed personnel, purchase equipment, and become familiar with the regulations and procedures required as part of the quality assurance effort. At best, these vendors will have only a short period of just over one month to prepare before inspections and the collection of the data tapes are scheduled to begin. Given this short time frame, we are concerned that the effectiveness of the QA program may suffer, thereby eroding public trust in the integrity of the program.

Readiness of Referee Stations in Question. Senate Bill 33 also requires that "referee stations" be established in order to provide motorists with the opportunity to receive an independent evaluation of their vehicles when (1) the motorist suspects that an emissions test has been improperly administered, (2) there is evidence of possible fraud, or (3) the motorist is having problems bringing a vehicle into compliance with BVIP requirements. By law, there must be a sufficient number of referee stations to accommodate at least two percent of all vehicles subject to biennial inspections. As of January 17, 1984, the bureau had yet to award any of the contracts needed to establish these referee stations.

As a consequence, the chosen referee station contractors will have a limited time in which to hire personnel, purchase equipment, and become

DEPARTMENT OF CONSUMER AFFAIRS—Continued

acquainted with necessary procedures. Moreover, unless a prospective vendor already owns a site where a referee station is to be located, additional time will be needed to lease or purchase such sites. Failure to have a sufficient number of referee stations activated by March 20, 1984 could have an adverse impact on the public's attitude toward the inspection program.

Aggressive Steps are Needed to Implement the Program Successfully.

Very clearly, the bureau's progress in implementing the Biennial Vehicle Inspection Program has been less than exemplary. Major slippages in the implementation schedule have brought into question the ability of the bureau to successfully start up the inspection and repair of vehicles on March 20, 1984, and to quickly build up to 20,500 inspections per day.

It is essential that the bureau take aggressive steps to resolve the serious problems in (1) hiring and training bureau personnel, (2) licensing repair stations, (3) training mechanics for inspection and repair of vehicles, (4) developing a fully effective quality assurance program, and (5) licensing referee stations. Any further delays or deficiencies in implementing these important tasks could have serious adverse affects on (1) the start-up of the program, (2) the quality of inspections and repairs, (3) the costs and inconveniences experienced by the motoring public, and (4) most importantly, public acceptance and support of the program.

Because the start-up of the program will be occurring at the time of budget hearings, we recommend that by April 1, 1984, the bureau submit a status report to the fiscal subcommittees on all elements of the program. This report should include a comprehensive discussion of all operational problems and alternatives for corrective measures.

Contractual Services May Need Adjustment

We withhold recommendation on \$4,894,000 requested for contractual obligations in Item 1150-008-420, pending the award of contracts in the current year.

The Bureau of Automotive Repair estimates that contractual services associated with the Biennial Vehicle Inspection Program will amount to \$4,894,000 in the budget year. Separate contracts will be awarded for: (1) the quarterly quality control inspections of licensed test and repair facilities, (2) the collection and analysis of emission analyzer computer data, and (3) the operation of referee stations. These contracts, which represent vital elements of the vehicle inspection program, will begin in late January or early February of 1984, and are expected to be in effect for the duration of the BVIP, which is scheduled to terminate on January 1, 1990.

Due to the high rate of failure (45 percent) which is expected for first-time vehicle inspections, public confidence in the new program will depend heavily on (1) an effective quality assurance program which verifies the accuracy and integrity of the emission analyzer units and the competence of the mechanics who operate them, and (2) the availability of independent referee inspections when questions arise concerning the original vehicle inspection or repair work.

Because SB 33 specifies that the contracts for the quality assurance program and referee stations be awarded separately in each district, it is possible that each district will have a separate contractor. Thus, the bureau may be awarding as many as 15 contracts.

Because of the competitive nature of the bid process, the amount need-

ed to fund contracts in the budget year will not be known until after the low bidders are selected. For this reason, we withhold recommendation on the amount requested for contractual services. We will analyze the bureau's request after the quality assurance and referee station contracts have been awarded.

Disciplinary Cases Overstated

We recommend a reduction of \$448,000 in Item 1150-008-420 because the Bureau of Automotive Repair has overstated the potential number of disciplinary actions that will be taken against licensees in 1984-85.

For 1984-85, the bureau proposes:

- \$575,000 for the legal services of the Attorney General.
- \$197,000 for hearings before the Office of Administrative Hearings (OAH).

According to the bureau, these requests assume that there will be 310 disciplinary actions taken against licensed inspection and repair stations and automotive repair dealers in the budget year. Nearly 93 percent (288 cases) of these actions are expected to occur under the Biennial Vehicle Inspection Program.

Our analysis indicates that the bureau's estimate of disciplinary actions for 1984-85 overstates the actual number of violations which can be expected to occur under the Biennial Vehicle Inspection Program. According to the bureau, it intends to target its enforcement efforts on approximately 958 facilities, or 10 percent of the expected licensees in the program. The bureau anticipates that from the projected 958 investigations, 388 cases (40 percent) will show no evidence of technical or serious violations, 287 cases (30 percent) will represent violations which require mandated retraining and/or a conference with the licensed facility owner, and the remaining 288 cases (30 percent) will require disciplinary actions. The potential disciplinary actions represent a total of 3 percent of the estimated licensees under BVIP.

A review of the BAR's enforcement program conducted for the Automotive Repair Program and expiring Motor Vehicle Inspection Program indicates, however, that a 3 percent estimate greatly exceeds the percentage of disciplinary actions experienced by BAR in those programs since July 1980. Table 2 displays *actual* enforcement workload data associated with those programs as well as *estimates* of enforcement workload for the Biennial Vehicle Inspection Program in the current and budget years.

Table 2
Bureau of Automotive Repair
Disciplinary Actions
Auto Repair, Motor Vehicle Inspection Program,
and Biennial Vehicle Inspection Program

Indicators	Actual ^a			Estimated ^b	
	1980-81	1981-82	1982-83	1983-84	1984-85
Licensees	84,742	92,967	96,842	9,580	9,580
Disciplinary Actions Initiated.....	18	22	23	80	288
Percent of Licensees Disciplined02	.02	.02	0.8	3.0

^aAutomotive Repair and Motor Vehicle Inspection Program.

^bBiennial Vehicle Inspection Program.

As Table 2 indicates, enforcement in the Automotive Repair and Motor

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Vehicle Inspection Program rarely results in administrative action being taken by the bureau. During the first six months of the current year, moreover, the bureau has initiated only *six* disciplinary actions against its licensees. Table 2 also reveals that the BAR's estimate of disciplinary actions for BVIP would be *15 times the rate* experienced in the other two programs since 1980. Although we recognize that infractions may occur at a higher rate in the Biennial Vehicle Inspection Program due to (1) the consumer's lack of familiarity with the new inspection procedures, and (2) the consumer's somewhat limited options with regard to mandatory repairs, a projected rate of disciplinary actions, which is 15 times the rate experienced in other, similar programs, appears excessive.

Instead, we would recommend that the bureau be appropriated a total of \$234,000 for services from the Attorney General and \$90,000 for hearings conducted by the Office of Administrative Hearings. This level of funding in 1984-85 would permit the bureau to (1) bring disciplinary actions against 10 percent of those licensees investigated (approximately 96 cases, or 1 percent of total licensees) in the Biennial Vehicle Inspection Program, and (2) also meet its projected needs in its Automotive Repair Program. The recommended reduction would result in savings of \$448,000 to the Vehicle Inspection Fund, but, at the same time, provide an increase of 41 percent in Attorney General services and 143 percent in hearing expenses for the Office of Administrative Services.

Computation of Personnel Costs is in Error

We recommend a reduction of \$173,000 to Item 1150-008-420 (Vehicle Inspection Fund) to correct for (a) overstated merit salary adjustments, (b) understated salary savings, and (c) underestimated cost-of-living increases for specified employees.

As part of the BVIP, the bureau is projecting expenditures for salaries and wages of \$5,541,000 in 1984-85. This reflects an increase of \$689,000 over estimated net expenditures for salaries and wages in 1983-84. The bureau's budget indicates that the net increase consists of (1) an additional \$1,339,000 for the first full-year operation of the BVIP program, (2) a merit salary increase of \$197,000, (3) \$338,000 to provide full-year funding for the salary increase that became effective on January 1, 1984, (4) a reduction of \$1,047,000 related to phase-out of the Motor Vehicle Inspection Program, and (5) salary savings of \$264,000.

Our analysis indicates that the bureau's computation of net expenditures for salaries and wages for the budget year is overstated by approximately \$173,000. This appears to be so for three reasons. *First*, in developing its personnel schedule, the bureau generally assumed that most positions would be filled for the entire 1983-84 fiscal year, thereby making such positions eligible for a full merit salary increase in 1984-85. This assumption, however, does not take into account that (1) only 52 percent of the bureau's positions were filled during the first six months of 1983-84, and (2) many vacant positions are not scheduled to be filled until later in the current year. As a result, merit salary adjustments appear to be overstated by \$87,000.

Second, the bureau estimated that its salary savings in 1984-85 will be 4.5 percent of total salaries and wages. Based on the large number of vacancies, however, we believe that the rate is likely to be higher. Table 3 shows the salary savings rates for the bureau since 1981-82.

Table 3
Bureau of Automotive Repair
Salary Savings Rates
1980-81 to 1982-83
(in thousands)

	1980-81	1981-82	1982-83	Three Year Average
Salary and Wages (budgeted)	\$1,274	\$1,442	\$1,409	\$1,375
Salary and Wages (actual)	1,189	1,194	1,292	1,225
Difference	\$85	\$248	\$117	\$150
Salary Savings Rate (percent)	6.7%	17.2%	8.3%	10.9%

As the table illustrates, the average salary savings rate for the previous three fiscal years was 10.9 percent. Despite the bureau's slow start in filling positions during the current year, we anticipate that the department will be able to improve its performance in 1984-85. In addition, we recognize that the bureau's average salary savings of 10.9 percent is, to some degree, inflated by the hiring freeze imposed in 1981-82, (when the rate was 17.2 percent). At the same time, however, the 4.5 percent projected salary savings rate appears to be too low, given the department's past performance.

Our analysis indicates that a salary savings rate of 6.7 percent would be more realistic than the 4.5 percent estimated by the bureau. This rate, which is equal to the *lowest* rate achieved in the past three years, would result in additional salary savings of \$121,000 in 1984-85.

Finally, in calculating the cost of continuing in the budget year compensation increases granted 101 Program Representative I positions in 1983-84, the bureau understated the required adjustment to baseline salary and wages expenditures. The latest collective bargaining agreements make these employees eligible for a 9 percent cost-of-living increase in the current year. Our analysis indicates that this increase will result in additional personnel costs of \$73,000 in the budget year, rather than the \$38,000 requested by the bureau. Accordingly, we recommend that BAR's budget be augmented by \$35,000 to fully fund the salary increase for these positions in 1984-85.

Taking these three factors into consideration, we recommend a net reduction of \$173,000 in this item.

Indecision in Fresno

We recommend that the Legislature adopt Budget Bill language prohibiting the expenditure of \$296,000 requested in Item 1150-008-420 for the cost of the Biennial Vehicle Inspection Program in Fresno County unless and until Fresno County requests the program.

By April of 1983, five of the six *nonattainment areas* in California had requested implementation of the Biennial Vehicle Inspection Program within their areas. If the county chooses not to participate, it faces federal funding sanctions. At the time this *Analysis* was prepared, however, Fresno County—with approximately three percent of the vehicles located in nonattainment areas—had not formally requested to participate in the program. If the county chooses not to participate, it faces federal funding sanctions.

Fresno County officials have informed the Environmental Protection Agency (EPA) that the county would be willing to participate in the

DEPARTMENT OF CONSUMER AFFAIRS—Continued

program, and thereby avoid the sanctions, if implementation can be delayed until October 31, 1984. The EPA, however, has indicated that such a delay is unacceptable. Thus, it appears that sanctions may be applied if Fresno does not submit a request to participate in the BVIP in the near future.

When the bureau developed its budget request for 1984-85, it assumed that the inspection program would be implemented in the Fresno area by March 20, 1984.

Table 4 displays the funds which are budgeted for the Biennial Vehicle Inspection Program in Fresno.

Table 4
Biennial Vehicle Inspection Program Expenditures^a
Fresno County—1984-85

<i>Category</i>	<i>Amount</i>	<i>Personnel-Years</i>
1. Inspection Positions	\$193,000	7
2. Operating Expenses and Equipment ^a	37,837	—
3. Facility Costs ^b	45,072	—
4. Attorney General Service	14,916	—
5. Office of Administrative Hearings	4,710	—
Total	<u>\$295,535</u>	<u>7</u>

^a Does not include funds budgeted for contractual services.

^b Includes only the proportion of facility costs attributable to BVIP. Includes no funds for Automotive Repair Program.

In view of Fresno County's failure to request implementation of the program, it appears that all or part of the \$296,000 and seven positions budgeted for Fresno may not be needed in 1984-85. In order to assure that no funds are spent to implement the program in Fresno County until it requests the program, we recommend the adoption of the following Budget Bill language:

"Provided that the expenditure of the \$296,000 and seven personnel-years budgeted for the implementation of the Biennial Vehicle Inspection Program in Fresno County may not be authorized by the Department of Finance unless and until Fresno County formally requests the Department of Consumer Affairs to implement the program."

Circuitous Funding Approach

We recommend that the appropriation in Item 1150-008-128 (Automotive Repair Fund) be increased by \$1,154,000 and that reimbursements to that item be reduced by \$1,118,000 to reflect a direct appropriation to the Bureau of Automotive Repair for the Motor Vehicle Pollution Control Program.

Pursuant to Ch 892/82, the Bureau of Automotive Repair will continue to administer the Motor Vehicle Pollution Control (MVPC) Program, which requires a vehicle inspection upon initial registration and change-of-ownership. The MVPC program will be conducted in those areas of the state not subject to provisions of the Biennial Vehicle Inspection Program.

The bureau's budget for 1984-85 includes disbursements of \$1,154,000 from the Automotive Repair Fund to the Air Resources Board (ARB) for administration of the MVPC program. The budget also provides that \$1,118,000 is to be returned to the bureau as a reimbursement, because, in

reality, the program is conducted solely by the bureau with no assistance from the ARB. The ARB, however, would retain \$36,000 to fund pro rata charges assessed against the program.

This circuitous budgeting approach stems from an administrative decision reflected in the Governor's Budget for 1974-75 which required that all funding for vehicle pollution control programs be placed in the ARB budget and that various state entities conducting air pollution control programs be reimbursed for their costs by the ARB. Beginning in 1984-85, however, funds for the Biennial Vehicle Inspection Program will be appropriated directly to the BAR. Thus, there appears to be no reason to continue funding the MVPC program through the ARB budget, as proposed. Instead, the appropriation should be made directly to BAR—the agency responsible for administering the MVPC program.

Accordingly, we recommend that the appropriation in Item 1150-008-128 be increased by \$1,154,000 (to include \$36,000 for pro rata assessments) and that reimbursements to that item be reduced by \$1,118,000. A conforming action is recommended in our analysis of the Air Resources Board's budget (Item 3400-001-128).

BOARD OF BARBER EXAMINERS

Barber Examinations are Overstaffed

We recommend a reduction of \$12,000 from Item 1160-010-713 to eliminate funds requested for Intermittent Examiners because the administration of examinations is overstaffed. We further recommend that the Legislature adopt supplemental report language directing the board to amend its regulations to allow field examiners to score the written examination and issue licenses on-site.

The budget proposes \$12,148 to enable the board to hire Intermittent Examiners to (1) proctor barber exams, (2) score the written portion of the exam, and (3) issue a license on-site if an applicant passes the practical and written exams. Currently, the board gives 950 exams a year to approximately 9,500 candidates. Each exam is proctored by two field examiners and one intermittent examiner. The field examiners administer and score the practical exam and serve as proctors for the written exam. The intermittent examiner scores the written exam and issues a license if a candidate has passed both parts of the exam. According to the board, regulations prohibit the field examiners from performing the functions of the intermittent examiners.

We believe the board is overstaffing the administration of examinations. Our analysis indicates that the two field examiners could administer and score both the written and practical examinations for the average of 10 applicants per examination, and also issue licenses as necessary. On this basis, we recommend a deletion of \$12,000 requested for the intermittent examiners. We further recommend that the Legislature adopt the following supplemental report language directing the board to amend its regulations to allow field examiners to score the written exam and issue licenses on-site:

"The Board of Barber Examiners is directed to amend its regulations to allow Field Examiners to score the written exam and issue licenses on-site."

DEPARTMENT OF CONSUMER AFFAIRS—Continued**BOARD OF BEHAVIORAL SCIENCE EXAMINERS****Examination Review Needs Reassessment**

We recommend a reduction of \$24,000 from Item 1170-012-773 and the deletion of a Test Validation Specialist position because the position does not appear to be needed by the board.

The board is requesting \$24,000 to establish a Test Validation Specialist (TVS) on a one-year limited-term basis. The position, which originally was authorized in the 1982 Budget Act for a two-year limited term, was established within the department's Central Testing Unit (CTU) to work directly for the board. Specifically, the position was created to (1) review the three written and three oral examinations given by the board and identify test items requiring revisions, (2) provide the board with technical assistance, and (3) review the exam security procedures utilized by the board, and suggest improvements.

Despite the fact that funds have been available for the position for two years, the position has been filled for only four months because of management disagreements relative to the tasks to be performed by the position. In view of the failure of the department and the board to reach agreement on the use of the position over a period of two years, it appears that the position is not needed to assist the board in improving licensing tests. Thus, we recommend that \$24,000 be deleted for the TVS position.

BUREAU OF COLLECTION AND INVESTIGATIVE SERVICES**Fund Deficit**

We recommend that the Bureau of Collection and Investigative Services report to the fiscal subcommittees by March 15, 1984 on what steps are being taken to eliminate an anticipated deficit in the Private Investigator Fund (Item 1210-018-769).

The budget indicates that the Private Investigator Fund will have a deficit of \$1,167,000 by June 30, 1985, if no action is taken to reduce the bureau's expenditures or increase its fees. Currently, the bureau's fees are set at the maximum levels permitted by statute.

We recommend that the bureau report to the fiscal subcommittees by March 15, 1984 on what progress is being made to eliminate the deficit.

CONTRACTOR'S STATE LICENSE BOARD**Reserve Rising Rapidly**

We recommend that legislation be enacted to (1) set upper limits on license fees charged by the board, and (2) give the board flexibility to administratively set fees up to the limits.

During 1981-82, the board spent approximately \$15 million in support of its programs. This was approximately \$4.5 million more than the board received in revenues during that period. Because this depleted the board's reserves, the Legislature enacted Ch 1615/82 (SB 1556) to increase the board's fees. Currently, the board has no administrative discretion to increase or decrease fees.

As a result of the higher fees established by Chapter 1615, the board's reserve for economic uncertainties has grown at an average annual rate of 71 percent since 1981-82. By June 30, 1985, the budget projects that the

fund reserve will reach \$19,323,000. While this amount is less than what existing law allows (that is, an amount equal to the combined operating budget for the next two fiscal years), it is excessive to the board's needs. In order to reduce its reserves, the board has suggested that it be permitted to *lower* fees administratively.

We believe it would be appropriate to give the board such administrative flexibility to lower its fees because this would be in conformance with administrative flexibilities given other licensing agencies to change their fees up or down subject to upper limits. Therefore, we recommend that legislation be enacted to set statutory *upper* limits on the board's fees and provide the board with authority to lower fees administratively. This will maintain legislative control over the fees while avoiding the need for legislation to make minor adjustments needed to maintain reserves at a reasonable level.

Delay in Start-up of Complaint Disclosure Program

We recommend that legislation be enacted to extend the sunset date for the Contractor's State License Board's complaint disclosure program so that the Legislature will have an opportunity to determine the program's merits.

Chapter 628, Statutes of 1981 (AB 1079), amended the Contractors State Licensing Law to provide that information pertaining to a complaint filed against a licensed contractor shall be made available to the public only after the violation has been investigated thoroughly or disciplinary action has been initiated against the licensee. Specifically, the statute:

- Permits the board to disclose *general information* regarding complaints against a licensee. Such information is limited to a statement as to whether there are (1) complaints against a licensee which are under investigation, and (2) any substantiated complaints filed against a licensee which have been resolved, mediated, or settled within the past year.
- Prohibits disclosure of information regarding the *number* of complaints filed against each contractor.
- Requires that disclosures of complaints under investigation must include a cautionary statement indicating that, pending the investigation, no conclusion concerning the complaint's validity can be assumed.
- Requires that complaint disclosures must include the number of citations issued by the board.

Prior to enactment of Chapter 628, the Contractor's Law expressly prohibited the board from disclosing information about complaints until a uniform complaint disclosure policy, applicable to all boards, bureaus, and commissions, was adopted by the Department of Consumer Affairs. The department adopted such a policy and the board, in turn, adopted compatible regulations on July 1, 1980. Discord over the proposed regulations led to passage of Chapter 628.

In order to determine the effectiveness of the provisions in Chapter 628, the Legislature directed the Legislative Analyst to report on the board's complaint disclosure procedures by January 1, 1984, in advance of the act's scheduled termination on July 1, 1984.

Ad Hoc Committee Appointed. The board experienced a 25-month delay before rules were promulgated and the complaint disclosure program implemented. The board attributes the long delay to a lengthy

DEPARTMENT OF CONSUMER AFFAIRS—Continued

hearing process which was completed in July 1983. During the hearings, the board attempted to achieve a compromise between the contractors on one hand and consumer advocates on the other. Even so, the board advises that the current version of the complaint disclosure regulations still does not represent a procedure which is wholly acceptable to both parties. Anticipating further discord over complaint disclosures, the board has appointed an Ad Hoc Committee composed of interested consumer, industry, and labor representatives to settle unresolved issues and monitor the effects of the new regulations.

Start-up of Program in December 1983. A review of the regulations by the Office of Administrative Law was not completed until November 1983. As a consequence, the regulations and the program were not established until December 1983. During the interim, the Contractor's State License Board did not respond to consumer requests for information pertaining to complaints *filed* against contractors, although it did provide the public with information relative to administrative or judicial actions brought against contractors.

The regulations adopted by the board define complaint as a "written allegation that a licensee has violated any provision of Contractor's License Law or board regulations." In addition, the regulations require the board to provide the public with the following information:

- Complaints currently under investigation by a deputy registrar.
- Complaints, within one year of the date of the request, that are scheduled for legal action.
- Legal action taken by the board against the licensee.
- Citations issued by the board.
- General license and bond information.

The board reports that 50 requests for complaint information were received in the first month. It believes information requests will increase substantially, however, once the public is aware of the program.

More time needed to evaluate the program. At this time, it is not possible for us to evaluate the program and report on its effectiveness, given the fact that the program has only been in place for a few months. We believe, however, that the complaint disclosure program can provide the public with valuable information regarding the board's licensees. Accordingly, we believe that the program merits continuation on a trial basis. This will enable the board to document public utilization and provide the Legislature with information that can serve as a basis for determining whether the program should be made permanent. Accordingly, we recommend that legislation be enacted to extend the sunset date for the complaint disclosure program.

BOARD OF DENTAL EXAMINERS AND DENTAL AUXILIARY COMMITTEE***We recommend approval.***

The Legislature directed the Department of Finance to zero-base the 1984-85 budget for the Board of Dental Examiners and Dental Auxiliary Committee. In complying with this requirement, the department required the board to identify program priorities and the funding requirements related to each.

As a result of the zero-base review, the department concluded that no significant savings in the budget for the board and committee is possible. At the same time, the review has led the board to shift its program empha-

sis from examinations and licensing to enforcement of regulations. In addition, the Auxiliary Committee is requesting funds to administer a practical exam and develop an extended functions exam for Registered Dental Assistants.

Our analysis indicates that the board's listing of program priorities is reasonable and its proposed level of expenditures is adequately justified. Thus, we recommend approval of the requested amount.

BUREAU OF EMPLOYMENT AGENCIES

Operating Expenses and Equipment are Overbudgeted

We recommend a reduction of \$33,000 in Item 1300-030-180 because funds for the bureau's operating expenses and equipment are overbudgeted.

The budget for the Bureau of Employment Agencies proposes \$141,000 for investigative services, \$12,000 for general expenses, and \$13,000 for printing. Our analysis of the bureau's actual expenditures during the past two fiscal years and the current year indicates that during this three-year period, reversions by the board will average (1) 15 percent for investigative costs, (2) 26 percent for printing, and (3) 42 percent for general expenses.

Our analysis indicates that, given the bureau's tendency to overbudget for investigative services, general expenses and equipment, an amount equal to estimated expenditures in the current year, plus a 6 percent growth adjustment, should be adequate to fund the bureau in the budget year. Therefore, we recommend that funds for (1) investigative services be reduced by \$26,000, (2) printing be reduced by \$2,000, and (3) general expenses be reduced by \$5,000, for a savings of \$33,000.

BOARD OF FABRIC CARE

Operating Expenses and Equipment are Overstated

We recommend a reduction of \$36,000 in Item 1320-034-745 because funds for the board's operating expenses and equipment are overbudgeted.

The Board of Fabric Care requests approximately \$225,000 for enforcement and \$57,000 for consumer education activities in 1984-85. During the three-year period ending June 30, 1984, the board's reversion rates in these two areas are expected to average (1) 28 percent for enforcement, and (2) 23 percent for consumer education.

Given the board's history of reverting a significant portion of the funds appropriated for these two purposes, we believe enforcement and consumer education activities are overbudgeted in 1984-85. Accordingly, we recommend a reduction of \$27,000 in the amount requested for enforcement and \$9,000 in the amount requested for consumer education. This would still provide a level of funding in both areas that is equal to estimated expenditures in the current year, plus an allowance of 6 percent for reasonable growth in these activities.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**BOARD OF FUNERAL DIRECTORS AND EMBALMERS****Fund Deficit**

We recommend that the Board of Funeral Directors and Embalmers report to the fiscal subcommittees by March 15, 1984, on its progress in eliminating a deficit in the Funeral Directors and Embalmers Fund (Item 1330-036-750).

The budget indicates that the Board of Funeral Directors and Embalmers Fund will experience a deficit of \$61,000 by June 30, 1985. Consequently, we recommend that the board report to the legislative fiscal committees prior to budget hearings concerning its plans for eliminating the deficit in the fund.

Enforcement Costs Overbudgeted

We recommend a reduction of \$12,000 in Item 1330-036-750 because the board's request for enforcement activities is excessive.

The board is requesting approximately \$89,000 for enforcement activities. During the three-year period ending June 30, 1984, the board, on the average, will revert 16 percent of the funds appropriated for enforcement activities.

Based on the board's pattern of reversions, we conclude that the request for enforcement activities is excessive. Therefore, we recommend that funds for enforcement be reduced by \$12,000. The reduced level of funding will still provide the board with the same level of funds in the budget year that is estimated to be spent in the current year, plus a 6 percent adjustment for possible increases in costs.

BUREAU OF HOME FURNISHINGS**Fund Deficit**

We recommend that the Bureau of Home Furnishings (Item 1360-042-752) submit to the fiscal committees prior to budget hearings (1) a revised fee schedule, and (2) an adjusted fund condition statement showing the fiscal effect of the revised fees.

The budget indicates that the Bureau of Home Furnishings will have a reserve of \$611,000 in the Bureau of Home Furnishings Fund by June 30, 1985. The bureau anticipates, however, that a significant deficit in the fund will occur in 1985-86. According to the bureau, a revised fee schedule is being developed to avoid such a deficit.

In order to inform the Legislature in advance of possible fee increases, we recommend that the bureau submit to the fiscal subcommittees by March 15, 1984, a revised fee schedule and a pro forma fund condition statement showing the effects of the revised fees.

BOARD OF MEDICAL QUALITY ASSURANCE**Allied Health Committee Staff Structure May Not Be Cost-Effective**

We recommend that the Legislature adopt supplemental report language directing the Board of Medical Quality Assurance (Item 1390-046-758) to submit to the Legislature by December 1, 1984, a report evaluating whether the activities performed by the staffs of the nine Allied Health Committees under its jurisdiction could be performed in a more cost-effective manner by the board as part of its shared services structure.

The Board of Medical Quality Assurance currently provides nine committees under its jurisdiction with certain administrative services, and bills the committees for services rendered. According to the board, the shared services structure was developed to establish a more cost-effective method of providing services. Specifically, the board provides the following services:

- Purchasing, mail, and information filing services.
- Processing and cashiering of license renewals.
- Cashiering for non-renewal transactions.
- Processing of consumer complaints and inquiries for information.
- Creating and updating of records.
- Reviewing of proposed regulations and determining potential fiscal impact.
- Servicing of word processing equipment.

Currently, each committee under the board maintains its own clerical and support staff. These staffs perform similar functions within each committee. Our analysis indicates that these common functions could be performed in a more cost-effective manner, if they were consolidated in the board's shared-services structure. For that reason, we recommend that the Legislature adopt supplemental report language directing the board to evaluate whether the clerical functions and support staff activities performed by the staffs of the nine committees could be performed in a more cost-effective manner by the board as part of its shared services structure, and report its findings to the Legislature by December 1, 1984.

Exam Projections Questionable

Recommend reduction of \$432,000 from Contingent Fund
 We ~~withhold recommendation on \$428,000 requested in Item 1390-046-758 for examinations, pending receipt of information on the number of examinations actually administered in December 1983.~~

The board administers the Federation Licensing Examination (FLEX) in December and June of each year. This exam is given to foreign medical graduates and American graduates who have not taken or passed the National Board examination. The exam must be passed before a license to practice medicine in California can be issued.

The budget is proposing an additional \$428,000 to administer the exam in 1984-85. In past years, the number of applicants taking the FLEX exam have increased steadily. The board projects an increase in applicants of nearly 15 percent between 1983-84 and the budget year.

The board indicates, however, that it experienced a 6.5 percent drop-off in the number of examinations administered in June 1983. If there was a similar drop-off in actual applicants for the December 1983 exam, the amount budgeted for examinations in 1984-85 may be overstated.

The board indicates that the actual number of examinations given in December will be available in March 1984. Therefore, we withhold recommendation on \$428,000 requested for examinations, pending receipt of the actual FLEX examination figures for December 1983.

ACUPUNCTURE EXAMINING COMMITTEE

Operating Expenses and Equipment are Overstated

We recommend a reduction of \$66,000 requested in Item 1400-048-108 because certain operating expenses and equipment items exceed the committee's needs.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

The Acupuncture Examining Committee is requesting \$74,526 for in-state travel expenses and \$33,573 for investigative activities in the budget year. During the three-year period ending June 30, 1984, the annual reversion rate is expected to average approximately (1) 28 percent for travel and (2) 68 percent for investigative activities.

Based on the annual reversion rates in these categories, it appears that the committee's estimated travel and enforcement expenditures historically have been overbudgeted. On this basis, we recommend a reduction of \$46,000 for travel expenditures, and \$20,000 for enforcement activities. These amounts would still provide 6 percent more than the level of expenditures for these purposes estimated for the current year.

BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS**Unneeded Funds for Publication of Engineers' Roster**

We recommend a reduction of \$33,000 in Item 1500-068-770 because funds were inadvertently budgeted to publish a roster of professional engineers.

Section 6715 of the Business and Professions Code requires the Board of Registration for Professional Engineers to publish a roster of all registered professional engineers once every four years. The board published a roster in 1983 to fulfill the statutory requirements. Funds for publication costs, however, were inadvertently included in the baseline budget for 1984-85. To correct this error, we recommend a reduction of \$33,000 in this item.

BOARD OF REGISTERED NURSING**Review of Nursing Schools Not Cost-effective**

We withhold recommendation on \$233,000 and nine positions requested for the Registered Nursing Board's (Item 1520-070-761) school accreditation program, pending the receipt of a report comparing the board's program activities and costs with the school accreditation program operated by the Board of Vocational Nurses and Psychiatric Technicians.

The Board of Registered Nursing is required by law to accredit all nursing schools. The board fulfills this requirement by reviewing nursing schools to ensure that they meet accreditation standards. In order to make the accreditation program more cost-effective, the Department of Consumer Affairs proposes to eliminate two Nurse Education Consultants from this program in 1984-85, for a savings of \$80,000.

Our review of the program indicates that the proposed reduction is a positive step toward improving the cost-effectiveness of the program, but that additional savings may also be possible through reorganization and further reductions in staff. The Board of Vocational Nurses and Psychiatric Technicians (BVN) operates a school accreditation program that is fundamentally the same as the board's program. The Board of Vocational Nurses, however, accredits more schools at a lower cost than does the Board of Registered Nursing. Table 2 identifies staffing, costs and the number of schools evaluated by each school accreditation program in the current year.

Table 5
Nursing School Accreditation programs
1983-84

	<i>Authorized Positions</i>	<i>Program Costs</i>	<i>Schools Evaluated</i>
Board of Registered Nurses.....	9	\$312,592	90
Board of Vocational Nurse and Psychiatric Technicians....	5	172,002	118

Based on the dramatically lower costs of the Board of Vocational Nurses' program, we believe that the Board of Registered Nursing's program is not being managed in a cost-effective manner. Recognizing, however, that there are differences between the two programs, we are unable to recommend appropriate adjustments to the board's budget at this time. We recommend that the board submit a report to the fiscal committees by April 1, 1984, comparing the board's program activities and costs with the program operated by the Board of Vocational Nurses and Psychiatric Technicians. Pending receipt of this information, we withhold recommendation on the funds requested for this program.

STRUCTURAL PEST CONTROL BOARD

Investigation Costs are Overbudgeted

We recommend a reduction of \$62,000 in Item 1530-074-775 because the board's enforcement costs are overbudgeted.

The Structural Pest Control Board's budget for 1984-85 includes \$662,000 for enforcement activities. The board indicates that its 1982-83 actual expenditures for this purpose were \$503,000, and that estimated expenditures in 1983-84 will be approximately \$525,000. Due to the increased level of activity in the housing and real estate markets, the board anticipates a significant increase in complaints and investigative activities during 1984-85.

Our analysis indicates that investigation costs will probably rise due to increases in (1) the hourly rates charged by the department, and (2) an increase in the number of cases under investigation. The board in providing detail in support of its request, however, indicated that it plans to spend \$50,000 per month, or \$600,000 in the budget year. Because the budget proposes \$62,000 more than detailed by the board, we recommend a reduction of \$62,000 in funds for enforcement activities in this item.

DEPARTMENT OF CONSUMER AFFAIRS—CAPITAL OUTLAY

Item 1655-301 from the Con-
sumer Affairs Fund

Budget p. SCS 75

Requested 1984-85	\$411,000
Recommendation pending	411,000

ANALYSIS AND RECOMMENDATIONS

We recommend that funding for the Department of Consumer Affairs' air conditioning system be provided only for required fire and life safety modifications.

We withhold recommendation on the amount of funding needed to complete this work, pending receipt of a revised cost estimate for the project.

The budget proposes \$411,000 under Item 1655-301-702 for modifications to the air conditioning system for the Department of Consumer Affairs' Sacramento headquarters building. Funding for this project would come from the Consumer Affairs Fund.

The department indicates that the present air conditioning system has various health, fire, and life safety deficiencies. Consequently, the department is not in compliance with Resolution Chapter 58, Statutes of 1981, which requires all state departments to assure that their facilities meet fire and life safety standards adopted by the State Fire Marshal no later than July 1, 1983.

Funding History. The Department of General Services, Office of State Architect (OSA), inspected the department's air conditioning system in 1981 and developed a preliminary cost estimate for the modifications and repairs needed to meet fire and life safety requirements. The total estimated project cost in 1982 was \$190,900. Of this amount, \$126,500 was encumbered, but has not been used. The balance of the funds—\$64,400 (appropriated in the 1982 Budget Act)—has not been spent.

The full \$190,900 will revert at the end of the current year. Thus, if the project is to proceed, funds will have to be appropriated for 1984-85.

New Cost Estimate Goes Beyond Fire and Life Safety. OSA completed a new cost estimate for the air conditioning modifications in January 1983. This estimate placed the total project cost at \$397,000. Our analysis indicates, however, that the work contemplated by the new estimate goes beyond fire and life safety-related modifications to the air conditioning system. According to OSA specifications, the project includes demolition of the existing roof-mounted air intake penthouse, construction of a new penthouse, installation of exposed roof mounted air ducts and structural supports, smoke dampers, interior ductwork, patching and repair of roofing, electrical outlets, conduits and fittings, nameplates, grounding, cutting and patching.

No justification for these additional modifications to the existing air conditioning system has been submitted by the department.

Accordingly, we recommend that the Legislature provide funding only for those modifications necessary for the system to comply with fire and life safety standards.

Since the OSA's cost estimate is for work that would go beyond making fire and life safety modifications, we are not able to determine at this time how much is necessary to accomplish the fire/life safety work by itself. A

revised cost estimate is needed. We withhold recommendation on this item, pending receipt of the revised estimate.

State and Consumer Services Agency
DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General
 Fund and Federal Trust Fund

Budget p. SCS 75

Requested 1984-85	\$8,668,000
Estimated 1983-84	8,501,000
Actual 1982-83	7,827,000
Requested increase (excluding amount for salary increases) \$167,000 (+2.0 percent)	
Total recommended reduction	273,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1700-001-001—Support		General	\$8,668,000
1700-001-890—Support		Federal Trust	(1,079,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Administrative Activities. Reduce Item 1700-001-001 by \$120,000 from the General Fund.* Recommend reduction to eliminate a baseline adjustment for expenses that are temporary. 189
2. *Salary Savings. Reduce Item 1700-001-001 by \$138,000 from the General Fund.* Recommend reduction to reflect the department's actual salary savings experience. 189
3. *Staffing Reduction. Reduce Item 1700-001-001 by \$15,000 from the General Fund.* Recommend reduction to correct technical errors in proposed position cuts. 190
4. *Case Accounting/Tracking System.* Recommend adoption of supplemental report language directing department to submit a follow-up report on the information obtained from its newly instituted reporting system. 191

GENERAL PROGRAM STATEMENT

The Department of Fair Employment and Housing enforces laws which promote equal opportunity in housing, employment, and public accommodations. These laws prohibit discrimination on the basis of race, religion, creed, national origin, ancestry, sex, marital status, physical handicaps, medical conditions, and age.

During the current year, the department was reorganized into three divisions:

- *The Enforcement Division* is responsible for investigating and enforcing the state's anti-discrimination statutes relating to employment, housing, and public accommodations.
- *The Public Programs Division* coordinates the department's public information and public education activities. This division also admin-

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

isters the department's fair housing practices programs, conducts program evaluations and oversees the department's legislative affairs.

- *The Analytical Services Division* provides administrative support to the department, including accounting, budget, personnel and legal services. This division is also responsible for the development of policy and procedural guidelines.

The department has 262.5 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$8,668,000 from the General Fund for support of the Department of Fair Employment and Housing (DFEH) in 1984-85. This is \$167,000, or 2.0 percent, more than estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefits increase that may be approved for the budget year.

The budget proposes expenditures from all sources, including federal funds and reimbursements, of \$10,752,000 in 1984-85. This is an increase of \$197,000 or 1.9 percent, over estimated current-year expenditures.

Table 1 presents a summary of the department's expenditures, by program and funding source, for the three-year period ending June 30, 1985.

Table 1
Department of Fair Employment and Housing
Budget Summary
1982-83 through 1984-85
(dollars in thousands)

	<i>Actual</i> 1982-83	<i>Estimated</i> 1983-84	<i>Proposed</i> 1984-85	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
<i>Program Expenditures</i>					
Enforcement Division	\$7,028	\$7,233	\$7,317	\$84	1.2%
Public Programs Division	486	528	565	37	7.0
Analytical Services Division	2,194	2,794	2,870	76	2.7
Governor's Task Force on Civil Rights	94	—	—	—	—
Total Expenditures	\$9,802	\$10,555	\$10,752	\$197	1.9%
<i>General Fund</i>	\$7,827	\$8,501	\$8,668	\$167	2.0%
<i>Federal Trust Fund</i>	1,884	1,972	2,079	107	5.4
<i>Reimbursements</i>	91	82	5	-77	-93.9
Personnel-years	249.7	257.4	251.9	-5.5	-2.1

Table 1 shows that the General Fund appropriation finances approximately 81 percent of the department's expenditures, while the Federal Trust Fund appropriation supports about 19 percent. This cost-sharing ratio has remained at approximately 80:20 (state General Fund-to-federal funds) over the past three years. The federal support of the state's anti-discrimination activity is linked to an ongoing "work-sharing agreement" between DFEH and the federal Equal Employment Opportunity Commission (EEOC). Under this agreement, the federal government reimburses DFEH for processing cases which, although filed with the state, are subject to the jurisdiction of EEOC. The reimbursement covers only those cases which may be filed pursuant to federal law. In 1983-84, the reimbursement rate is \$380 per employment practices case.

The department maintains a similar work-sharing agreement with the federal Department of Housing and Urban Development (HUD) for enforcement of fair housing standards. HUD provides reimbursements for

housing-related enforcement at the current-year rate of \$500 per case.

ANALYSIS AND RECOMMENDATIONS

Administrative Activities are Overbudgeted

Withdrawn, recommend approval mJ

We recommend reducing Item 1700-001-001 (General Fund) by \$120,000 to eliminate overbudgeting for departmental administration.

In June 1983, DFEH sought and received approval from the Department of Finance to transfer \$120,000 in its 1982-83 budget from the Enforcement Program to the Administrative Services Division.

The staff reports that the 1982-83 transfer of funds from the enforcement program to administration has never been reversed. Thus, the proposed budget for 1984-85 includes funds for these additional administrative expenses. According to the department, this adjustment was needed to fund unanticipated expenses that arose in that year. These expenses included: (1) settlement of an employee grievance against the department; (2) travel expenses in excess of the budgeted amount; and (3) additional personnel costs caused by the return of three employees to DFEH from other departments (per civil service rules).

Our analysis indicates that in each of these cases, the unanticipated expense was of a one-time or non-recurring type. Consequently, no adjustment to the department's budget for administrative expenses beyond 1982-83 is necessary. Specifically:

- The expenditure of funds for the employee grievance in 1982-83 was an unusual event. The department concedes that because such settlements occur infrequently, it does not need to budget funds for this purpose.
- The department incurred excess travel expenses in 1982-83 because during the previous administration, the Deputy Director and the General Counsel were assigned to offices outside of the Sacramento headquarters. Hence, much more travel was necessary in order to permit meetings involving the department's top management officials. The DFEH says this situation no longer exists. Therefore, maintaining travel allotments in excess of the baseline amount is no longer necessary.
- While the involuntary return of three personnel required the department to absorb unbudgeted costs in 1982-83, these costs have not continued in the current year. The department has accommodated these people *within* its authorized level of positions.

Not only is it evident that these funds are no longer needed for administrative expenses; apparently, they are not needed for enforcement-related activities either, since the department has not sought restoration of the \$120,000 transferred out of the budget for enforcement activities in 1982-83. Since the expenses that brought about the inter-program funding transfer in 1982-83 were of a one-time nature, we recommend a reduction of \$120,000 in Item 1700-001-001 to correct for overbudgeting.

Salary Savings is Underestimated

We recommend that Item 1700-001-001 be reduced by \$138,000 to more accurately reflect expected salary savings.

When budgeting for salaries and wages, agencies normally recognize that salary levels will fluctuate and that all positions will not be filled for a full 12 months. Experience shows that savings will accrue due to the

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

following factors: vacant positions, leaves of absence, turnover, delays in the filling of positions, and the refilling of positions at the minimum step of the salary range. Therefore, to prevent overbudgeting, the Department of Finance requires agencies to include an estimate of salary savings—usually expressed as a percentage reduction in the gross salary and wage amount—in each budget.

The DFEH currently estimates salary savings at \$138,000, or 2.0 percent, of total salaries and wages. This amount is based on the assumption that the equivalent of 5.1 of the department's 262.5 authorized positions will be vacant throughout the fiscal year.

Our review of the department's accounting records for 1981-82, 1982-83, and the first quarter of 1983-84 indicates that this 2.0 percent estimate is too low. The DFEH documents we examined revealed salary savings equivalents of *5.2 percent* in 1981-82, *5.5 percent* in 1982-83 and *6.2 percent* in 1983-84.

We also examined payroll information provided by the State Controller which indicates that since January 1983 DFEH has experienced a vacancy rate equivalent to over *5 percent*.

While the department's more recent salary savings experience may be somewhat higher than normal due to hiring freezes or other factors, the DFEH estimates in the budget are unrealistically low. Based on our analysis of the department's experience and that of comparable state agencies, we estimate that a salary savings adjustment for DFEH of *4 percent* would be more logical than the budget estimate of *2 percent*. Accordingly, we recommend a \$138,000 reduction in General Fund support in Item 1700-001-001 to more accurately reflect the department's anticipated salary savings in 1984-85.

Department's Staff-Reduction Proposal Includes Technical Errors

We recommend a reduction of \$15,000 from Item 1700-001-001 (General Fund) to correct for technical errors in the agency's proposal to eliminate certain positions.

The DFEH budget proposes to eliminate 5.5 positions (consisting of 3 clerical and 2.5 temporary help positions) from its current level of 262.5 authorized positions.

Our analysis indicates that the department made the following technical budgeting errors in accounting for the proposed position reductions.

Adjustment for Reduced Operating Expenses is Omitted. When a new position is authorized, departments routinely include an adjustment to reflect the need for additional operating expenses to support the new employee. When positions are eliminated, a comparable adjustment is warranted in operating expenses. The department's proposal fails to include these adjustments. Based on data submitted by DFEH, we estimate that the elimination of the 5.5 positions will result in a cost-savings in operating expenses of \$5,000.

Incorrect Salary Ranges Used. In determining the savings in salaries from eliminating the 5.5 positions, the department used salary figures which were not adjusted to reflect the 6 percent general salary increase granted to state employees during 1983-84. Because the department's 1984-85 salary *base* includes these positions at the *higher* salary level, the subsequent removal of the positions at the *lower* salary level has resulted in understated salary and related staff benefits cost-savings in the amount of \$10,000.

To correct these technical errors in the department's position-reduction proposal, we recommend the deletion from this item of \$15,000 in General Fund support.

Case-Tracking Follow-Up Information Needed

We recommend that the Legislature adopt supplemental report language requiring the department to submit to the fiscal committees and the Joint Legislative Budget Committee a detailed report that analyzes data obtained from the 1983-84 and 1984-85 implementation of its case-tracking system.

The 1983 Budget Act directed the department to establish an internal case-tracking system to enable the Legislature to obtain more precise information about the agency's case-management costs. The internal system was to include the history, dedicated staff time, and all associated processing costs for each of the cases handled by the department. The department's findings were to be submitted to the Legislature and the Legislative Analyst no later than December 1, 1983.

The department's report, submitted in December 1983, indicates that a "Case Accounting/Tracking System" will be installed on a test basis in January 1984 at the San Bernardino and Bakersfield district offices. Full implementation in all of the department's district offices is scheduled for April 1984.

The system is designed to document: (a) "major" activities performed on each case; (b) total staff hours dedicated to each case; and (c) all administrative costs—direct and indirect—incurred for processing each case. The time spent on each of the cases processed by the department will be charted under four categories: investigation, settlement/conciliation, public hearing, and report-writing. This information will be recorded on the department's computers by the consultants and attorneys assigned to each of the cases.

Our review of this case-tracking system indicates that the department's efforts are reasonable and necessary in order to provide the Legislature with the caseload and cost information it will need to properly evaluate this statewide function.

Because the initial report to the Legislature was due in December 1983, and the system's implementation did not commence until January 1984, the department was unable to develop caseload data in time for inclusion in the December 1983 report. The collection and analysis of the information obtained from the new case-reporting system should be conducted by the DFEH staff during the remainder of the current year and the beginning of 1984-85. To ensure that this occurs, we recommend that the Legislature direct the department to prepare and submit to the fiscal committees and the Joint Legislative Budget Committee, no later than December 1, 1984, a follow-up report describing its findings based on the data compiled during 1983-84 and 1984-85 from its case-reporting system. Specifically, we recommend adoption of the following supplemental report language:

The department shall submit a report to the fiscal committees and the Joint Legislative Budget Committee describing its findings on the implementation of its trial case-tracking system. The report shall include, but not be limited to, information relating to (a) case-processing times, (b) distribution of caseload among staff, (c) the administrative costs associated with management of the cases, and (d) how the data will be

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

used by the department to improve case-management efficiency. In addition, the department shall prepare and submit recommendations regarding its operations and responsibilities based on the information acquired from the trial system. The report, which is to be funded within existing resources, shall be submitted no later than December 1, 1984.

State and Consumer Services Agency
FAIR EMPLOYMENT AND HOUSING COMMISSION

Item 1705 from the General
Fund

Budget p. SCS 78

Requested 1984-85	\$640,000
Estimated 1983-84	614,000
Actual 1982-83	545,000
Requested increase (excluding amount for salary increases) \$26,000 (+4.2 percent)	
Total recommended reduction	35,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. *Consolidation of Offices in San Francisco—Reduce Item 1705-001-001 by \$19,000 from the General Fund.* Recommend reduction because consolidation of staff in one facility will result in reduced overhead expenses. 193
2. *Salary Savings—Reduce Item 1705-001-001 by \$16,000 from the General Fund.* Recommend reduction because the budget does not include a salary savings adjustment. 194
3. *Case-tracking and Reporting System.* Recommend adoption of supplemental report language directing the commission to submit a follow-up report to the Legislature on the information obtained from its newly instituted reporting system. 194

GENERAL PROGRAM STATEMENT

The Fair Employment and Housing Commission establishes overall policies for implementing the state's anti-discrimination statutes. State law prohibits discrimination in employment, housing, and public accommodations on the basis of race, religion, creed, color, national origin, sex, marital status, physical handicap, medical condition, and age.

The commission, which is composed of seven members appointed by the Governor to four-year terms, carries out its statutory mandate through five functions:

- (1) *Adjudicatory Proceedings.* The commission hears formal accusations filed by the Department of Fair Employment and Housing, and issues decisions in these cases.
- (2) *Judicial Reviews of Commission Decisions.* Commission staff assist the Attorney General when commission decisions are appealed to the superior and appellate courts.

- (3) **Investigation Hearings.** The commission conducts fact-finding hearings on selected matters involving illegal discriminatory activity.
- (4) **Regulatory Hearings.** Section 12935 of the Government Code authorizes the commission to promulgate regulations and standards to implement the state's anti-discrimination statutes.
- (5) **Amicus Curiae Activity.** The commission prepares and submits legal briefs in cases involving issues related to the commission's jurisdiction.

Prior to January 1982, funding for the commission was provided through the Department of Fair Employment and Housing. Chapter 625, Statutes of 1981, established the commission as an independent entity.

The commission has 13.5 authorized staff positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$640,000 from the General Fund to support the Fair Employment and Housing Commission in 1984-85. This is an increase of \$26,000, or 4.2 percent, over estimated current-year expenditures. This amount will increase further if any additional salary or staff benefits increases are approved for the budget year.

This increase consists of budget-year adjustments for personal services and standard price increases for operating expenses.

ANALYSIS AND RECOMMENDATIONS

Commission Plans to Consolidate Offices

We recommend a reduction of \$19,000 in Item 1705-001-001 because consolidation of the commission's offices in San Francisco will reduce its annual operating expenses.

The Fair Employment and Housing Commission (FEHC) currently maintains two offices: one in Sacramento (3.5 staff members) and one in San Francisco (9 staff members). The commission proposes to close its Sacramento office in 1984-85 and consolidate all personnel in one facility in San Francisco.

According to the commission, the consolidation will (1) permit closer supervision of staff attorneys by the executive director; (2) improve coordination with the legal staffs of the Department of Fair Employment and Housing and the state Attorney General's Civil Rights Unit; and (3) reduce ongoing overhead expenses. We understand that the State and Consumer Services Agency and the Department of Finance have agreed to the proposed consolidation.

Our review of this proposal indicates that the commission's request is reasonable, as the office consolidation would result in cost savings to the state. For instance, the annual rent at the new San Francisco office would be less than the commission's current rent, a savings that is already reflected in the 1984-85 budget. The commission has also identified various administrative savings (reduced travel, communications and library costs) which would result from the consolidation.

The administrative savings identified by the commission, which are estimated at \$19,000, have *not* been reflected in the commission's budget. Therefore, we recommend a reduction of \$19,000 in General Fund support for this item to reflect these unbudgeted but expected savings from the office consolidation.

FAIR EMPLOYMENT AND HOUSING COMMISSION—Continued**Commission Fails to Budget Salary Savings**

We recommend a reduction of \$16,000 in General Fund support (Item 1705-001-001) to reflect a salary savings adjustment of 3 percent.

When budgeting for salaries and wages, agencies normally recognize that salary levels will fluctuate and that all positions will not be filled for a full 12 months. Experience shows that savings will accrue due to the following factors: vacant positions, leaves of absences, turnover, delays in the filling of positions, and the refilling of positions at the minimum step of the salary range. Therefore, to prevent overbudgeting, the Department of Finance requires agencies to include an estimate of salary savings—usually expressed as a percentage reduction in the gross salary and wage amount—in each budget.

The commission's budget, however, does not include a salary savings adjustment for 1984-85. To correct for this oversight, its budget should be reduced to reflect anticipated salary savings, based on historical experience. In 1982-83, the commission realized salary savings equal to 3.8 percent, and during the first five months of the current year, it realized savings of about 7 percent. Even if these salary savings figures are higher than normal (due for example, to past hiring freezes or unusually high turnover), it would still be appropriate for the commission to budget for salary savings in 1984-85 of at least 3 percent. We therefore recommend a reduction of \$16,000 in Item 1705-001-001 (General Fund) to reflect a 3 percent salary savings adjustment.

Case-Tracking Follow-up Information Needed

We recommend the adoption of supplemental report language requiring the commission to submit to the fiscal committees and the Joint Legislative Budget Committee a detailed report that analyzes data obtained from the 1983-84 and 1984-85 implementation of its case-tracking system.

The 1983 Budget Act directed the commission to establish an internal case-tracking system to enable the Legislature to obtain more precise information about the agency's case-management costs. The internal system was to include the history, dedicated staff time, and all associated processing costs for each of the cases handled by the commission. The commission's findings were to be submitted to the Legislature and the Legislative Analyst no later than December 1, 1983.

The commission's report, submitted in November, indicates that three actions have been taken to comply with the Legislature's request: (1) an internal "Operations Manual" has been developed for the staff; (2) a docket reporting ledger that charts the history and progress on each case has been installed and is being maintained; and (3) a "Daily Log" that documents the activities of FEHC staff on commission matters has been implemented. Our review indicates that these changes make sense, and are essential in order to facilitate legislative oversight and analysis of the commission's adjudicatory operations.

The commission was not able to develop meaningful caseload data within the time available to complete the report. The collection and analysis of the information obtained from the new case-reporting system, however, should be conducted by the commission's staff during the remainder of the current year and in early 1984-85. To ensure that this occurs, we recommend that the Legislature direct the FEHC to prepare and submit

to the fiscal committees and the Joint Legislative Budget Committee, no later than December 1, 1984, a follow-up report describing its findings based on the data compiled during 1983-84 and 1984-85 from its case-reporting system. Specifically, we recommend adoption of the following supplemental report language:

The commission shall submit a report to the fiscal committees and the Joint Legislative Budget Committee describing its findings on the implementation during 1983-84 and 1984-85 of its trial case-tracking system. The report shall include, but not be limited to, information relating to (a) case-processing times, (b) distribution of caseload among staff, (c) the administrative costs associated with management of the cases, and (d) how the data will be used by FEHC to improve case management efficiency. In addition, the commission shall prepare and submit recommendations regarding its operations and responsibilities based on the information acquired from the trial system. The report shall be submitted no later than December 1, 1984.

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

Item 1710 from the General

Fund and various funds

Budget p. SCS 79

Requested 1984-85	\$4,977,000
Estimated 1983-84	4,351,000
Actual 1982-83	3,580,000
Requested increase (excluding amount for salary increases) \$626,000 (+14.4 percent)	
Total recommended reduction	560,000
Recommendation pending	725,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1710-001-001—SFM, support		General	\$3,812,000
1710-001-198—SFM, support		California Fire Services	365,000
		Training and Education	
		Hazardous Liquid Pipeline	800,000
1710-001-209—SFM, support		Safety	
Total			\$4,977,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. Fireworks Testing. Withhold recommendation on \$298,000 of reimbursement-related activity pending receipt of (1) evidence that there are private firms capable of performing fireworks testing and inspection, (2) estimates of the cost to contract with the private sector for fireworks testing, and (3) comparison of the cost of fireworks testing through a contract with the private sector with the cost of performing this work using state staff. 199
2. Public Building Inspections. Withhold recommendation 200

OFFICE OF THE STATE FIRE MARSHAL—Continued

- on \$427,000 from the General Fund, pending receipt of workload justification and information on priority-setting and task assignment related to program expansion.
3. **Hazardous Liquid Pipeline Safety.** *Reduce Item 1710-001-209 by \$560,000.* Recommend reduction for implementation of the program because the Fire Marshal has overestimated the cost. 201
 4. **Building Materials Listing.** Withhold recommendation on contracting with private firm for Building Materials Listing program pending receipt of (1) more information on program deficiency, (2) information demonstrating the feasibility of contracting, (3) detailed information on the cost of contracting for these services with the private sector (4) a comparison of the cost of contracting with the cost of using state employees to carry out program, and (5) assurance that conflicts-of-interest could be avoided if the state contracted with a private firm for this work. 202

GENERAL PROGRAM STATEMENT

The Office of the State Fire Marshal is responsible for protecting life and property from fire. It does this by:

- Developing, maintaining, and enforcing safety standards for all state-owned/occupied structures, all educational and institutional facilities, public assembly facilities, organized camps, and buildings over 75 feet in height.
- Developing, maintaining, and enforcing controls for portable fire extinguishers, explosives, fireworks, decorative materials, fabrics, wearing apparel, and hazardous liquid pipelines.

Office activities are carried out through two programs: Public Fire Safety and Administration. Public Fire Safety consists of (1) enforcement and (2) analysis and development. The Administration program provides policy guidance and administrative support to the Public Fire Safety program.

The office is authorized to have 116.9 positions in the current year. It plans to administratively establish six new positions, bringing the total for the current year to 122.9 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$4,977,000 for support of the Office of the State Fire Marshal in 1984-85. This is an increase of \$626,000, or 14.4 percent, over estimated current year expenditures. General Fund expenditures account for \$3,812,000 of the proposed budget, with the remaining \$1,165,000 from two special funds. Total proposed expenditures for 1984-85, including reimbursements, are \$7,196,000, as compared to \$5,564,000 in the current year, an increase of \$1,632,000, or 29.3 percent. This amount will increase by the amount of any salary or staff benefit increases approved for the budget year. In addition to continuing the 116.9 authorized positions, the budget proposes a net increase of 23 positions related to program changes, six of which are to be created administratively during the current year.

Table 1 summarizes the adjustments and proposed changes reflected in the budget. As shown in the table, the proposed budget changes will

include a \$70,000 decrease in General Fund support, a \$696,000 increase in special fund support, and a \$1,006,000 increase in reimbursement-related activities.

Table 1
Office of the State Fire Marshal
Proposed 1984-85 Budget Changes
(in thousands)

	<i>General Fund</i>	<i>CFSTE^a Fund</i>	<i>HLPS^b Fund</i>	<i>Reimburse- ments</i>	<i>TOTAL</i>
1983-84 Revised Expenditures	\$3,882	\$296	\$173	\$1,213	\$5,564
Baseline Adjustments:					
Merit Salary Adjustment.....	14	—	—	4	18
Personal Services Adjustment.....	137	1	—	42	180
Increases to Offset Inflation	128	-14	—	42	156
Proposed Program Changes:					
Expansion of Flame Retardants Testing Program.....	-75	—	—	161	86
Expansion of Fireworks Testing and Classification Program (through contracting).....	-125	—	—	423	298
Expansion of Public Building Inspection Program	427	—	—	—	427
California Fire Incitement Reporting System (CFIRS) upgrade.....	20	—	—	—	20
Implementation of Hazardous Liquid Pipeline Safety Program	—	—	447	—	447
Overhead Cost Allocation	-596	82	180	334	—
1984-85 Proposed Expenditures	\$3,812	\$365	\$800	\$2,219	\$7,196
Change from 1983-84:					
Amount	-\$70	\$69	\$627	\$1,006	\$1,632
Percent	-1.8%	23.3%	362.4%	82.9%	29.3%

^a California Fire Services Training and Education Fund

^b Hazardous Liquid Pipeline Safety Fund

ANALYSIS AND RECOMMENDATIONS

The primary reason for the large increase in the office's proposed budget is the addition of six new programs. These programs, which will require net additional funding of \$247,000 from the General Fund, \$584,000 from reimbursements (fees), and \$447,000 from special funds, are as follows:

1. **Flame Retardant Testing.** Section 13121 of the Health and Safety Code requires the Fire Marshal to regulate the manufacture, sale and application of flame retardant chemicals and the sale of flame retardant treated fabrics. Currently, the Fire Marshal collects fees and issues licenses to firms in the flame retardant industry. The budget includes an additional \$86,000 in reimbursements (fees) and three new positions to expand the program to include testing of flame retardant products as required by statute.

2. **Fireworks Testing.** Section 12580 of the Health and Safety Code requires that all firms engaged in the manufacture, importation, and sale

OFFICE OF THE STATE FIRE MARSHAL—Continued

of fireworks be licensed by the Fire Marshal. The budget proposes \$298,000 in reimbursements (fees) for expansion of the fireworks program to include laboratory testing and classification of fireworks, and inspection of fireworks manufacturing facilities, all of which are required by statute. This would be accomplished through contracting with a private firm or organization.

3. **Public Building Inspections.** The budget proposes an increase of \$427,000 from the General Fund and 10 new positions to expand the public building inspection program. Under the Health and Safety Code, the Fire Marshal is required to enforce fire and safety standards in public buildings (approximately 31,000 buildings). This proposal would expand the current inspection program of these buildings, which include hospitals, schools, assembly halls, jails, and similar facilities.

4. **The California Fire Incitement Reporting System (CFIRS).** The CFIRS is an automated system, established in 1973, for reporting, collecting, analyzing, and sharing information about the causes and consequences of fires in California. The State Fire Marshal administers CFIRS and is responsible for processing and maintaining the data. Currently, the Fire Marshal has an interagency agreement with the State Treasurer's Office that provides for data entry. The budget proposes that \$14,000 be redirected from the current interagency agreement to personal services for one new position to allow data entry by the Fire Marshal's staff. In addition, the budget proposes \$20,000 from the General Fund for a feasibility study on upgrading CFIRS.

5. **Hazardous Liquid Pipeline Safety.** Chapter 1222, Statutes of 1983, and Chapter 861, Statutes of 1982, gave the Fire Marshal regulatory authority over intrastate hazardous liquid pipelines. To implement the program, the budget proposes \$447,000 in reimbursements and the addition of 12 positions. The Fire Marshal intends to establish six of these 12 positions administratively during the current year to begin implementation, with the remaining six to be established in the budget year.

6. **Building Material Listing.** Section 13144.1 of the Health and Safety Code requires the Fire Marshal to prepare once every two years a list of construction materials/equipment and construction methods which are in conformity with fire and panic safety standards. The budget proposes an expansion of this program. Specifically, the budget calls for a redirection of three positions to the building inspection program and requests funds for a contract with the private sector to conduct the Building Materials Listing program.

Flame Retardant Program Needs Emphasis

We recommend approval of the proposed expansion in the flame retardant program to provide three additional positions for testing of flame-retardant products, as required by statute.

The budget proposes the addition of three positions (one Textile Chemist II, one Textile Technician I, and one Office Assistant II) for expansion of the flame retardant testing program.

The Health and Safety Code requires the Fire Marshal to license firms that flameproof fabrics used, worn, or installed in California. The program was initiated after numerous deaths and injuries to persons who used flammable sleepwear or were exposed to flammable materials in other household items, such as drapes and mattresses. The Fire Marshal current-

ly collects fees and issues safety certificates, but does not conduct tests required to assure that an item submitted for a safety certificate is, in fact, flameproof.

The Attorney General's staff indicates that by issuing certificates without first conducting the safety tests, the office is not complying with existing law. In addition, the Attorney General's staff has noted that products claiming to be flame-proof cannot be sold, unless they are certified by the State Fire Marshal.

The three new positions requested in the budget would be used to expand the flame retardant program so as to bring it in compliance with the law. The Department of Consumer Affairs' Bureau of Home Furnishings has agreed to allow the Office of the State Fire Marshal to use its laboratories for testing until the Fire Marshal can reestablish its facilities. The Fire Marshal indicates that the expansion of the program should provide for lab testing 130 chemicals and 400 fabric samples, inspecting 150 labs, and reviewing 450 applications for new flame retardant materials each year.

Our analysis indicates that the additional staffing requested in the budget is needed to comply with the requirements of existing law. Accordingly, we recommend approval of the office's request. We will monitor this program expansion during the budget year and report to the Legislature on its progress in 1985.

Fireworks Program Costs and Contract Justification Inadequate

We withhold recommendation on the proposed expansion of the fireworks testing and inspection program pending receipt of (1) evidence that there are firms or organizations capable of performing the required testing and inspection (2) the estimated cost of a contract to provide for this testing and inspection and (3) information comparing the cost of performing these functions through a contract with the cost using state employees to perform the testing and inspection.

The Fire Marshal is required by statute to license firms and individuals who manufacture, import, or sell fireworks, as well as persons who operate pyrotechnic displays. In addition, the Fire Marshal is required to examine and classify all fireworks and pyrotechnic devices before they may be sold in California. Firms and individuals are required to pay fees for licenses. This fee provides the necessary funding for the fireworks cost of the testing/inspection program.

Because of budget reductions in recent years and a redirection of staff effort, the Fire Marshal has only two positions assigned part-time to this program in the current year. Consequently, even though the Fire Marshal is continuing to issue licenses, none of the required classifications are being done, and only limited testing of fireworks occurs. There are no on-site inspections of manufacturers, and there are no investigations of complaints.

The budget proposes an additional \$298,000 to expand the fireworks program in order to provide for testing and investigation. Funding for the expansion would come from an increase in licensing fees, which is authorized by existing law (Ch 1313/83). The budget proposes that the program expansion be accomplished through a contract with a private firm that would require the firm to (1) conduct all tests of fireworks, (2) classify fireworks using the standards established in statute and by the Fire Marshal, and (3) inspect fireworks manufacturers for safety violations. It is unclear who would investigate complaints—the contractor or state staff.

OFFICE OF THE STATE FIRE MARSHAL—Continued

Our analysis indicates that an upgrading of the fireworks program to provide for testing, classification, and inspection, in addition to licensing, is warranted. The Attorney General's staff has indicated that the current program is not operating in accordance with the law. Moreover, the absence of objective safety tests of fireworks and inspection of fireworks manufacturers may permit health and safety risks to go undetected.

We have a number of concerns, however, regarding the method that the Fire Marshal proposes to use in order to expand the program. The Fire Marshal has not been able to demonstrate that there are private firms or organizations capable of performing the required testing, classifying, and inspecting. In addition, there is little justification for the \$298,000 augmentation proposed in the budget. The Fire Marshal's staff has indicated that the amount budgeted for the expansion reflects the office's estimate of what it would cost if in-house personnel were used.

We have no basis for concluding that the amount requested is adequate to provide for expansion of the program through a contract with the private sector. Similarly, in the absence of information comparing the cost of contracting for the fireworks testing/inspection program with the cost of hiring additional personnel to perform the same tasks within the State Fire Marshal's office, we have no basis for confirming that the Fire Marshal's proposed method of expanding the program is the most cost-effective.

We, therefore, withhold recommendation on funding for the fireworks program expansion, pending receipt of the following information from the Fire Marshal:

1. Evidence that it is feasible for private firms and organizations to perform the desired tasks,
2. A more-reliable estimate of what it would cost to contract with a private firm, and
3. A cost comparison identifying whether it is more cost-effective to contract for the testing and inspection functions or to use state employees to perform these functions.

The State Fire Marshal should submit this information to the Legislature prior to budget hearings.

Inspection Program Expansion Lacks Adequate Workload Data

We withhold recommendation on the proposed expansion of the public building inspection program, pending receipt of additional workload justification and task assignment information.

Under the Health and Safety Code, the Fire Marshal is responsible for enforcing compliance with fire and safety standards in public buildings, including schools, jails, hospitals, camps, assembly halls, and various other institutions. The Fire Marshal has established priorities for inspecting these facilities, putting the highest priority on schools, jails, hospitals, and mental institutions (a total of approximately 4,000 facilities). These facilities are inspected annually. The Fire Marshal reports that other institutions requiring inspection under this program, including assembly halls, colleges, fairs, camps, and National Guard facilities, are reviewed much less frequently. There are approximately 24,000 of these facilities.

The budget proposes an additional \$427,000 in General Fund support and 10 additional positions to expand the inspection program. Three of these positions would be transferred from the building material listing

program, which the budget proposed to operate through a contract with the private sector. Of the 10 positions, nine would be assigned to inspection work, and one would provide additional clerical support for the program.

Our analysis indicates that the inspection requirements that the new positions would address are, indeed, not being met. Consequently, some additional staffing for the office is needed. At the time this analysis was prepared, however, data establishing the need for 10 positions had not been provided by the Fire Marshal. For example, no information is available on (1) the extent of unmet needs in the inspection program, (2) the basis for the distribution of existing staff under the program and (3) how the new personnel would be used to address the deficiencies or needs that now exist. Accordingly, we withhold recommendation on the expansion of the program pending receipt of this information.

Pipeline Program Costs are Overestimated

We recommend that Item 1710-001-209 be reduced by \$560,000 because the Fire Marshal has overestimated the cost of implementing the hazardous liquid pipeline safety program.

Under the Pipeline Safety Act of 1981 (Ch 861/81), the Fire Marshal has regulatory authority over the operation of those pipelines that transport hazardous liquids within the State of California. Following its enactment, however, the Pipeline Safety Act was not implemented because of ambiguities in the funding mechanism. Chapter 1222, Statutes of 1983, modified the original law, including the funding mechanism. The Fire Marshal has indicated that he plans to begin implementation of the hazardous liquid pipeline program in the current year.

Under the law, the Fire Marshal is required to: (1) adopt regulations consistent with federal law and regulations, (2) work with a technical standards committee to review proposed regulations and fees, (3) investigate explosions and fires involving pipelines, (4) train local fire departments to respond to emergencies caused by pipeline spills or breaks, and (5) assess and collect annual fees from pipeline operators to cover both state and local costs of administering the program. The fees collected from operators are deposited in the Hazardous Liquid Pipeline Safety Fund.

During the current year, \$173,000 was transferred from the Allocation for Contingencies and Emergencies to the Hazardous Liquid Pipeline Safety Fund to begin implementation of the program. The transfer was made with the understanding that the emergency fund will be replenished once the Hazardous Liquid Pipeline Safety Fund has received sufficient revenue to permit repayment. This initial funding provided for six positions which were administratively created in the current year. These positions are limited term and will terminate on June 30, 1984, unless extended by the Legislature.

The budget proposes \$800,000 from reimbursements (fees) to fund the pipeline program in 1984-85. These funds would be used to continue the six positions created in the current year and add six new positions, for a total of 12.

The Fire Marshal advised the Legislature at the time it was considering the original Pipeline Safety Act that the duties set forth in that act could be administered and enforced for \$235,000 annually. With the modifications made by Ch 1222/83, the Fire Marshal put the program costs at \$240,000 per year. Since, according to the Fire Marshal's staff, the 1983 law did not burden the Fire Marshal's office with additional responsibility but

OFFICE OF THE STATE FIRE MARSHAL—Continued

only changed the funding mechanism, we see no reason why the cost of the program should exceed the \$235,000–\$240,000 level.

On this basis, we recommend that the Legislature provide \$240,000 to operate the program in the budget year. This would result in a reduction of \$560,000 to the amount appropriated from the Hazardous Liquid Pipeline Safety Fund.

Additional Information Needed on the Building Material Listing Program

We withhold recommendation on the proposal to contract with a private firm for the building material listing program, pending receipt of information on (1) why the current program is not meeting need, (2) the feasibility of contracting for these services, (3) the cost of contracting with the private sector, (4) a comparison of the cost of contracting with the cost of using state employees, and (5) how potential conflicts-of-interest would be avoided under a contracting arrangement.

The Fire Marshal is required to issue a biennial list of construction materials/equipment and methods of construction/installation which conform with building standards relating to fire and panic safety. The program is funded from fees paid by individuals and organizations that wish to have their products listed.

The Fire Marshal has indicated that the current fees do not provide adequate resources for the review of testing lab reports, listing of new products, or enforcement of the regulations. The budget proposes to remedy this situation by contracting with the private sector to provide the testing and listing of the materials. The three positions currently assigned to the program (two Deputy State Fire Marshal positions and one Office Assistant) would be reassigned to the public building inspections program and funded by the General Fund. The revenue generated by the current fees would be used to fund the contract with the private sector.

We have a number of concerns regarding the proposed arrangement. *First*, no evidence has been presented to show that a private firm is available to adequately perform the testing and listing function. The Fire Marshal's staff has indicated that there probably is at least one firm available to do this work, but the staff has not provided assurances that the program would be carried out in a satisfactory manner under such an arrangement. *Second*, the information on the cost of contracting is not adequate. The office has not provided a breakdown of estimated costs, nor has it provided detailed information showing the basis for the budget estimate. *Third*, the Fire Marshal maintains that the current program is not adequate to review lab reports, list new products, or enforce regulations. These deficiencies, however, have not been substantiated. Nor does the proposal appear to fully address the deficiencies since the contractor would only perform the testing and listing function. The office has not indicated how the enforcement function would be upgraded under the contracting arrangement.

Finally, there is the potential for a conflict-of-interest if this type of contracting mechanism is used for testing and listing. Under the proposed arrangement, a private firm would review the products produced/techniques used by another private firm and then give the seal of approval to the product in the state's name. Such an arrangement could leave the state with limited authority for certifying products, and thereby undermine the intent of the building materials listing program.

In view of these concerns, we withhold recommendation pending receipt of (1) information on why the existing program is not meeting current needs, (2) information on the feasibility of contracting for these services with a private firm, (3) detailed estimates of the costs of a contract, (4) a cost comparison of contracting this program with the private sector versus using state employees to upgrade the program, and (5) assurances that carrying out such a program through a contract will avoid any potential conflicts-of-interest.

FRANCHISE TAX BOARD

Item 1730 from the General

Fund and various funds

Budget p. SCS 83

Requested 1984-85	\$98,291,000
Estimated 1983-84.....	92,256,000
Actual 1982-83	83,874,000
Requested increase (excluding amount for salary increases) \$6,035,000 (+6.5 percent)	
Total recommended increase	8,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1730-001-001—Support		General	\$98,221,000
1730-001-905—Support		California Election Campaign	18,000
1730-001-800—Support		U.S. Olympic Committee	13,000
1730-001-983—Support		California Seniors	13,000
1730-001-201—Support		Fish and Game Preservation	13,000
1730-001-138—Support		State Children's Trust	13,000
Total			\$98,291,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. **Return Estimates.** Recommend that the Department of Finance and the Franchise Tax Board report during budget hearings on their plans for accommodating unfunded increases in return processing workload. 208
2. **Audit Protest and Appeals.** *Reduce Item 1730-001-001 by \$9,000.* Recommend reduction because proposed staff counsel positions should be established at Level I instead of Level II. Further recommend that these positions be limited in term to June 30, 1985. 210
3. **Toll-Free Telephone Services.** Recommend the department report to the Legislature by December 31, 1984 on alternatives to the current toll-free telephone service for taxpayers. 212
4. **Word Processing Equipment.** *Increase Item 1730-001-001 by \$17,000.* Recommend augmentation to enable the department to acquire additional word processing equipment. 213
5. **Office Automation.** Recommend that the department's office automation task force report its findings to the Legislature by December 31, 1984. 214

FRANCHISE TAX BOARD—Continued**GENERAL PROGRAM STATEMENT**

The Franchise Tax Board (FTB) is responsible for administering California's Personal Income Tax (PIT) Law, Bank and Corporation (B&C) Tax Law, Senior Citizens' Property Tax Assistance Law, and the Political Reform Audit program. The board consists of the Director of Finance, the Chairman of the State Board of Equalization, and the State Controller. An executive officer is charged with administering the FTB's day-to-day operations, subject to supervision and direction from the board.

The board has 3,077.6 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$98,221,000 from the General Fund for support of the Franchise Tax Board in 1984-85. This is an increase of \$6,080,000, or 6.6 percent, over estimated General Fund expenditures for the current-year. This increase will grow by the cost of any salary or staff benefits increase approved for the budget year.

The department also expects to receive \$2,361,000 in reimbursements and \$987,000 from various special funds during 1984-85, resulting in total proposed budget-year expenditures of \$101,569,000. This is \$5,547,000, or 5.8 percent, more than total 1983-84 expenditures.

The FTB requests funding for 2,964.2 personnel-years in 1984-85. This is 30.6 personnel-years less than the number expected to be used in the current year.

Table 1 summarizes the department's personnel-years and expenditures, by program, for fiscal years 1982-83, 1983-84, and 1984-85.

Table 1
Franchise Tax Board
Program Summary: 1982-83 Through 1984-85
(in thousands)

Program	Personnel-Years			Expenditures		
	Actual 1982-83	Estimated 1983-84	Proposed 1984-85	Actual 1982-83	Estimated 1983-84	Proposed 1984-85
Personal Income Tax.....	2,004	1,949	1,942	\$59,477	\$61,152	\$65,033
Bank and Corporation Tax	696	850	860	22,511	29,247	31,364
Homeowners and Renters Assist- ance	67	59	53	1,995	1,888	1,960
Contract Work	106	116	89	2,528	2,852	2,295
Political Reform Act	22	21	20	826	883	917
Administration-Distributed	(202)	(208)	(207)	(6,696)	(7,694)	(7,995)
Legislative Mandate	—	—	—	5	(5) ^a	(5) ^a
Totals.....	2,895	2,995	2,964	\$87,342	\$96,022	\$101,569
General Fund	2,770	2,861	2,856	\$83,823	\$92,141	\$98,221
Reimbursements.....	103	109	85	2,642	2,883	2,361
Political Reform Act	20	20	18	826	883	917
California Election Campaign Fund	2	1	1	51	15	18
U.S. Olympic Committee Fund	—	1	1	—	25	13
California Senior's Fund.....	—	1	1	—	25	13
Fish and Game Fund	—	1	1	—	25	13
State Children's Trust Fund	—	1	1	—	25	13

^a Beginning in 1983-84, funding for Legislative Mandates is provided under "State Mandated Local Programs" (Item 9680) of the Governor's Budget.

Source of Funds. The FTB receives direct General Fund support for the PIT, B&C, and Homeowners and Renters Assistance (HRA) programs. Expenditures on contract work and the Political Reform Act are reimbursed by other government agencies. In addition, the FTB also receives funds from the California Election Campaign Fund to cover its administrative costs in implementing the provisions of Ch 1188/82. This measure allows individuals to make political contributions through the income tax filing process, specifically by "checking-off" a box and designating the amount they wish to contribute on their tax returns.

General Fund Expenditures. Table 2 shows that the PIT program accounts for approximately two-thirds of what the FTB proposes to spend from the General Fund in 1984-85. Nearly all of the remaining expenditures are attributable to the B&C Tax program, with a very small percentage budgeted for homeowners and renters assistance. The table also provides detailed information on the FTB's proposed General Fund expenditures, by function. About 37 percent of the department's budgeted General Fund expenditures is for return processing and taxpayer assistance, while 34 percent is for tax audits. Finally, the table shows the relative importance of the various functions performed under each program. In the PIT program, about one-fourth of proposed expenditures are for audits, whereas in the B&C program, nearly 60 percent of total expenditures are allocated to audit activities. In the case of return processing and taxpayer assistance, the relative shares of total expenditures are reversed—the portion dedicated to this function under the PIT program (44 percent) is more than twice what it is under the B&C Tax program (21 percent).

Administrative Changes to the Current Year Budget

The Legislature appropriated \$91,676,000 from the General Fund to support the FTB during 1983-84. This amount reflected three important changes to the budget proposed by the Governor: (1) a reduction of \$85,000 for political reform audits, (2) a reduction of \$500,000 for return processing and taxpayer assistance, and (3) an augmentation of \$500,000 for additional audits.

The Governor reduced by \$2,090,000 the amount appropriated by the Legislature. This amount consisted of \$1,279,000 for merit salary adjustments and \$811,000 for operating expenses. The Governor's action, however, did not eliminate these costs—just the funds needed to pay for them. Accordingly, the FTB has redirected funds from other activities, mainly audits. We estimate that the Governor's veto of the additional \$500,000 in funds provided by the Legislature for audit activities has directly resulted in a \$2,500,000 loss of revenue to the state's General Fund.

Also during the current year, the board has realized savings of approximately \$440,000 (19 personnel-years) due to a shortfall in the number of returns that must be processed relative to the budgeted levels. These savings were used to continue funding a system, implemented late in 1982-83, for verifying renters credit returns. The department reports that use of this system has resulted in General Fund savings of \$14.3 million as

Table 2
Franchise Tax Board
Program Functions Supported by the General Fund
1984-85
(dollars in thousands)

Program Function	<u>PIT Program</u>		<u>B&C Tax Program</u>		<u>HRA Program</u>		<u>Total</u>	
	<u>Budgeted Expenditures</u>	<u>Percent of Total</u>	<u>Budgeted Expenditures</u>	<u>Percent of Total</u>	<u>Budgeted Expenditures</u>	<u>Percent of Total</u>	<u>Budgeted Expenditures</u>	<u>Percent of Total</u>
Processing/taxpayer assistance	\$28,251	43.5%	\$6,416	20.5%	\$1,960	100.0%	\$36,627	37.3%
Audit	14,941	23.0	18,406	58.7	—	—	33,347	33.9
Collections	15,715	24.2	5,266	16.8	—	—	20,981	21.3
Filing enforcement.....	6,056	9.3	589	1.9	—	—	6,645	6.8
Exempt corporations	—	—	687	2.2	—	—	687	0.7
Administration-distributed	(5,249)	—	(2,313)	—	(150)	—	(7,712)	—
Totals	\$64,963	100.0%	\$31,364	100.0%	\$1,960	100.0%	\$98,287 ^a	100.0%
Percent of FTB General Fund Totals	66.1%	—	31.9%	—	2.0%	—	100.0%	—

^a This amount is \$66,000 higher than FTB's General Fund total of 98,221,000, due to \$66,000 in reimbursements from the department's Contract Work program for general administrative pro rata.

of December 1983 in the amount of renters credit payments, due to the identification of erroneously claimed renters credit refunds.

Proposed Changes to the Budget. Table 3 shows the factors that account for the proposed increase of \$5,547,000 in budget year expenditures by the FTB. These factors can be divided into the following three categories:

- **Baseline Adjustments** of \$3,984,000, or 72 percent of the total increase;
- **Workload changes** of \$1,288,000, or 23 percent of the total increase; and
- **Program changes** of \$275,000, or 5 percent of the total increase.

The major adjustment to FTB's *baseline* are (1) full-year funding for salary increases provided to state employees in 1983-84, (2) increases for merit salary adjustments, and (3) increases for operating expenses and equipment to offset the effects of inflation. The significant *workload* adjustment includes the increased costs of processing a greater number of tax returns and responding to more taxpayer requests for assistance. These cost increases will be partially offset by lower expenditures caused by reductions in contract work for other state agencies.

The proposed budget also includes funds for *program* changes, including the new check-offs for voluntary contributions, the consolidation of political audit activities in Sacramento, and the installation of equipment at the board's new central office facility.

Table 3
Franchise Tax Board
Proposed 1984-85 Budget Changes
(in thousands)

	<i>General Fund</i>	<i>Reimburse- ments and Special Funds</i>	<i>Total</i>
1983-84 Current Year Estimated.....	\$92,141	\$3,881	\$96,022
<i>Baseline Adjustments</i>			
Personal Services			
• Full Year Funding of 1983-84 Salary Increases	1,906	92	1,998
• Merit Salary Adjustments	724	54	778
• Other	151	7	158
Operating Expenses and Equipment	1,341	46	1,387
Limited-Term Funding and One-Time Costs	-222	-115	-337
Subtotal, Baseline Adjustments	(3,900)	(84)	(3,984)
<i>Workload Adjustments</i>			
Processing and Taxpayer Assistance	1,626	—	1,626
Protest and Appeals	108	—	108
Contract Work Reduction	222	-668	-446
Subtotal, Workload Adjustments	(1,956)	(-668)	(1,288)
<i>Program Changes</i>			
New Central Office Facility	224	10	234
Political Audits Consolidation	—	-24	-24
Voluntary Contributions Checkoff	—	65	65
Subtotal, Program Changes	(224)	(51)	(275)
1984-85 Budget Request Change from 1983-84.....	\$98,221	\$3,348	\$101,569
Amount	\$6,080	-\$533	\$5,547
Percent.....	6.6%	-13.7%	5.8%

FRANCHISE TAX BOARD—Continued

ANALYSIS AND RECOMMENDATIONS

Processing and Taxpayer Assistance

We recommend approval.

About 40 percent of the department's General Fund appropriation is used to process tax returns and provide assistance to taxpayers. In the current year, the department will spend approximately \$36 million for these activities. The 1984-85 budget requests an additional \$1.6 million for return processing and taxpayer assistance activities.

The request for an increase is based partly on the growth in taxpayer inquiries and errors. Recently, the return processing "error rate" (the percentage of returns that contain errors) has increased from 35 percent to 42 percent. The board believes the growth in errors is due to the increased complexity of PIT and B&C Tax laws.

The increase in funding also is requested to continue the new system for verifying renters credit returns, to continue collecting from bank and corporation returns the data needed to determine the bank tax rate, and to expand the capacity of FTB's main computers.

Our analysis indicates that the proposed request for processing and taxpayer assistance is adequately justified, and accordingly, we recommend approval.

Workload Growth Not Funded

We recommend that the Department of Finance and the Franchise Tax Board comment at the time of budget hearings on their plans for accommodating unfunded increases in workload growth.

The most important factor to consider in estimating FTB's total costs for return processing and taxpayer assistance is the number of individuals and corporations who file returns with the department. As Table 4 shows, the department estimates that it will process a total of 12,450,000 returns in the current year and 12,830,000 in the budget year, which is an increase of 3.1 percent.

Table 4
Franchise Tax Board
Return Estimates
1983-84 and 1984-85
(in thousands)

	1983-84 Returns Current Year Revised	1984-85 Returns		Change	
		Budget	Legislative Analyst's Estimate	Budget	Legislative Analyst's Estimate
Personal Income Tax	11,590	11,980	12,301	3.4%	6.1%
Bank and Corporation	485	520	490	7.2	1.0
Homeowners and Renters	375	330	320	-12.0	-14.7
Total	12,450	12,830	13,111	3.1%	5.3%

The FTB's projections of return volumes are based primarily on estimates of various economic indicators for California. The timing of the budget process is such that the board must develop these estimates using

data available as of July 1983. Since then, however, the economic outlook has improved, causing projections of several important variables—particularly civilian employment—to have become more optimistic.

Using estimates of these economic variables that are contained in the budget's economic forecast, we predict that the total number of returns filed in the budget year will *exceed* the number on which the FTB's budget is based. As shown in Table 4, we estimate that the FTB will receive 13,111,000 returns in 1984-85, which is 5.3 percent more than what the department expects to receive in the current year. Our estimate is also 2.2 percentage points higher than FTB's estimate of returns for the budget year.

Since the amount of funds budgeted for return processing and taxpayer assistance is based on FTB's estimates of return growth, a number of adverse consequences may result if the return volume exceeds the department's projection. If the department did not redirect funds from other activities, it would be *unable* to process a large volume of returns (about 280,000, according to our estimate) until the following year. To the extent that these returns require the payment of tax refunds, the department would face the possibility of having to pay interest on the refunds that cannot be processed within the 45-day statutory deadline. More likely, funds would be redirected away from the audit program, so that the number of audits conducted by the department would be reduced.

After the FTB completes its processing of tax returns, the clerical staff used for these activities are reassigned to conduct simple, routine audits. If these staff resources are needed to continue processing tax returns, the department will be unable to reassign them to audit activities. We estimate that if these audits are *foregone* to accommodate the additional workload, audit recoveries could be reduced by more than \$10 million.

It should be noted that the Department of Finance's estimate of revenue collections for the personal income tax reflects the full attainment of FTB's audit goals. To the extent that funds must be redirected away from the audit program in order to accommodate the increased return processing workload, the FTB's audit recoveries will fall below the level anticipated in the department's revenue projections. Under these circumstances, we believe that the Legislature needs to be informed as to how the administration proposes to accommodate the expected increase in tax return volumes. Accordingly, we recommend that the Department of Finance and the Franchise Tax Board report to the Legislature during budget hearings on their plans to accommodate these unfunded increases in workload growth.

Voluntary Contribution Checkoffs

We recommend approval.

The budget includes \$70,000 in reimbursements from various funds and 3.6 personnel-years to process contributions made by taxpayers to fund various activities through the "checkoff" mechanism available on the state's PIT return. These checkoffs allow taxpayers to designate all or part of their tax refund, or an amount in excess of their tax liabilities, as a contribution to specific funds, including:

- The California Election Campaign Fund;
- The State Childrens Trust Fund;
- The U.S. Olympic Committee Fund;
- The California Seniors Fund;
- The Endangered and Rare Fish, Wildlife, Plant Species and Conserva-

FRANCHISE TAX BOARD—Continued

tion and Enhancement Account (of the Fish and Game Preservation Fund).

The California Election Campaign Fund was authorized by Ch 1188/82. The other four funds were established by the Legislature during the 1983 session.

FTB's basic responsibility under these five checkoff programs is to report the number of returns and the dollars contributed to the State Controller. The State Controller then transfers an amount from these funds to the FTB for its administrative costs. The remaining funds are continuously appropriated for expenditure in support of designated program objectives. The FTB expects the administrative costs associated with each checkoff program to average \$13,000. The board has provided sufficient justification for the proposed costs and staffing requirements, and accordingly, we recommend approval of the request for 3.6 positions.

Audits

Through the personal income and bank and corporation tax programs, the FTB collects one-half of the state's General Fund revenue. To protect these important components of the state's revenue base, the department conducts an extensive audit program. For 1984-85, the FTB is requesting \$33.3 million which it would use to audit approximately one million personal income tax and bank and corporation tax returns. The types of returns selected for audit depend on estimates of revenues per dollar of audit cost. The board's audit workplan shows that the approval of the budget request will allow it to conduct audits in all account groups with a cost-revenue ratio exceeding 5.12. The audits are expected to produce \$499 million in additional General Fund revenues.

Audit Protest and Appeals

We recommend a reduction of \$9,000 because proposed staff counsel positions should be established at Level I rather than Level II. We further recommend that these positions be limited in term to June 30, 1985.

The budget requests \$108,000 and two attorney positions for the FTB's legal staff. These positions would be used to handle projected increases in protests and appeals resulting from audits. In addition, the board proposes to eliminate one temporary help position, leaving a *net* increase of one position. Funding for the temporary help position instead will be used to acquire word processing equipment for the department's legal division.

An increasing number of taxpayers are using legal remedies to protest or appeal notices of proposed audit assessments. The growing popularity of tax shelters and other tax avoidance schemes has been an important contributor to the growth in tax protests.

In addition, a significant percentage of the FTB legal staff's workload involves "tax protest" cases. These are cases in which taxpayers do not question a particular issue or provision of the tax code, but rather are challenging the validity of the income tax system as a whole. In many cases, protests and appeals are filed simply to delay the payment of taxes or clog the tax system. Such cases will account for nearly 90 percent of the projected number of routine cases.

To reduce the number of frivolous protests and appeals, we recommended in the *Analysis of the 1983-84 Budget Bill* that the state conform those provisions of its law covering frivolous returns and appeals to federal

law. Under federal law, penalties of up to \$500 can be imposed on taxpayers who file frivolous returns, and penalties of up to \$5,000 can be imposed on those who file frivolous or groundless appeals. Such conformity provisions were included in Ch 498/83 which conformed a number of state tax provisions to their federal counterparts.

Our analysis indicates that when the board developed workload estimates for the budget year, it did not consider the possible effects of the new penalties for frivolous returns or appeals. These new penalties should reduce the number of frivolous appeals. Because, however, it is difficult to develop quantitative estimates of the effectiveness of new penalties, we are not able to determine whether these penalties will eliminate the need for one or both of the requested new attorney positions. Accordingly, we recommend that the Legislature approve the positions on a limited-term basis, for one year. By this time next year, sufficient information on the effects of the new penalties should be available to permit an evaluation of whether or not the positions are needed on a permanent basis.

The FTB proposes to establish the two positions at the Staff Counsel II Level rather than at Level I. Normally, new staff positions are filled at the entry level unless a higher level can be justified on the basis of the expected duties or responsibilities associated with the position. The FTB, however, intends to fill the position at the Staff Counsel II Level. This is because it plans to hire from a list of state employees who have been terminated from other positions (the "State Restriction of Appointments" list). According to FTB, this list contains no Staff Counsel I employees at the entry level salary. Our analysis can find no basis for establishing these positions at Level II rather than Level I. While state regulations require the FTB to interview applicants from the SROA list, the department need not *hire* from the list if it contains no suitable candidates. Accordingly, we see no reason to depart from the usual practice of establishing new positions at a level that reflects the duties and responsibilities to be performed, rather than the department's expected personnel cost for the positions. On this basis, we recommend that the positions be approved at Level I, for a General Fund savings of \$9,000.

Contract Work Reduction

We recommend approval.

The department provides information processing services to other state agencies as a means of maximizing the use of its data processing facilities. All costs are recovered through reimbursements in the form of fees, and the amount of departmental overhead borne by the General Fund is reduced accordingly.

The budget shows a *decrease* of 24.7 personnel-years and \$668,000 in reimbursements during 1984-85, reflecting a projected decline in the volume of contract work done by FTB for 1984-85. Most of this decline (\$542,500) is due to a reduction in contract work for the Department of Health Services, which has been using FTB's data processing facilities partly to reduce backlogs in tabulating health statistics. Another \$87,000 is due to lower costs for processing employment and income data for the Employment Development Department.

Because the amount of reimbursements will be less, the department will need additional General Fund support to cover the overhead costs which *previously* were funded from reimbursements. Based on the volume of contract work, the department estimates that an additional \$220,000 from the General Fund will be needed. Our analysis indicates that this amount

FRANCHISE TAX BOARD—Continued

is reasonable, and therefore, we recommend approval of the augmentation.

Telephone System for New Facility***We recommend approval.***

In December 1985, the FTB will be moving its headquarters operations to a new location in the Sacramento area. Because of the lead time that is required, the department must purchase and begin installing its telephone system at the new facility during the budget year. The budget requests a total of \$234,000 from the General Fund and reimbursements to acquire a centrex (a device which routes calls within a specified area) and an automatic call distribution system for its toll-free taxpayer assistance calls.

Our analysis indicates that the request is consistent with the findings of a feasibility study report covering the department's new phone system and with the timetable for the installation of phone system at the new facility. Accordingly, we recommend approval of the proposed expenditures.

Information Center Phone System: Response Rate Declines

We recommend that the Legislature adopt supplemental report language requiring the department to report by December 31, 1984, on alternatives to the present toll-free telephone service for taxpayers.

For the past six years, the FTB has operated a statewide, toll-free telephone service—referred to as the Information Center—in order to provide taxpayer assistance to California residents. In 1982–83, the center responded to nearly 1.9 million calls seeking answers to questions about the PIT, B&C, and HRA programs.

During the current year, the department has budgeted \$1,367,000 to cover the costs of the service. As a result of recent telephone rate increases, however, this amount is \$716,000 less than anticipated charges for the service. The FTB plans to make up the difference by reducing the number of staff assigned to handle the phone calls. This will reduce the "response rate," or the percentage of calls answered, from 65 percent to 60 percent during the current year.

The budget for 1984–85 does not request additional funds to cover the higher telephone charges, and instead anticipates that the charges will continue to be "paid for" through staff reductions. As a result, the department estimates that the response rate will fall to 58 percent.

The Information Center program benefits both the taxpayer and the state. Information made available through the program makes it easier for taxpayers to comply with the state's tax laws. The FTB benefits because the assistance provided through the telephone service reduces the chances that taxpayers will complete their returns inaccurately, thus reducing processing and audit costs. For this reason, we believe the program warrants continued funding.

We also believe, however, that the deregulation of the telephone industry may provide the opportunity to provide the taxpayer information service at less cost to the state. In recent years, several companies have begun to provide long-distance telephone services at rates that are below those charged by AT&T. It is possible that one or more of these companies would offer toll-free telephone service similar to what the FTB now has,

at a lower cost. Just as the state itself is reassessing its long-distance telephone needs in light of deregulation, the FTB should do the same. Accordingly, we recommend that the Legislature adopt the following supplemental report language directing the FTB to prepare a report on alternatives to reduce the cost of toll-free telephone services:

"The department shall report to the Legislature by December 31, 1984, on system alternatives to reduce the costs of the toll-free telephone system for providing information to taxpayers. This report should also identify and examine the consequences of reductions in the Information Center response rate."

Additional Word Processing Equipment Will Increase Productivity

We recommend an augmentation of \$17,000 to allow the department to acquire additional word processing equipment, because it will result in increased productivity levels and long-term savings.

The department recently acquired additional word processing equipment as part of a pilot office automation program. The evaluation of the pilot program found that the system has resulted in major productivity benefits, particularly for clerical and other support staff. Based on one measure of productivity increases—time savings for producing documents—FTB estimates the use of the equipment by these staff has led to savings of \$71,000.

In light of these benefits, we believe that the board should expand the pilot system to divisions and bureaus which have high-volume typing workload but are without word processing capability. Our analysis indicates that the FTB could utilize an additional 12 word processing workstations, at a cost of \$32,000. Based on the productivity increases that could be expected from use of this equipment, we believe that approximately one-half of the equipment costs (\$15,000) could be funded through savings in personnel costs alone. The cost savings in the second and subsequent years should be even higher. Accordingly, we recommend that the Legislature augment the board's budget by \$17,000 (\$32,000 for equipment less \$15,000 in personnel savings) to acquire word processing equipment that will reduce state costs over time.

Office Automation At FTB

Many of the FTB's routine activities lend themselves well to office automation because they are both *paper intensive* and *labor intensive*. For example, a significant portion of a tax auditor's day is spent preparing the "notice of proposed assessments," which is a letter sent to taxpayers who are found to owe back taxes. This typically involves collecting and assembling various documents, calculating net tax liabilities, composing letters to be typed and sent to taxpayers, and then sending documents to other units at the FTB notifying them of the action taken. Many of these steps, which now require manual calculation or typing, could be done electronically, reducing the time and clerical support needed to complete the audit while increasing the productivity of each auditor.

Another potential application involves the use of "image processing" to automate the sorting, analysis, and storage of tax returns. With image processing, a computer would automatically photograph and scan tax forms for specific information as they are received. At the same time, the computer would verify taxpayers' calculations, electronically distribute the information from documents to other departments if additional processing is needed, and then store the image of the document. Currently, a

FRANCHISE TAX BOARD—Continued

significant number of these activities are done manually. During the peak periods when tax returns are filed (mainly March through May), the FTB is required to hire approximately 500 temporary help positions to process tax returns. Image processing could substantially reduce the need for temporary help, and it may also represent a long-term solution to the FTB's document storage problems.

These and other applications could potentially result in major productivity improvements at the board. The benefits to the state—increased productivity and administrative efficiency—and to taxpayers—better and faster services—justify the need for FTB to examine on an ongoing basis how its operation could be improved through greater reliance on information processing.

Future Applications

We recommend that the FTB task force on office automation be required to report its findings and recommendations to the Legislature by December 31, 1984.

The FTB generally has applied office automation in areas where reliable technologies are available and where productivity benefits are demonstrated. For the budget year, the FTB is requesting additional word processors, and we also are recommending an augmentation of \$17,000 for this purpose. However, other office automation applications remain in the planning stage, either because the department has been unable to acquire or redirect funds for investing in new applications or because the applications themselves involve unreliable technologies or are uncertain to produce significant benefits. Nevertheless, the department is aware of the need to keep abreast of developments in office automation. The FTB recently established a task force to develop and administer a department-wide office automation plan. This task force is charged with developing specific strategies for integrating the applications of word processing, data processing, and information management throughout the entire legislative and administrative operations of the FTB. We believe that the Legislature should be kept aware of the department's office automation plans, and accordingly, we recommend that the Legislature adopt the following Supplemental Report language requiring this task force to report its findings and recommendations to the Legislature by December 31, 1984.

"The Franchise Tax Board shall report to the Legislature by December 31, 1984, on the findings and recommendations of its task force on office automation applications at the department."

Legislative Mandates for Substandard Housing

We recommend approval of funds for Ch 218/74.

Under this mandate, local agencies are required to report to the FTB the names of substandard housing owners. The FTB then disallows certain deductions on the tax returns of such owners, and the resulting revenue is distributed back to the local governments. The state now reduces reimbursements claimed by local agencies pursuant to the mandate in order to reflect the revenues returned to them. Nevertheless, there are some agencies which incur reimbursable costs but receive no revenues. Consequently, a small amount must be provided in the budget to fund these costs. The FTB budget information indicates that \$5,000 will be provided in 1984-85 for this program. However, the budget *actually* proposes funding of \$9,000, as provided under Item 9680. Our analysis indicates that this amount is reasonable, and we recommend approval.

State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES

Item 1760 from various funds

Budget p. SCS 94

Requested 1984-85	\$300,033,000
Estimated 1983-84	282,496,000
Actual 1982-83	226,149,000
Requested increase (excluding amount for salary increases) \$17,537,000 (+6.2 percent)	
Total recommended reduction	3,869,000
Recommendation pending	4,450,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1760-001-001—	Departmentwide. For direct support of department operations.	General	\$6,382,000
1760-001-002—	Departmentwide. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by state.	General (Property Acquisition Law Account)	640,000
1760-001-003—	Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Moneys Account)	2,125,000
1760-001-006—	Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by physically handicapped.	General (Access for Handicapped Account)	331,000
1760-001-022—	Office of Telecommunications. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	730,000
1760-001-026—	Office of Insurance. For payment of claims resulting from the Motor Vehicle Liability Self-Insurance program.	General (State Motor Vehicle Insurance Account)	6,124,000
1760-001-120—	Office of State Architect. For direct support of specified plan checking services.	Architecture Public Building (School Building Program Account)	997,000
1760-001-122—	Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	2,972,000
1760-001-344—	Office of Local Assistance. For support of State School Building Lease-Purchase program.	State School Building Lease-Purchase	1,278,000
1760-001-450—	Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	69,000
1760-001-465—	Departmentwide. For support of energy assessments program.	General (Energy Resources Programs Account)	1,053,000
1760-001-494—	Office of Insurance. For allocation by Department of Finance to various state agencies to pay for life insurance benefit for managers.	Various special	199,000

DEPARTMENT OF GENERAL SERVICES—Continued

1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	9,935,000
1760-001-666—Departmentwide. For support in form of revenues from agencies receiving products or services.	Service Revolving	231,488,000
1760-001-688—Office of Procurement. For support of Surplus Personal Property program.	Surplus Personal Property Revolving (to be established)	2,491,000
1760-001-739—Office of Local Assistance. For support of State School Building Aid program.	State School Building Aid	658,000
1760-001-890—Office of Small and Minority Business. For support of minority business program.	Federal Trust	100,000
1760-001-961—Office of Local Assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	208,000
1760-001-988—Office of Insurance. For allocation by Department of Finance to various state agencies to pay for life insurance benefit for managers.	Various nongovernmental cost	166,000
1760-011-666—Departmentwide. Provides authority whereby funds appropriated for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund, which finances the department's carpool and reproduction services.	Service Revolving	N/A
1760-021-001—Office of Insurance. For allocation by Department of Finance to various state agencies to pay life insurance benefits for managers.	General	342,000
1760-101-022—Office of Telecommunications. For reimbursement of local costs of implementing Emergency Telephone Number program as authorized by Chapter 443, Statutes of 1976.	General (State Emergency Telephone Number Account)	31,745,000
Total		\$300,033,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Office of State Architect. Recommend that the department report its progress in implementing construction management (CM) techniques in the Office of State Architect. 223
2. Handicapped Plan Checking. Recommend that prior to budget hearings the Department of Finance provide the Legislature with an explanation of how the Access for the Handicapped Account incurred a deficit of \$148,000 and why the Legislature was not notified of this deficit. 225
3. Handicapped Plan Checking. Withhold recommendation on funding for the handicapped plan checking activities, pending receipt of adequate workload standards. 226
4. Office of Buildings and Grounds. Recommend that prior to budget hearings, the Department of Finance identify the budget resources available to meet the projected \$1,100,000 shortfall in the Office of Buildings and Grounds' utility budget. 227

5. Office of Buildings and Grounds. Recommend that prior to budget hearings, the department report to the Legislature on both the status and the economic viability of the new Gasification Plant in Sacramento. 227
6. Office of Buildings and Grounds. Recommend that the Legislature direct the department to revise its custodial services workload standard to reflect economies achieved from daytime scheduling of custodians. 228
7. Office of Facilities Planning and Development. Recommend that the department submit its proposed revenue recovery plan to the Legislature by March 1, 1984. Recommend further that this plan be submitted to the Legislature annually by October 1. 229
8. Office of Local Assistance. Recommend that four new positions for the Lease-Purchase Program be limited to a one-year period. 230
9. Office of Real Estate Services. Withhold recommendation on \$3,324,000 included in Item 1760-001-666 for support of the Office of Real Estate Services, pending review of the office's annual workplan which is to be submitted to the Legislature by March 1, 1984. 231
10. Office of Real Estate Services. Recommend that the department identify the amounts budgeted for administrative costs in connection with all proposed property acquisitions in the budget. Further recommend that the Legislature adopt supplemental report language which specifies for each acquisition project approved for 1984-85 the amount budgeted for administrative costs. 231
11. Office of Real Estate Services. Recommend legislation be enacted requiring that new procedures be used in budgeting for property acquisition administrative costs. Further, recommend that a control section be established to implement this procedure for all capital outlay appropriations in the Budget Bill. 232
12. Energy Assessments Program. Recommend that Item 1760-001-465 be reduced by \$794,000 and Item 1760-001-666 be increased by a corresponding amount in order to fund fully the Office of Assessments Program from project funds. 233
13. Energy Assessments Program. Recommend adoption of supplemental report language requiring the department to submit a report on implementing a functional staff time reporting system in the Office of Energy Assessments. 234
14. Elective Insurance Coverage. Recommend modification of Control Section 7.20 in order to: (1) prohibit the purchase of elective commercial insurance policies by state agencies because they are not the most cost-effective means of insuring against loss, and (2) direct the Department of Finance to revert funds budgeted for the purchase of elective coverage. 240
15. Public Official Bonds. Recommend legislation be enacted to repeal the requirement that certain elected and appointed officials post bonds guaranteeing the faithful 241

DEPARTMENT OF GENERAL SERVICES—Continued

- performance of their duties.
16. **Mandatory Insurance Coverage.** Recommend adoption of supplemental report language directing the department to review mandatory commercial insurance policies purchased by state agencies. 241
 17. ***Century Freeway Police Services. Reduce Item 1760-001-666 by \$298,000.*** Recommend deletion of eight unfilled positions budgeted for state police contract services because these positions will not be needed in the budget year. 242
 18. **Governor's Security.** Recommend \$323,000 in contingency funding for Governor's security be transferred to a new Budget Bill item. 242
 19. **Museum Security Contract.** Withhold recommendation on request to add 22 positions and \$795,000 in increased spending authority to provide contract security for the Museum of Science and Industry, pending further review of the museum's overall security needs. 243
 20. ***Surplus Property Program. Eliminate Item 1760-001-688.*** Recommend deletion of 55.7 positions and \$2,491,000 in funding for a surplus property program proposed for transfer from the Department of Education to the Department of General Services, because the request is premature. Recommend corresponding restoration of funds and positions in Item 6100-001-680 until enactment of legislation authorizing a change in program authority. 244
 21. ***Facility Relocation. Reduce Item 1760-001-666 by \$384,000.*** Recommend deletion of operating expenses budgeted for a proposed facility relocation for the Office of Telecommunications, because the department has not demonstrated that the benefits to be gained from consolidation outweigh the cost. 245
 22. ***Microwave Radio Equipment. Reduce Item 1760-001-666 by \$696,000.*** Recommend deletion of funds budgeted for the purchase of certain microwave radio equipment, because the client agency has no need for the equipment during the budget year. 246

GENERAL PROGRAM STATEMENT

The Department of General Services (DGS) was created by statute in 1963 to increase the overall efficiency and economy of state government operations. It does this by: (1) providing support services on a centralized basis to operating departments at a lower cost than what these departments otherwise would have to pay if they attempted to secure these services separately; (2) performing management and support functions as assigned by the Governor and as specified by statute; and (3) establishing and enforcing statewide administrative policies and procedures.

The department performs these functions through two major programs: property management services and statewide support services.

The department has authorization for 4,143 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$300,033,000 from various funds to support activities of the Department of General Services in 1984-85. This is \$17,537,000, or 6.2 percent, more than estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefits increase approved for the budget year.

Table 1
Department of General Services
Distribution of Program Expenditures
1982-83 to 1984-85
(in thousands) -

Program	Actual 1982-83	Estimated 1983-84	Proposed 1984-85	Difference 1984-85 from 1983-84	
				Amount	Percent
Property Management Services:					
Architectural consulting/construction	\$13,188	\$14,658	\$15,132	\$474	3.2%
Buildings and grounds	37,972	42,926	45,296	2,370	5.5
Building rental	31,989	33,858	37,532	3,674	10.9
Facilities planning and development	622	655	690	35	5.3
Local assistance	1,788	2,090	2,193	103	4.9
Real estate services	4,351	3,868	3,964	96	2.4
Space management	2,938	3,120	3,259	139	4.4
Energy assessments	—	1,000	1,058	58	5.8
Building standards	343	399	427	28	7.0
Subtotals, Property Management Services	(\$93,191)	(\$102,574)	(\$109,551)	(\$6,977)	(6.8%)
Statewide Support Services:					
Administrative hearings	\$3,913	\$4,600	\$4,544	-\$56	-1.2%
Telecommunications	47,510	72,452	75,712	3,260	4.4
Fleet administration	16,825	19,986	21,299	1,313	6.7
Insurance and risk management	5,718	7,271	9,059	1,788	24.6
Legal services	898	1,059	1,109	50	4.7
Management services	8,394	10,090	10,366	276	2.7
Support services	9,154	11,423	11,799	376	3.3
Procurement	29,623	30,477	34,754	4,277	14.0
Records management	1,504	1,690	1,723	33	2.0
State police	12,603	14,623	16,463	1,840	12.6
State printing	29,353	37,247	37,204	-43	-0.1
Small and minority business	830	996	1,049	53	5.3
Subtotals, Statewide Support Services	(\$166,325)	(\$211,914)	(\$225,081)	(\$13,167)	(6.2%)
Administration:					
Executive	\$1,759	\$1,084	\$1,133	\$49	4.5%
Administrative services	2,385	2,710	2,702	-8	-0.3
Labor relations	179	214	224	10	4.7
Program and compliance evaluation	1,385	1,440	1,496	56	3.9
Subtotals, Administration	(\$5,708)	(\$5,448)	(\$5,555)	(\$107)	(2.0%)
Emergency Telephone Number Program	\$9,717	\$32,072	\$31,745	-\$327	-1.0%
Totals, All Programs	\$265,224	\$319,936	\$340,187	\$20,251	6.3%
Distribution of Intrafund Services	39,075	37,440	40,154	2,714	7.2
Total Net Expenditures	\$226,149	\$282,496	\$300,033	\$17,537	6.2%

DEPARTMENT OF GENERAL SERVICES—Continued**Departmental Expenditures, by Program**

Table 1 presents the total expenditures of the department, by program element, during the three-year period ending with 1984-85. The largest departmental programs, in terms of budget-year expenditures, are Telecommunications (\$75.7 million), Buildings and Grounds (\$45.3 million), Building Rental (\$37.5 million), State Printing (\$37.2 million), and Procurement (\$34.8 million). The budget proposes several major increases in program expenditures, including increases for: Insurance and Risk Management (24.6 percent), Procurement (14.0 percent), State Police (12.6 percent), and Building Rental (10.9 percent).

Funding Sources for Departmental Expenditures

The department is funded by direct support appropriations and revolving fund appropriations. Direct support refers to funds appropriated specifically to support the operations of the department. Revolving fund appropriations permit the department to expend specified amounts from revenues it earns by providing services and products to client agencies. These revenues are budgeted as an operating expense in the support budgets of the state agencies which obtain goods and services from the Department of General Services. The department then pays its personnel and operating expenses by using the "spending authority" provided by its revolving fund appropriations.

Table 2
Department of General Services
Total Expenditures, by Source of Funds
1982-83 to 1984-85
(in thousands)

Source of Funds	Actual 1982-83	Estimated 1983-84	1984-85 Proposed	
			Amount	Percent of Total
Direct Support:				
General Fund.....	\$5,460	\$5,216	\$6,724	2.2%
General Fund (Special Accounts)	17,474	41,208	41,695	13.9
Architecture Public Building Fund	1,609	3,820	3,969	1.3
State School Building Aid Fund	852	629	658	0.2
Seismic Gas Valve Certification Fund	3	65	69	—
State School Building Lease-Purchase Fund.....	724	1,215	1,278	0.4
State School Deferred Maintenance Fund.....	159	199	208	0.1
Energy and Resources Fund	941	1,019	—	—
Federal Trust Fund	52	100	100	—
Energy Resources Programs Account	—	—	1,053	0.4
Unidentified Special Funds	—	—	199	0.1
Unidentified Nongovernmental Cost Funds	—	—	166	0.1
Subtotals, Direct Support	(\$27,274)	(\$53,471)	(\$56,119)	(18.7%)
Revolving Funds:				
Architecture Revolving Fund	\$9,124	\$9,677	\$9,935	3.3%
Service Revolving Fund	189,751	219,348	231,488	77.2
Surplus Personal Property Revolving Fund	—	—	2,491	0.8
Subtotals, Revolving Funds.....	(\$198,875)	(\$229,025)	(\$243,914)	(81.3%)
Total Expenditures	\$226,149	\$282,496	\$300,033	100.0%

Table 2 presents a summary of the department's total expenditures, by source of funds, for the three-year period ending with 1984-85. The table shows that 81.3 percent of the department's costs are supported from earned revenues, while 18.7 percent are funded by direct support.

The budget proposes \$6,724,000 in General Fund expenditures for direct support of departmental activities in 1984-85. This is an increase of \$1,508,000, or 28.9 percent, over current-year expenditures. The department's General Fund appropriation pays for maintenance and security for the Capitol complex, a small portion of the local assistance program, and security for the Governor. The budget also proposes to shift the cost of printing the Governor's Budget (\$465,000) from the Service Revolving Fund, where it is funded by reimbursements, to the General Fund.

Table 3
Department of General Services
Distribution of Personnel-Years by Program
1982-83 through 1984-85

Program	Personnel-Years			Percent of Total 1984-85
	Actual 1982-83	Estimated 1983-84	Proposed 1984-85	
Property Management Services:				
Architectural consulting/construction ..	264.0	260.1	258.1	6.2%
Buildings & grounds	1,211.9	1,284.8	1,288.2	30.9
Energy assessments	—	10.5	10.5	0.3
Facilities planning and development	13.2	13.2	13.2	0.3
Local assistance	50.5	50.9	50.9	1.2
Real estate services	64.8	66.8	66.8	1.6
Space management	65.2	64.8	64.8	1.6
Building standards	5.8	6.7	6.7	0.2
Subtotals, Property Management Services	(1,675.4)	(1,757.8)	(1,759.2)	(42.3%)
Statewide Support Services:				
Administrative hearings	70.9	71.1	67.4	1.6
Telecommunications	310.8	308.6	312.4	7.5
Fleet administration	146.6	147.2	150.2	3.6
Insurance and risk management	19.1	18.8	18.8	0.4
Legal services	19.2	19.2	19.2	0.4
Management services	241.2	252.6	239.3	5.7
Support services	204.8	212.4	208.4	5.0
Procurement	210.2	218.0	272.9	6.5
Records management	34.9	37.8	37.8	1.0
State police	324.4	417.3	441.3	10.6
State printing	485.6	515.0	486.2	11.7
Small and minority business	19.4	20.0	20.0	0.4
Subtotals, Statewide Support Services	(2,087.1)	(2,238.0)	(2,273.9)	(54.4%)
Administration:				
Executive	27.2	20.1	20.1	0.4
Administrative services	78.4	88.6	79.3	1.9
Labor relations	4.1	5.0	5.0	0.2
Program and compliance evaluation	32.8	33.6	33.6	0.8
Subtotals, Administration	(142.5)	(147.3)	(138.0)	(3.3%)
Totals	3,905.0	4,143.1	4,171.1	100.0%

DEPARTMENT OF GENERAL SERVICES—Continued**Program Distribution of Departmental Personnel**

Table 3 identifies the allocation of staff among departmental functions over the three-year period ending with 1984-85. As the table indicates, 4,171.1 personnel-years are proposed for the budget year—a net increase of 28 personnel-years over the current-year level. The table also shows that in 1984-85, about 42 percent of the department's staff are budgeted in property management services, about 54 percent are budgeted in state-wide support services, and the remainder are in administration.

The department proposes the following major staff increases in 1984-85: (1) 13.8 personnel-years for the operation and maintenance of the new state building in Van Nuys; (2) 54.9 personnel-years for the Office of Procurement to administer the Surplus Personal Property program (proposed for transfer to the department from the Department of Education); and (3) 24.0 personnel-years for the Office of California State Police. The department is proposing major personnel-year reductions in the Offices of Buildings and Grounds (33.6), Management Services (13.1), State Printing (28.6), and Administrative Services (9.5), because of decreasing workloads and increasing efficiency.

Table 4
Department of General Services
Proposed 1984-85 Budget Changes
(in thousands)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Revolving Funds^a</i>	<i>Total</i>
1983-84 Expenditures	\$5,216	\$46,112	\$231,168	\$282,496
<i>Baseline Adjustments:</i>				
Full Year Funding of 1983-84 Salary Increase	155	107	3,061	3,323
Merit Salary Adjustment	24	31	881	936
Operating Expenses	155	1,851	7,630	9,636
Miscellaneous Changes	761	-1,291	-837	-1,367
Pro Rata Charges	—	-140	57	-83
Subtotals, Baseline Adjustments	(\$1,095)	(\$558)	(\$10,792)	(\$12,445)
<i>Workload Changes:</i>				
Administrative Hearings	—	—	-263	-263
Building Maintenance	—	—	615	615
Fleet Administration (New Facilities)	—	112	171	283
State Police (Security and Contract Services)	71	—	795	866
State Printing (Labor-saving Equipment)	—	—	-1,301	-1,301
Telecommunications (Microwave Equipment) ..	—	—	1,107	1,107
Miscellaneous Increases	—	4	412	416
Miscellaneous Reductions	—	—	-536	-536
Subtotals, Workload Adjustments	(\$71)	(\$116)	(\$1,000)	(\$1,187)
<i>Program Changes:</i>				
Management Insurance Program	\$342	\$199	\$873	\$1,414
Surplus Property Program	—	—	2,491	2,491
Subtotals, Program Changes	(\$342)	(\$199)	(\$3,364)	(\$3,905)
1984-85 Proposed Expenditures	\$6,724	\$46,985	\$246,324	\$300,033
Change from 1983-84:				
Amount	\$1,508	\$873	\$15,156	\$17,537
Percent	28.9%	1.9%	6.6%	6.2%

^a Includes the Service Revolving Fund, the Architecture Revolving Fund, and the Surplus Personal Property Revolving Fund (to be created), as well as \$100,000 in expenditures from federal funds.

Proposed Budget-Year Changes

Table 4 shows the changes reflected in the proposed 1984-85 budget resulting from baseline adjustments, workload changes, and program changes. The table indicates that about three-quarters of the proposed budget changes consist of various baseline adjustments, such as salary and operating expense increases. Roughly one-fifth of total changes are for two new programs that the department plans to administer (a management insurance program in the Insurance Office and a surplus property program in the Office of Procurement). The remaining changes are due to various adjustments in the level of workload throughout the department.

ANALYSIS AND RECOMMENDATIONS**PROPERTY MANAGEMENT SERVICES**

The Property Management Services program consists of nine elements which relate to those operating divisions of the department concerned with ownership, use and regulation of state property. These elements, and the expenditures and staffing proposed for each, are listed in Table 1 and Table 3, respectively.

OFFICE OF STATE ARCHITECT

The Office of State Architect (OSA) provides two basic services. First, OSA provides architectural/engineering (A/E) services and construction inspection services for all state construction projects, as required by law. Second, OSA provides plan checking services pursuant to (a) the physically handicapped building access law, (b) the Field Act for school buildings (earthquake safety), and (c) hospital seismic safety.

The OSA is reimbursed for A/E and inspection services from the funds appropriated by the Legislature for specific capital outlay projects. Costs related to plan checking are recovered through a filing fee which varies according to the value of construction to be undertaken.

The budget proposes a total of \$10,604,000 for A/E services, \$4,459,000 for plan checking activities and \$69,000 for administering the seismic gas valve certification program in 1984-85. In addition to providing funds to compensate for the increase in prices (\$548,000), the budget proposes redirection of three positions and \$133,000 from A/E services to physically handicapped plan checking activities. Two positions and \$74,000 for construction inspection services are limited in term to June 30, 1984, and are not proposed to be continued in 1984-85.

Construction Management Techniques Not Yet Established In OSA

We recommend that the Office of State Architect report to the fiscal committees on its progress in implementing construction management techniques within the office to improve services to client agencies.

In the *Analysis of the 1982-83 Budget Bill*, we observed that many problems have plagued OSA's management of capital outlay projects. These problems include:

- Lack of communication between client agencies and OSA personnel assigned to projects

DEPARTMENT OF GENERAL SERVICES—Continued

- Insufficient emphasis on high priority projects requested by client agencies
- Lack of accountability for overexpenditure of project funds
- Lack of adequate financial information needed to manage capital outlay funds

Our analysis found that the OSA had improved the administration of capital outlay projects by using the services of a "construction management" (CM) firm. The firm was hired to assist OSA in administering the major renovation of the state hospitals, and focused its attention on monitoring the performance of consulting architects and contractors in order to assure timely completion of the alterations within budgeted resources. Based on the OSA's success in using the CM firm, we recommended that OSA establish a permanent CM unit within the office.

In response, the previous State Architect advised the fiscal committees that a private consultant had been hired by the department to assist in establishing a construction management unit within the office. Subsequently, the Legislature adopted Budget Act language requiring the department to submit a progress report prior to December 1, 1983, which detailed:

1. The number of projects administered under the CM unit.
2. The estimated cost savings compared with the traditional means of administering capital outlay projects.
3. The amount of time saved in the design and construction of projects using the CM techniques.
4. The planned and actual completion dates for all projects on which CM techniques are used.

On November 30, 1983, the department advised us that a CM unit had not been established within the office, but that the department acknowledged the need to improve certain elements of the OSA project delivery system. The OSA has taken the position that improvements can be achieved without establishing a CM unit if project managers and other personnel are trained and given other tools needed to become more effective. Accordingly, the OSA has taken the following steps:

- It has established a Management Information System (MIS) to replace its existing project management system. Phase I of this project has been completed.
- It has provided additional training to project architects in critical path methods and other control and monitoring techniques.
- It intends to provide training in the area of architectural programming so that project architects can respond better to client needs.

It appears to us that, contrary to what he told the Legislature, the previous State Architect did not hire a consultant to assist in implementing the CM unit. Moreover, it appears that the department has recently begun to evaluate organizational improvements and personnel development needed to improve the office's effectiveness.

We continue to believe that the use of construction management techniques will improve the state's overall project delivery system. The use of these techniques would complement the steps OSA has already taken to improve its performance. To ensure that these techniques are utilized, we recommend that the Legislature adopt the following supplemental report language directing the OSA to do so and report its progress to the Legislature:

"Prior to December 1, 1984, the Director of General Services shall report to the Chairman of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees in each house on its progress in implementing construction management techniques in the Office of State Architect. The report shall include at a minimum the following information:

- (1) The number of projects administered under the CM system
- (2) The estimated cost savings compared with the traditional means of administering capital outlay projects for the project
- (3) The amount of time saved in the design and construction of each project on which CM techniques are used
- (4) The planned versus actual completion dates for the various phases of those projects utilizing CM techniques."

Handicapped Plan Checking Account Is In the Red

We recommend that prior to budget hearings the Department of Finance explain how the Office of State Architect incurred a deficit in the Access for the Handicapped Account in 1982-83 and why the Legislature was not notified of this deficit.

The filing fees collected for physically handicapped plan checking are deposited in the Access for the Handicapped Account in the General Fund. These funds are transferred to the Service Revolving Fund (SRF) to support the activities of the physically handicapped plan checking section. The budget proposes a total of \$331,000 for these activities in 1984-85. This amount reflects the redirection of three positions and \$133,000 from Architectural/Engineering Services.

Deficit Incurred in 1982-83. The budget indicates that in the past year, the Access for the Handicapped Account was *overexpended* by \$148,000. This deficit, which was covered by a "loan" from the SRF, was carried forward into the current year and will be eliminated in 1984-85. The department indicates that the deficit is to be repaid through an increase in fees for checking the plans. Table 5 shows the fund condition for the Access for the Handicapped Account for the past, current, and budget year.

Table 5
Office of State Architect
Physically Handicapped Plan Checking
1982-83 through 1984-85
(in thousands)

	1982-83		1983-84		1984-85
	Estimated	Actual	Budgeted	Estimated	Budgeted
Carryover Balance.....	\$12	\$12	\$19	-\$148	-\$148
Revenue	200	120	236	326 ^a	540 ^a
Total Resources	\$212	\$132	\$255	\$178	\$392
Less: Expenses	193	280	206	326	331
Ending Balance	\$19	-\$148	\$49	-\$148	\$61

^a Assumes fee increase to generate additional revenue of \$206,000 in 1983-84 and \$420,000 in 1984-85.

Deficit Not Reported to Legislature. The information presented in the budget indicates that not only did revenues in 1982-83 fall \$80,000

DEPARTMENT OF GENERAL SERVICES—Continued

short of the estimated amount but the department *spent* \$78,000 more than the estimated total resources. We have no indication that the Department of Finance reported this deficit to the Legislature as it is required to do by Item 9840-001-494 of the 1982 Budget Act, the reserve for contingencies and emergencies. Moreover, we can find no provision in the Government Code authorizing the use of the Service Revolving Fund (SRF) to cover a deficit in other funds. Finally, we note that estimated expenditures for the current year are \$326,000 while the budgeted expenditure level was \$206,000—an increase above the budgeted level of 58 percent.

We recommend that the Department of Finance explain to the fiscal committees how this deficit occurred and why the Legislature was not notified of it on a timely basis.

Fee Increase Proposed but No Workload Standards

We withhold recommendation on Item 1760-001-006 for support of physically handicapped plan checking (\$331,000), pending receipt of workload information from the department.

According to the OSA, the physically handicapped plan checking incurred a deficit for three reasons:

- The office had accumulated a significant backlog of projects awaiting review, and personnel from other areas (A/E) were assigned temporarily to the program to eliminate the backlog.
- The office experienced a substantial increase in non-reimbursable activities because new handicapped regulations were issued by the OSA in June 1982. These non-reimbursable activities included consultation with local building officials who requested help in interpreting the regulations. In addition, various workshops were held and interpretive documents were prepared in an effort to explain the new regulations to architects and building officials.
- The new regulations are more complex than previous "interim" standards, thus requiring more plan checking time.

In order to generate the revenue needed to support the program, the OSA has proposed an increase in the filing fees that will yield approximately \$420,000 in additional revenue in the budget year, compared with revenues of \$120,000 from current fee rates. Thus, the OSA is proposing a 250 percent increase in fees.

We requested additional information on the work of OSA's handicapped plan checking section. In response, we were advised that there are no workload standards for this section. Moreover, there is no accountability for staff time devoted to consulting or other nonreimbursable activities. Consequently, there is no means of evaluating the appropriateness of either the level of resources to be devoted to plan checking, or the need for a fee increase. In fact, the proposed fee increase appears to be at odds with the commitment made by the prior State Architect. He advised the State Building Standards Commission that the new regulations "will not add any new or increased cost to local, state or federal government." If indeed costs have not increased, it is not clear why an increase in fees would be needed.

We recommend that prior to budget hearings the department submit a plan for funding the physically handicapped plan checking function which includes (1) specific workload standards for plan checking and (2)

a policy for funding consultation and other currently nonreimbursed activities. Without this information, we have no basis for recommending approval of this request. Accordingly, we withhold recommendation on the \$331,000 proposed for physically handicapped plan checking.

OFFICE OF BUILDINGS AND GROUNDS

The Office of Buildings and Grounds is responsible for (1) maintenance and operation of state-owned office buildings under the jurisdiction of the Department of General Services and (2) maintenance of special fund-owned buildings where the owning agencies request such services. The cost of maintenance and operation of DGS buildings is recovered through a square-foot rental charge to tenant agencies. Services in special fund-owned buildings are billed to the owning agencies on an actual cost basis.

The budget for the office in 1984-85 totals \$45,296,000, an increase of \$2,370,000 (5.5 percent) over current-year estimated expenditures. The current estimate for 1983-84 is \$339,000 and 28 positions *below* the authorized level as a result of efficiencies achieved through daytime scheduling of custodial services.

The proposed changes in the budget year include (1) an increase of \$1,877,000 to offset the effects of inflation (4.3 percent), (2) an increase of \$615,000 to fund maintenance and operation of the new Van Nuys state office building scheduled to be occupied in July 1984, and (3) a further reduction of \$122,000 and 8 positions to reflect additional efficiencies in custodial services.

Utility Costs Are Underfunded

We recommend that prior to budget hearings the Department of Finance identify the specific amounts that will be redirected to meet the utility costs anticipated by the department.

A substantial portion of the office's budget is used for state office building utilities. The Department of General Services indicates that, based on projected utility rate increases, the costs for utilities in its buildings will be \$7,915,000 in the budget year. (This estimate assumes full operation of the gasification plant in Sacramento.) The budget, however, contains only \$6,815,000 for utility costs. Consequently, if the utility costs projected by the department are realized, the amount available for utilities in the budget will be \$1,100,000 too low.

According to the Department of Finance, there are sufficient resources budgeted *in other portions* of the Department of General Services' Service Revolving Fund budget to cover the \$1.1 million shortfall for utility costs. The Department of General Services, however, has been unable to identify those areas of its budget where the amount proposed exceeds the amount needed and from which funds can be redirected to meet the utility costs of state buildings. Thus, the Legislature has no basis on which to determine if the budget contains a sufficient amount to meet projected utility costs in the budget year. We recommend, therefore, that prior to budget hearings on this item, the Department of Finance identify the specific amounts that will be redirected to meet the utility costs anticipated in the office's budget.

Central Plant Gasification Plant Is Still Not Operating

We recommend that prior to budget hearings, the Department of General Services report on the status and economic viability of the central plant gasification system.

DEPARTMENT OF GENERAL SERVICES—Continued

Construction of a gasification plant at the department's central heating and cooling plant in Sacramento began in August 1981. The plant was intended to reduce natural gas consumption by producing low-quality gas from tree trimmings, wood chips, and other solid waste materials. According to the department, the \$3.9 million plant was expected to be fully operational in May 1983. Accordingly, the budget for 1983-84, as enacted, reflects the \$410,000 in net savings anticipated from operation of the gasification plant during the current year. The 1983 Budget Act requires the department to report to the Legislature by March 1, 1984, on the actual costs and savings attributable to operation of the gasification plant.

As of January 1, 1984, the gasification plant still was not fully operational. The Department of General Services' staff has advised us that the City of Sacramento (which was to provide fuel for the gasifier, starting in November 1982, pursuant to a contract with the department) has experienced delays in completing its fuel preparation plant. The staff indicates that while fuel from the city should be available in February 1984, it is not certain that the quality of fuel will meet the state's requirements as specified in the contract.

The contract with the city specifies that the fuel is to cost approximately \$6 per ton. If the city cannot provide fuel to meet the state's requirements in accordance with the contract, the department will have to obtain fuel from another source in order for the gasifier to be operational. The staff indicate that if fuel of the required quality must be purchased from alternative sources, it will cost \$30 to \$40 per ton.

Our analysis indicates that it may not be economically feasible to operate the gasification plant if fuel costs are \$30 to \$40 per ton. Consequently, we believe the economic viability of the gasification plant hinges on the state receiving fuel from the City of Sacramento in accordance with the specifications in the contract.

In view of the uncertainties regarding the gasification plant, we recommend that prior to budget hearings the department report to the Legislature on (1) the current status of its contract with the City of Sacramento, (2) the department's operational experience with the plant to date, (3) the projected schedule for operating the gasifier, and (4) the department's assessment of the projected long-term operating costs if an alternative fuel source is required. The department should also advise the Legislature of the city's responsibilities under the fuel contract. Finally, the department should explain why it did not advise the Legislature of the apparent problems with the City of Sacramento contract during hearings on the department's 1983-84 budget.

Janitorial Workload Standards Do Not Reflect Increased Efficiencies

We recommend that the Legislature adopt supplemental report language directing the Department of General Services to revise its janitorial workload standards to take into account operating efficiencies gained due to daytime scheduling of custodial services.

The budget for the Office of Buildings and Grounds reflects a reduction of \$122,000 and 8 positions from the current year because of operating efficiencies gained in scheduling custodial services during the normal business hours rather than at night. In addition, the department has implemented a reduction in the current year by administratively eliminating \$339,000 and 28 positions. Thus, the total reduction from the authorized

level for the current year is \$461,000 and 36 positions.

Our analysis indicates that daytime scheduling of custodial services should indeed reduce custodial workload. Previously, when most custodial services were performed at night, daytime services were provided by additional staff. Thus, the change in custodial scheduling has virtually eliminated the need for these additional staff. The department, however, has not reflected this increased efficiency in its workload standards for custodial maintenance. Any future requests for maintenance of new office buildings, should take into account this increased efficiency. Accordingly, we recommend that the Legislature direct the department to revise its custodial workload standards to reflect the increased efficiencies.

OFFICE OF FACILITIES PLANNING AND DEVELOPMENT

The Legislature Needs Timely Information on the Office's Revenue Recovery Plan

We recommend that the Office of Facilities Planning and Development submit its proposed revenue recovery plan to the Legislature by March 1, 1984. We further recommend that this plan be submitted to the Legislature annually by October 1.

The Office of Facilities Planning and Development is responsible for determining the future space requirements of all state agencies, and for developing plans and formulating recommendations to meet those needs. The office prepares and updates facilities plans for both major and minor metropolitan areas and the Capitol Area, and reviews agency space requests to ensure that they comply with long-range plans in a given area.

Prior to 1983-84, the work of the Office of Facilities Planning and Development was funded from the Building Rental Account, Service Revolving Fund. As we indicated in our *1983-84 Analysis* (pp. 206-210) of the Building Rental Account, the Government Code limits the expenditure of rent proceeds from state-owned space to debt service, maintenance, operations and insurance of building space.

Since the primary goal of the office's planning function is to achieve statewide economies by reducing the amount of leased space through the consolidation of state functions in state-owned space, we recommended that the office finance these planning efforts by imposing a surcharge on rental payments made by agencies in leased space.

During 1983-84 budget hearings, it became evident that applying a lease surcharge payment to all state agencies that occupy leased space would be inequitable, because all state programs are not subject to consolidation in state-owned space. For example, the California Highway Patrol maintains numerous field offices which cannot be consolidated in a central, state-owned facility. Accordingly, the Legislature directed the Office of Facilities Planning and Development to develop a method for exempting from the surcharge leased space that could not, as a practical matter, be consolidated. The office was required to report its findings to the Legislative Analyst by December 1, 1983.

In its report, the office proposed that nonconsolidatable leased space could be exempted from the surcharge through the use of the Office of Space Management, Space Inventory File. This file can identify those agencies occupying leased space which should be consolidated into state-owned facilities.

Each year, the office will determine the ratio of state-owned space to leased consolidatable space and will develop its billing formula according-

DEPARTMENT OF GENERAL SERVICES—Continued

ly. For example, if the ratio is determined to be 70 percent state-owned space to 30 percent leased consolidatable space, then 70 percent of the office's costs would be recovered from billings to the Building Rental Account, and 30 percent of the costs would be recaptured through a surcharge on the rent paid by leased consolidatable agencies.

So that the Legislature is kept fully informed regarding the allocation of costs incurred by the Office of Facilities Planning and Development, we recommend that the office submit its proposed revenue recovery plan for 1984-85 by March 1, 1984. In this report, the office should identify (1) the ratio of state-owned space to state-leased consolidatable space; (2) the amount proposed to be recovered from billings to the Building Rental Account, and those agencies that will be billed; (3) the 1984-85 surcharge to be imposed on the rent paid by agencies occupying leased consolidatable space, and (4) those agencies in leased consolidatable space that will be assessed the surcharge on their rental payment. We further recommend that the office's revenue recovery plan for future fiscal years be submitted on October 1 prior to the start of the fiscal year. This will allow the plan to be reviewed before the annual budget is prepared.

OFFICE OF LOCAL ASSISTANCE**New Positions Should Be Limited Term**

We recommend approval of four additional positions requested for the Lease-Purchase Program, Office of Local Assistance. We further recommend that the positions be authorized for one-year because the need for these positions is temporary.

The Office of Local Assistance (OLA) is the administrative arm of the State Allocation Board. It is primarily responsible for administering a series of programs which provide funding to local school districts for the acquisition and development of school sites, construction, reconstruction or maintenance of school buildings and the placement of portable classrooms.

For 1984-85, the budget proposes an increase of \$147,000 from the State School Lease Purchase Fund (SSLPF) and 4 new positions for the office's State School Building Lease-Purchase Program. The Lease-Purchase Program assists school districts in financing new school construction and reconstruction projects.

According to the department, the positions proposed for the budget year were eliminated by the administration on June 30, 1983 and then reestablished administratively in the current year. The department indicates that the additional positions are needed to meet the increased workload resulting from the passage of Chapter 410/82 (Proposition I). Proposition I authorized the state to sell \$500 million general obligation bonds to fund the Lease-Purchase Program.

Based upon information submitted by the department, the positions are justified on a workload basis and we recommend that they be approved. However, since the bond funds available from Proposition I will be almost fully apportioned by the end of 1984-85, we recommend that these positions be limited to one year.

*also approve
Sen. Leroy Green's
request for 10 limited-term
positions*

*now recommend they
be permanent*

OFFICE OF REAL ESTATE SERVICES

The Office of Real Estate Services is responsible for (1) acting as the state's agent in acquiring property for most state agencies, (2) identifying surplus state property and conducting sales to dispose of such property, and (3) managing state property which has been acquired but not yet transferred to the owning department.

The office recovers its costs for these activities through an hourly billing system covering staff time devoted to each project. For acquisition projects, staff time is billed directly to capital outlay appropriations. Sales and property management expenses are recovered from the sale of the surplus property and by leasing property managed by the office. There is no limit on the amount that the office may charge individual projects for its administrative activities.

Workload Report Is Needed

We withhold recommendation on \$3,324,000 included in Item 1760-001-666 for support of the Office of Real Estate Services, pending review of the office's workload report which is to be submitted to the Legislature by March 1, 1984.

In the *Supplemental Report of the 1983 Budget Act*, the Legislature directed the office to prepare an annual workplan identifying the number of positions and budget resources to be devoted to its activities in the budget year. This plan is to be submitted to the Legislature prior to March 1 of each year. In order to reflect changes made during the budget process, the department is to submit a follow-up workplan by September 1 of each year.

The final workload plan for 1983-84 was submitted to the Legislature on October 5, 1983, and identified a workload that warranted 69.3 positions with 66.8 positions authorized. The budget proposes continuation of this staffing level in 1984-85, with total expenditures budgeted at \$3,324,000. This amount includes \$139,000 to offset the effect of inflation (4.3 percent). Given the fact that the office's workplan for 1984-85 will not be available until March 1, 1984, we have no basis on which to determine the need or adequacy of the amount requested. Pending review of the workplan for 1984-85, we withhold recommendation on the \$3,324,000 budgeted in Item 1760-001-666 for the Office of Real Estate Services.

Administrative Costs Should Be Identified For Property Acquisition Appropriations

We recommend that prior to budget hearings, the Department of General Services and the Department of Finance identify the amount of funds budgeted for administrative costs in connection with all property acquisition appropriations contained in the Budget Bill.

We further recommend that the Legislature adopt supplemental report language which specifies the amount budgeted for administrative costs in all Budget Act appropriations for property acquisition.

Appropriations for acquisition of property to support state programs generally make no distinction between the funds appropriated to pay for the acquisition and the funds appropriated to pay for administrative costs incurred by Real Estate Services. Currently, Real Estate Services is able to charge an appropriation for any amount of administrative costs without justifying the cost or substantiating the workload that led to it. Consequently, there is no control over Real Estate Services costs for acquisition projects.

DEPARTMENT OF GENERAL SERVICES—Continued

In contrast, when funds are appropriated for construction projects, a specific amount is identified in the project cost estimates for architectural services—Office of State Architect or a contract architect. Thus, there is a means for monitoring and controlling architectural services costs in connection with these projects.

Identification of Real Estate Services' administrative costs in connection with individual acquisition projects would have several advantages. Specifically, it would:

- Ensure that funds needed to *buy* the property are not spent for administrative costs.
- Allow the department to identify for the Legislature the staff resources necessary to implement all approved acquisition projects in a given fiscal year so that the cost of this activity can be properly budgeted.
- Permit legislative review of Real Estate Services' rates for acquisition and appraisals.
- Provide the State Public Works Board with specific budget information concerning acquisition projects.

Accordingly, we recommend that Real Estate Services identify the administrative costs for all acquisition projects proposed in the budget. The Department of Finance should then review the proposed level of funding for each project and advise the Legislature of the appropriate amount needed. When the proposed administrative cost elements have been reviewed and approved by the Legislature, we recommend that language be included in the supplemental report which specifies the portion of the acquisition appropriation which is intended to cover administrative costs.

Legislation Needed to Establish Administrative Cost

We recommend that legislation be enacted to require that all capital outlay appropriations for acquisition of property include a specific amount for administrative costs associated with the acquisition. We further recommend that a new control section be adopted to implement this procedure for projects included in the Budget Bill.

As noted above, there is no limit on the amount of funds appropriated for acquisition which can be spent on administrative costs. To correct this problem, we recommend that the Government Code (Section 15860) be amended to require that funds for administrative costs be separately identified as part of each property acquisition appropriation. Any additional administrative costs associated with condemnation actions which may be warranted should be authorized by the State Public Works Board through its augmentation authority.

Pending the enactment of legislation, we recommend that the following control section be adopted in the Budget Bill:

"Section _____. Notwithstanding Section 15860 of the Government Code, the amount of funds expended for administrative costs associated with any appropriation contained herein for acquisition of property pursuant to the Property Acquisition Law shall be limited to the amount specified for such costs in the *Supplemental Report of the Committee on Conference on the 1984 Budget Act*; except that any amounts needed for administrative costs associated with acquisition through the condemnation authority of the State Public Works Board shall be provided

through augmentation of the affected appropriations as authorized by existing law."

OFFICE OF ENERGY ASSESSMENTS

Costs for Project Development Should Be Recovered From Project Funds

We recommend that Item 1760-001-465 be reduced by \$794,000 to eliminate funding for the Office of Energy Assessments from the Energy Resources Programs Account in the General Fund. We further recommend a corresponding increase in Item 1760-001-666 (the Service Revolving Fund) to allow funding for this program from project funds.

The Office of Energy Assessments is responsible for improving the efficiency of state operations through the development of cost-effective energy projects and programs. The office was established in 1980-81 as part of the Department of General Services' executive office. To date, funding for the office has come from the Energy and Resources Fund established by Chapter 899, Statutes of 1980. Chapter 899, however, requires that, unless extended by the Legislature, the Energy and Resources Fund is terminated on June 30, 1984.

The budget proposes \$1,058,000 to continue the office in 1983-84, with \$794,000 appropriated from the General Fund, Energy Resources Programs Account (ERPA) and \$264,000 from the Service Revolving Fund. The ERPA derives its revenue from a surcharge on the sale of electricity. Previously, the proceeds from the surcharge were deposited in the Energy Resource Conservation and Development Special Account. Chapter 1067, Statutes of 1982, renamed the special account and expanded the potential use of surcharge revenues so that the ERPA may now be used for any "ongoing energy programs and energy projects".

Table 6 summarizes expenditures and the funding sources for the Office of Energy Assessments, for the past, current, and budget years.

Table 6
Department of General Services
Office of Energy Assessments
Budget Summary
(dollars in thousands)

	<i>Actual 1982-83</i>	<i>Estimated 1983-84</i>	<i>Budgeted 1984-85</i>
1. Authorized Positions	9.1	10.5	10.5
2. Expenditures:			
Personal Services	\$322	\$409	\$431
Operating Expense and Equipment	510	591	627
Totals, Expenditures.....	\$832	\$1,000	\$1,058
3. Funding Source:			
Energy and Resources Fund, Energy Account.....	\$755	\$764	—
General Fund, Energy Resources Programs Account.....	—	—	\$794
Service Revolving Fund	77	215	242
Service Revolving Fund, Intrafund	—	21	21
Totals, Funding Source	\$832	\$1,000	\$1,058

Workload has become project specific. The original purpose of the energy assessment program was to survey state buildings, evaluate energy projects, aid in the preparation of budget materials covering cost-effective projects, and coordinate funding strategies. A substantial portion of the

DEPARTMENT OF GENERAL SERVICES—Continued

office's staff time and contract services funds was allocated for engineering assessments of energy conservation opportunities. The engineering work included detailed analyses of alternatives and recommended energy-efficient solutions. Cost estimates, preliminary designs, and outline specifications were prepared in support of requests for project funding contained in the annual budget act.

The emphasis of the Energy Assessment Program changed significantly upon enactment of Ch 327/82. This act authorizes state departments to enter into financial agreements providing for "third party financing" of various energy projects. With the enactment of this statute, the office assumed new duties involving implementation of projects funded through alternative financing mechanisms. This additional workload includes:

- Directing and reviewing detailed financial analyses prepared by accounting consultants.
- Negotiating with utility companies for purchase agreements of energy produced at cogeneration facilities.
- Testifying at Public Utilities Commission meetings to promote cogeneration and third party financing arrangements.

Proper budgeting requires that the full cost of individual projects be included in the overall project budget. In this way, the Legislature will know what the full costs of these projects are, because the project budget will include the costs associated with developing, as well as implementing, the project. Currently, proposed third party financing agreements recover only a *portion* of the development costs incurred by the sponsoring agencies. The recovered costs are incurred for services of the Office of State Architect in monitoring the design and construction of the third party financed projects. The Office of Energy Assessment's costs associated with these projects, however, are not charged to the project and are not recovered through the third party arrangement.

We know of no analytical rationale for treating the office's costs any differently from those incurred by the State Architect. In both cases, the costs are *directly* related to the project. Consequently, we believe the office's cost should be included in the budgets for third-party-financed projects, in order to provide the Legislature with a full accounting of actual project costs.

Chapter 327 provides that *any* costs or expenses incurred by the Department of General Services in connection with agreements authorized by the measure may be reimbursed using revenues generated by the project. Accordingly, we recommend that the budget be amended to (1) eliminate funding for the office from the General Fund, Energy Resources Programs Account, and (2) increase funding for the office from the Service Revolving Fund so that the office may recover its costs through charges to individual projects. Approval of this recommendation will increase by \$794,000 the amount of funding available to the Legislature for energy-related purposes.

Project Cost Accountability Needed

We recommend that the Legislature adopt supplemental report language directing the department to submit a report to the Joint Legislative Budget Committee and the fiscal committees on the implementation of a functional staff-time reporting system in the Office of Energy Assessments.

On behalf of the Legislature, we requested the department to provide a list of projects currently being developed by the Office of Energy Assessments and to identify the amount of staff time and consultant contract funds devoted to each project. In response, the department advised us that the office does not use a time reporting system and there are no means of identifying the cost of consultants' work on individual projects. Under these circumstances, there is no way the Legislature can hold the Office of Energy Assessments accountable for its expenditures.

Accordingly, we recommend that the department be directed to establish a functional staff-time reporting system for in-house work and a charge system for all consultant contracts. Specifically, we recommend that the Legislature adopt the following supplemental report language:

"By December 1, 1984, the Department of General Services shall submit to the fiscal committees and the Joint Legislative Budget Committee, a report which identifies the functional staff-time reporting system and consultant expenditure charge system implemented in the Office of Energy Assessments."

BUILDING STANDARDS COMMISSION

Supplemental Report Requirement. In the *Supplemental Report of the 1983 Budget Act*, the Legislature directed the Building Standards Commission to adjust its fee schedule for the initial review of building standards to take account of the revenues anticipated from fees charged to cover the cost of administering and hearing appeals on building standards. The commission had proposed to recover all appeal costs from the regular assessments on agencies which adopt building standards, instead of from only those involved in appeals.

In addition, the Legislature directed the commission to recover *total* costs from client reimbursements through the Service Revolving Fund. In the past, approximately 45 percent of the commission's funding had come from the General Fund. The commission was directed to submit a revised fee schedule and a resulting schedule of reimbursements to the Legislative Analyst reflecting these changes in its funding methods.

Table 7
1984-85 Revenue Recovery Plan
Building Standards Commission

<i>Agency</i>	<i>Percent of Billable Hours</i>	<i>Total Reimbursements</i>
Housing and Community Development	18.3%	\$83,265
State Fire Marshal	7.3	33,215
Office of the State Architect	23.7	107,835
Statewide Health Planning	11.6	52,780
Health Services	7.1	32,305
Occupational Safety and Health	14.4	65,520
California Energy Commission	9.3	42,315
Community Colleges	0.8	3,640
Caltrans	0.8	3,640
Food and Agriculture	2.4	10,920
Youth Authority	1.9	8,645
Corrections	0.8	3,640
Education	0.8	3,640
Consumer Affairs	0.8	3,640
Totals	100.0%	\$455,000 ^a

^a Includes \$16,000 for departmental overhead and \$12,000 for estimated salary increases.

DEPARTMENT OF GENERAL SERVICES—Continued

We have reviewed the commission's report (dated August 29, 1983) and find that it complies with the supplemental report requirements. The commission has also submitted its estimated 1984-85 revenue recovery plan which is depicted in Table 7.

The Commission's new revenue plan formula is based upon time sheets kept for a period of one year, taking into account the workload from each agency over the 12-month period. A proportionate share of administrative overhead is charged to each agency based upon each agency's percentage of the total billable hours.

To fund staff costs for processing appeals of regulations, the commission has established a filing fee of \$100 for each appeal and estimates that no more than five appeals will be submitted annually.

STATEWIDE SUPPORT SERVICES

The statewide support services program consists of 12 program elements. These elements, and the expenditures and staffing proposed for each, are listed in Table 1 and Table 3, respectively.

Department Responds to Legislative Directives

The Legislature directed the Department of General Services to conduct various studies and prepare several written reports for submission to the Legislature in 1983-84. A summary of the department's responses to these directives follows.

State Employee Travel. Pursuant to language in Item 1760-001-666 of the 1983 Budget Act, the Legislature directed the department to: (1) negotiate air fare discounts on behalf of the state, and (2) prepare a study to determine the cheapest modes of transportation and lodging for state employees on travel. In a report to the Legislature dated September 19, 1983, the Director of General Services indicated that his department would develop a plan to negotiate on behalf of the state air fare and lodging discounts for use in official state travel. The department currently is preparing a competitive bidding proposal which would cover 80 percent of the airline trips taken annually by state employees, and is planning to award a one-year contract (presumably to either a travel agency or an airline company) for state travel on these routes in 1984-85.

State Police Billings. In the *Supplemental Report of the 1983 Budget Act*, the Legislature directed the California State Police (CSP) to: (1) reconcile the differences between the space management report used by the CSP to bill state agencies for pro rata police services with information submitted by agencies to the CSP; and (2) report on the effectiveness of mechanisms established to ensure that future assessments of pro rata services are accurate. We have reviewed the CSP's report (dated December 14, 1983), and conclude that the CSP appears to have taken steps to ensure greater accuracy in future assessments of pro rata police services.

Telecommunications Deregulation Plan. The *Supplemental Report of the 1983 Budget Act* required the Department of General Services to prepare for the Legislature a plan to handle workload relating to the deregulation of the telecommunications industry. The department's plan, dated August 17, 1983, addresses various technical and administrative issues associated with the procurement and operation of a statewide telecommunications system. This plan may not be implemented, however,

due to the subsequent enactment of Ch 1327/83, which gave to the Office of Information Technology (in the Department of Finance) the responsibility for state telecommunications policy.

Telecommunications Workload Standards. The *Supplemental Report of the 1983 Budget Act* directed the Department of General Services to develop workload standards for telecommunications technicians who work on radio equipment that are comparable to private industry standards. In a report dated November 17, 1983, the Director of General Services concludes that no formal workload standards exist for radio repair and maintenance in the private sector, and that, therefore, an accurate comparison of technical efficiency between state and private-sector personnel is not possible.

In a September 1983 report entitled *The Department of General Services Can Reduce Radio Communications Costs to State Agencies*, the Auditor General recommended that the department adopt procedures for monitoring the efficiency of its telecommunications technicians. The department has responded to this recommendation by developing a computerized system for evaluating the productivity of technicians who repair radio equipment. This system will be implemented in July 1984. The department will provide a report to the Auditor General in March 1984 on the status of its efforts to develop the productivity evaluation system. We will continue to monitor the department's performance in complying with the Auditor General's recommendations.

THE INSURANCE OF STATE ASSETS

Background

At present, the vast majority of state assets (property, buildings, and equipment) is not insured against loss through the purchase of private insurance coverage. Instead, the state assumes the risk of losses and either "absorbs" any loss in asset values or finances the replacement of these assets using state revenues.

The state's assumption of these risks—*self-insurance*—can take two major forms: (1) the state can assume the risk and make no provision to finance the replacement of "lost" assets, or (2) the state can maintain a funded reserve or self-insurance account, as it now does for motor vehicle-related liability. A funded reserve can provide a convenient source of money for paying claims, and also can be used to allocate premium costs to agencies in a manner which provides monetary incentives for preventing losses. In either case, however, the state itself fully assumes the risk of asset losses.

The budget for 1984-85 provides approximately \$4 million to purchase a variety of commercial insurance policies covering state assets. These funds are distributed among various departmental support items. Existing law requires that the purchase of commercial insurance policies receive prior approval from the Department of General Services. The insurance policies held by state agencies can be divided into two major categories: mandatory and elective.

Mandatory Coverage. Insurance of some state assets is legally required. The requirement may stem from: (1) resolutions governing revenue bond financing of the states' toll bridges, and (2) the terms of a federal grant. An inventory of mandatory insurance coverages currently held by state agencies is provided in Table 8.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 8
Department of General Services
Inventory of Mandatory Insurance Coverages

<i>Insurance Type</i>	<i>Basis for Requirement</i>	<i>Number of Policies</i>	<i>1984-85 Estimated Cost</i>	<i>Claims Paid 1980-81 to 1983-84</i>
Boiler and Machinery	Revenue Bond Resolutions	5	\$66,000	0
Bridges:				
Property Damage	Revenue Bond Resolutions	7	2,384,000	0
Use and Occupancy	Revenue Bond Resolutions	7	520,000	0
Employee Fidelity Bonds	Federal Grant or Regulation	4	19,000	0 ^a
Equipment:				
Data Processing	Terms of Contract or Financing Agreement	4	35,000	500
Movable Items	Terms of Contract or Financing Agreement	2	2,000	0
Fire	Various Legal Agreements	6	154,000	84,000
Public Official Bonds	Various Statutes	43	4,000	0
Miscellaneous	Revenue Bond Resolutions	4	395,000	0
Totals		82	\$3,600,000	\$84,500 ^a

^a A claim of \$118,000 is pending.

Elective Coverage. The state also purchases commercial insurance policies on an elective or discretionary basis. As Table 9 indicates, elective insurance policies, which protect against losses resulting from crimes, fires, floods, and other perils, cover a wide range of state assets. The types of property currently insured by elective coverage include: aircraft hulls, buildings, various equipment, musical instruments, and office contents. Fire insurance policies cover some of the state's largest structures, such as the state printing plant (valued at \$54 million), the residence of the Chancellor of the California State University (\$570,000), and buildings owned by the Public Employees Retirement System (\$158 million), as well as other facilities.

Table 9
Department of General Services
Inventory of Elective Insurance Coverages

<i>Insurance Type</i>	<i>Number of Policies</i>	<i>1984-85 Estimated Cost</i>	<i>Claims Paid 1980-81 to 1983-84</i>
Aircraft Hull	2	\$125,000	\$505,000
Bridge Use and Occupancy	1	26,000	0
Employee Dishonesty:			
Depositor's Forgery	2	600	0
Fidelity Bonds	13	19,000	0
Money and Securities	5	11,000	0
Equipment:			
Data Processing	6	11,000	0
Movable Items	18	25,000	21,000
Fire	19	207,000	378,000
Musical Instruments	11	17,000	14,000
Office Contents	3	800	2,500
Miscellaneous	9	15,000	300
Totals	89	\$457,000	\$921,000

Self-Insuring State Assets Generally is More Cost-Effective

The practice of self-insuring state assets has three principal advantages. First, it is more economical than purchasing private insurance, in that the state does not pay various overhead charges built into private carriers' premiums. For example, by self-insuring the state does not have to bear such costs as: return on investment, taxes, advertising, administrative expenses, and other such indirect costs. In addition, by not making advance payments of premiums to private insurers, the state can earn interest on the temporary investment of its funds.

Second, the practice of self-insurance may result in a more effective allocation of state resources for asset purchases. With private insurance, the payment of a claim resulting from the loss or reduction in value of a state asset (say, a building lost due to fire) usually results in the immediate replacement of that same asset. Under self-insurance, however, replacement of any building that is destroyed would first have to be considered by the Legislature as one of several alternatives (no replacement, replace with a larger or smaller building, lease space, etc.). Even if the Legislature decided to fund the replacement, moreover, it would still be able to assign the replacement project a priority relative to other proposed state investments.

Finally, self-insurance of state assets provides incentives to state employees to avoid and prevent potential losses. State agencies are more likely to safeguard their assets properly when they know that, in the event of a loss, replacement funds will be available only on a priority basis, if at all. With private insurance coverage, the quick replacement of assets may weaken these incentives.

With regard to the first two advantages listed above, it is clear that self-insurance does not *reduce* the probability that asset losses will occur. Self-insurance is simply a more efficient—that is, *cheaper*—method of providing for asset losses in the long run. The third advantage, however, suggests that self-insurance might reduce slightly the probability of losses actually occurring. To the extent this takes place, there would be additional savings (or cost-avoidance) to the state.

The practice of self-insurance has at least one significant drawback. If the state were to experience a particularly large asset loss (for example, the loss of a state hospital due to earthquake damage), especially in a "tight" fiscal year, it might be difficult for the state to replace quickly the lost asset. This would appear, however, to be a problem only in the case of *large* asset losses (such as the loss of an entire building). In such cases, the replacement of the asset can take several years, thereby allowing the state to spread out the replacement costs over a long period of time.

In general, the decision to self-insure or obtain coverage through a commercial insurance policy probably depends on the relationship between the value of an entity's assets and its current income stream. Individuals, for instance, generally insure only those assets which would be difficult to replace with current income. The state, on the other hand, has a huge current income stream (almost \$30 billion in state revenues in 1984-85) compared to the total value of its assets (approximately \$3.6 billion). Thus, it is much easier for the state to "absorb" losses than it is for an entity whose current income-to-asset value ratio is much lower.

DEPARTMENT OF GENERAL SERVICES—Continued**The Legislature's In Good Hands With All-State Self-Insurance**

We recommend that Control Section 7.20 be modified to: (1) reduce the purchase of commercial insurance policies covering the loss of state assets, because such policies do not provide the most cost-effective method of insuring risks in the long run; and (2) direct the Department of Finance to reduce support appropriations to state agencies to delete funds budgeted for commercial insurance premiums (reversion of \$457,000—\$79,000 to the General Fund—to original funding sources).

Existing law does not specifically dictate what method the state must use in insuring its assets. For many years, the state generally has followed the policy of self-insuring. Thus, the commercial insurance policies currently held by state agencies can be considered *exceptions* to the general policy, since most state assets are *not* insured by private coverage.

In recent years, the Legislature has attempted to control the expenditure of funds for private insurance policies. In 1981, the Legislature added Control Section 4.70 to the Budget Act (Section 7.00 in the 1984 Budget Bill), which prohibited the use of funds to purchase discretionary tort liability policies unless the Legislature were first provided with 30-days' notification and a cost-benefit analysis. Section 7.20 of the 1983 Budget Act (and the 1984 Budget Bill) provides for the same review and notification requirement for discretionary commercial insurance policies.

Our analysis indicates that, given the advantages of self-insurance and the state's ability to cover most financial losses, the state should reaffirm its policy of self-insurance and further limit the exceptions to this rule. We conclude that there are only two types of circumstances in which private insurance is appropriate:

- When such coverage is *legally required*; and
- When the performance of a governmental function is contingent upon the availability of commercial insurance coverage. (For example, physicians who contract with the state to perform medical services at certain state hospitals and prisons would not work as independent contractors without insurance coverage. Apparently, these individuals have difficulty obtaining liability protection *unless* the state purchases a group policy on their behalf.)

In order to increase the state's reliance on self-insurance, we recommend that Control Section 7.20 of the Budget Bill be modified to: (1) *prohibit*, with specified exceptions, the purchase of commercial insurance by state agencies, and (2) direct the Department of Finance to recover the funds allocated to state agencies in 1984-85 for the purchase of *elective* commercial insurance policies. Specifically, we recommend that Control Section 7.20 be adopted in an amended form, as follows:

7.20 (a) No funds appropriated by this act may be expended for a commercial insurance policy unless such coverage is either required by law or necessary in order to ensure that a particular state governmental function can be performed. Such a policy may not be purchased without the review and approval of the Department of General Services, and no sooner than 30 days after the Chairman of the Joint Legislative Budget Committee has been notified regarding the necessity of the insurance policy, or no sooner than such lesser time as the Chairman may in each instance determine.

(b) Notwithstanding any other provision of this act, the Department of

Finance shall reduce the appropriations of all state departments by the amounts allotted for the purchase of elective commercial insurance policies, and revert the unallotted amounts to their original funding sources. The Department of Finance shall have the authority to exempt departments from the provisions of this subdivision in cases where the funds appropriated for the purchase of an elective commercial insurance policy have been approved for expenditure under the provisions of subdivision (a) of this section.

We estimate that, if this control section is adopted, the Department of Finance would "unallot" and revert to fund balances approximately \$457,000 in monies already budgeted for elective commercial insurance. Of this amount, \$79,000 would revert to the General Fund. Only a small percentage of this reversion—basically, the amount representing private insurance carriers' overhead costs—could be considered savings to the state, since most of this amount probably would be needed in the future to replace lost asset values.

If funds specifically allocated for insurance premiums are removed from the budgets of state agencies, there would still be four means for financing the replacement of most asset losses: (1) obtain an allocation from the reserve for contingencies or emergencies, (2) enact a deficiency appropriation, (3) secure a Budget Act appropriation, or (4) redirect funds within an agency's existing budget.

State Should Eliminate Existing Requirements for Private Insurance Coverage

We recommend the enactment of legislation eliminating the requirement that public official bonds be purchased. We further recommend that the Legislature adopt supplemental report language directing the department to conduct a specified review of all mandatory insurance policies held by state agencies.

Under existing law, certain elected and appointed officials must post bonds guaranteeing the faithful performance of their duties while in office. This requirement applies to the Clerk of the Supreme Court, several constitutional officers, and the agency secretaries, as well as to various commission members and department directors. The bond protects the state against the embezzlement of public funds or indirect financial losses which might result from the actions of an official whose performance is determined to be unfaithful. The extent of coverage varies in each case, but falls within the range of \$10,000-to-\$100,000 per official. Existing law requires bonds on behalf of 43 public officials, at an annual cost of \$3,900.

Our analysis indicates that these bonds are unnecessary. This appears to be a classic case in which it is more efficient for the state to self-insure against potential losses than to purchase private insurance. Clearly, financial losses resulting from misconduct by public officials are rare. In fact, no claims for benefits have been filed by the state under these policies during at least the last 15 years. For this reason, we recommend that legislation be enacted to eliminate the requirement that these officials be covered by public official bonds.

It is possible that other forms of insurance coverage that currently are required by law either provide few benefits to the state or are not cost-effective. (See Table 8 for a list of mandatory insurance policies.) In order to assist the Legislature in evaluating the need to maintain the various types of insurance coverages that are now mandatory, we recommend that the Legislature adopt the following supplemental report language:

DEPARTMENT OF GENERAL SERVICES—Continued

The Department of General Services shall review the legal basis and policy rationale underlying the purchase of mandatory insurance policies by state agencies. The department's review shall address, but not be limited to, the following issues:

1. The practical necessity of the mandatory insurance coverage;
2. The risks involved in having the state self-insure against the loss of assets covered by mandatory coverage; and
3. The alternatives to purchasing basic liability coverage.

The department shall recommend any changes to existing law regarding mandatory insurance coverage that its review finds to be warranted, and provide a written report to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1984.

OFFICE OF CALIFORNIA STATE POLICE**Contract Security Services Workload is Overbudgeted**

We recommend the deletion of eight positions and \$298,000 to correct for overbudgeting of police contract services.

The State Department of Transportation (Caltrans) is required by a 1973 federal court order to provide security along the Century Freeway corridor in Los Angeles County. In 1982-83, Caltrans obtained this security through separate contracts with five local law enforcement agencies and one private security firm. For 1983-84, Caltrans proposed to contract exclusively with the California State Police (CSP) for security along the corridor, in order to simplify contract administration and reduce the cost of obtaining this service. The Caltrans proposal was approved, and the CSP was authorized to add 11 positions to provide the necessary security services to Caltrans. The department's support budget was increased by \$359,000 in the current year to fund these positions.

According to Caltrans, the CSP currently provides security only along that portion of the corridor located within the City of Los Angeles. The cities of Hawthorne, Inglewood, Lynwood, Southgate, Paramount, Downey, and Norwalk are providing limited security coverage along the remaining portion of the corridor through separate contract arrangements with Caltrans. The current level of service provided by the CSP requires the use of only three positions, at a 1984-85 cost of \$112,000.

Caltrans reports that the existing security arrangement for the Century Freeway corridor—that is, the use of both CSP and local police services—will be continued in 1984-85. The CSP's budget request for 1984-85, however, includes \$410,000 in spending authority for all 11 positions added to the CSP for Century Freeway work during the current year.

In order to correct for this overbudgeting of contract security services workload in 1984-85, we recommend the deletion of eight positions and \$298,000 in the spending authority of the Department of General Services (Item 1760-001-666).

Contingency Budgeting for the Governor's Security

We recommend that \$323,000 in contingency funding for Governor's security be transferred to a new Budget Bill item, in order to provide the department with a financial reserve to accommodate any change in the Governor's housing plans during the budget year.

Compromise

No new point item, but control language on \$323,000.

The California State Police currently provides security services to the Governor at all times on an around-the-clock, seven-day-a-week basis.

As shown in Table 10, the number of CSP positions authorized for the Governor's security has grown sharply since 1982-83. The 1983 Budget Act increased the authorized number of positions on the Governor's residence security staff from eight to twenty-three police officers. This increase was provided on the assumption that the Governor soon would occupy a permanent Sacramento residence and that the existing number of security positions were not sufficient to provide the Governor with the level of security needed.

Table 10
Department of General Services
Authorized Positions for Governor's Security

<i>Security Element</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>
Residence.....	8	23	23
Mobile Detail	14	14	16
Totals.....	22	37	39

The budget for 1984-85 proposes an increase of two positions and \$71,000 from the General Fund for additional security in the Governor's mobile detail. The CSP reports that it is currently understaffed in this area. Apparently, the CSP relies on overtime to provide the necessary state police resources when the Governor is in the Los Angeles area.

Our analysis indicates that there is a need for two additional positions in the Governor's Los Angeles mobile detail. In reviewing the CSP's security request, however, we learned that the state police currently is using only 12 of its 23 authorized positions for residence security because the Governor has not moved into the Carmichael Governor's mansion. Since a plan for housing the Governor has not been formulated, it is not clear that the CSP will need more than 12 positions in the budget year. The budget, however, proposes funding for the 11 vacancies in 1984-85, at a General Fund cost of \$323,000.

In order to maintain legislative oversight of the department's proposed expenditures, while at the same time providing the department with adequate flexibility to meet the Governor's future security needs, we recommend that the contingency funding for the Governor's security be transferred from Item 1760-001-001 to a new Budget Bill item. Specifically, this item (for example, Item 1760-031-001) would authorize the Controller to transfer \$323,000 from the General Fund to the DGS if the Governor's security needs increase in the budget year as a result of his moving to a permanent Sacramento residence. We further recommend that the following Budget Bill language accompany this item:

No funds may be expended under this appropriation item until the State Controller has been notified by the Department of Finance, verifying that the funds provided in this item are necessary in order to provide additional residential security for the Governor.

Museum Security Contract Requires Spending Authority Increase

We withhold recommendation on \$795,000 in spending authority for state police contract services, based on unresolved concerns regarding the need for these services by the client agency.

DEPARTMENT OF GENERAL SERVICES—Continued

The Museum of Science and Industry proposes to contract with the California State Police in 1984-85 for 21 police officers and 1 clerical assistant in order to obtain police and security services for the museum's facilities. The budget requests an increase of \$795,000 in the spending authority of the Department of General Services so that the CSP can provide these contractual services to the museum.

In our analysis of the museum's budget (Item 1100), we describe in detail the museum's proposed security reorganization. Our analysis raises several concerns about various aspects of the security arrangement. To resolve these concerns, the museum needs to provide further supporting documentation for its proposal. Pending receipt of this information, we withhold recommendation on the proposed changes in museum security personnel and the proposed CSP contract.

The department's request for additional spending authority to provide police and security services to the museum conforms to the museum's request for contract funds. Accordingly, we withhold recommendation on the \$795,000 in spending authority requested for state police contract services.

OFFICE OF PROCUREMENT**Funding Request for Program Transfer Is Premature**

We recommend the deletion of \$2,491,000 and 55.7 positions requested for a surplus property program that the budget proposes to transfer to the DGS from the Department of Education, since legislation authorizing the transfer has not been enacted. We also recommend a corresponding restoration of funds and positions in Item 6100-001-630, and the adoption of Budget Bill language in that item making the funding transfer contingent upon the enactment of legislation authorizing a change in program authority.

Since 1946, the State Department of Education (SDE) has been responsible for the administration of the state's surplus property program. Under this program, the SDE processes and distributes federally donated hardware and food commodities to eligible public and private nonprofit agencies. The program is entirely self-supporting, as processing and handling charges are assessed to the local agencies which receive the surplus properties.

The budget proposes to shift the *hardware* portion of the surplus property program from the SDE to the Office of Procurement in the Department of General Services. This transfer would necessitate the addition of 55.7 positions to the DGS and an augmentation of \$2,491,000 to the Surplus Personal Property Revolving Fund (to be created). The SDE has proposed corresponding expenditure and position reductions in its 1984-85 support budget.

The proposed transfer of the hardware portion of the surplus property program cannot be accomplished without a statutory change. Senate Bill 1362 (Stiern), introduced in January 1984, would authorize the transfer of the program, and create the Surplus Personal Property Revolving Fund. However, if passed, SB 1362 (in its current form) would not take effect until January 1, 1985.

Until legislation is enacted to change the administration of the surplus property program, it is not necessary to budget funds and add new positions in the DGS. Moreover, the department would need only half-year

funding in 1984-85 if legislative authorization to transfer the program did not take effect until January 1, 1985.

Accordingly, we recommend the deletion of \$2,491,000 and 55.7 positions in the department's budget (elimination of Item 1760-001-688). In our discussion of the support budget of the SDE (Item 6100-001-680), we recommend (1) a corresponding restoration of funds and positions for the surplus hardware program, and (2) the addition of Budget Bill language to transfer funding for the program on the effective date of any legislation authorizing a change in program authority.

OFFICE OF TELECOMMUNICATIONS

Proposed Facility Relocation Is Not Adequately Justified

We recommend the deletion of \$384,000 in operating expenses for a proposed facility relocation, because the request is not adequately justified.

The department proposes to augment the operating expenses of the Office of Telecommunication (OT) by \$384,000 to allow the office to consolidate and expand its Sacramento facilities in 1984-85. Overcrowded conditions in existing facilities, as well as management and efficiency problems associated with multiple office locations, are cited by the department as the reasons for the proposed consolidation.

The OT plans to lease a facility of 92,286 square feet, consisting of 33,194 square feet of office space and 59,092 of laboratory and storage area, at an estimated cost of \$706,000 in 1984-85. In addition, the office would incur a one-time relocation cost of \$143,000, bringing the total request for 1984-85 to \$849,000 (from the Service Revolving Fund).

The functions proposed for relocation currently are housed in four buildings (57,750 square feet), at an annual cost of \$305,000. The department proposes to fund the *additional* costs of its budget-year request (\$544,000) by: (1) redirecting \$160,000 within its base budget, and (2) securing a \$384,000 augmentation in its support budget.

The Benefits of Consolidation Are Questionable. The Office of Telecommunications is housed principally in three buildings in Sacramento which are in close proximity to each other. (The office also leases 6,370 square feet of storage space in a warehouse several miles away.) Given the proximity of the existing facilities, the benefits to be gained by consolidating the space in one building are not evident. If the problem is overcrowding, it may be possible to solve it at less cost since additional space is available for lease at the existing locations. If, on the other hand, the problem is one of distance between the three existing facilities, it may be possible to overcome it partially by relocating the Sacramento area radio repair shop. The repair shop, which is located in space at the office's headquarters, has no direct tie to the headquarter's operations and could be relocated elsewhere in the Sacramento area to release space for use by the central office.

Use of Existing Space May Be Inefficient. In September 1983, the Auditor General issued a report entitled *The Department of General Services Can Reduce Radio Communication Costs to State Agencies*. The report indicates that the Office of Telecommunications is not providing radio services to state agencies at the lowest possible cost. Two factors identified by the Auditor General as contributing to the office's excessive costs are delays in designing and installing new equipment and delays in repairing existing installations. The report cites the following reasons for

DEPARTMENT OF GENERAL SERVICES—Continued

delays in radio service:

- *The office lacks a project control system to track and expedite projects.* With such a system in place, project delays could be anticipated and sometimes avoided.
- *Inadequacies exist in the engineering section of the office.* The lack of sufficient engineering standards, lack of a training program for new engineers, and inefficient organization of engineers result in more time than necessary being spent on the design and planning phases of a project.
- *Office technicians take longer to repair certain types of radio equipment than do technicians employed by the private sector.* Spending excessive time on equipment repairs reduces the number of total repairs which can be accomplished and also contributes to delays in the installation of new equipment.

It is possible that the department's response to the Auditor General's recommendations could reduce the space needs of the office. For example, a large portion (34,040 square feet) of the department's request is for storage space. By eliminating or reducing the delays in installation projects, the department could reduce overall storage space requirements by reducing the amount of equipment in the warehouse at any one time.

Based on our on-site review of the office's existing space, it appears that some areas are crowded, and consequently, some degree of expansion may be warranted. For the reasons given above, however, we conclude that the proposed relocation has not been justified adequately. Accordingly, we recommend the deletion of \$384,000 in the department's budget for operating expenses (Item 1760-001-666).

Purchase of Microwave Radio Equipment Is Premature

We recommend a reduction of \$696,000 in the department's spending authority, because the proposed purchase of certain microwave radio equipment is premature.

The budget proposes an increase of \$696,000 in the department's spending authority so that the Office of Telecommunications can purchase certain microwave radio equipment on behalf of the California Highway Patrol (CHP).

In this *Analysis* (Item 2720-001-044), we review the telecommunications program of the CHP, which includes an analysis of the installation costs associated with CHP's Golden Gate Consolidation project. Since the Golden Gate facility is not planned for operation until 1986-87, the request to purchase microwave radio equipment for operational use at this site is premature. Thus, consistent with our recommendation on the CHP's equipment request, we recommend a corresponding reduction of \$696,000 to Item 1760-001-666.

ADMINISTRATION

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

EMERGENCY TELEPHONE NUMBERS—LOCAL ASSISTANCE

Under the so called "911"/Emergency Telephone Number program, the Department of General Services reimburses local public agencies for the costs they incur in implementing emergency telephone number systems.

The budget proposes augmentations to the local assistance item of \$11.3 million in the current year (paid from the reserve for contingencies and emergencies) and \$9.7 million in the budget year. As a result, total expenditures for emergency telephone systems are proposed at \$32.1 million in 1983-84 and \$31.7 million in 1984-85—more than triple the amount spent in 1982-83 (\$10.0 million).

Background

In 1972, the Legislature enacted a plan calling for a statewide emergency telephone system. This system would allow a person to dial "911" anywhere in the state and be connected to an emergency services network of police, fire, and medical organizations. Under the program, each local government sets up its own system and applies to the state for reimbursement of its expenses. The state pays for the costs of the initial system installation, as well as for ongoing telephone service and staff expenses associated with it.

The costs of these systems are funded through the State Emergency Telephone Number Account of the General Fund, which derives its revenues from a surcharge on all intrastate telephone billings. The surcharge may range from 0.5 percent to 0.75 percent; it is currently set at 0.5 percent. The Board of Equalization sets the surcharge rate, and the Office of Telecommunications administers the program.

Financial Status of the Emergency Telephone Number Account

During the early years of the system, a surplus built up in the account because surcharge revenues far exceeded reimbursements claimed by local governments. This is because only a few systems were in operation and eligible for reimbursement.

According to the 1984-85 budget document, the balance in the account will be \$2.2 million as of June 30, 1984, and -\$1.7 million as of June 30, 1985. The department reports that the projected budget-year deficit in the account reflects two factors. First, local assistance expenditures for these systems are projected to increase significantly in both the current and budget years, as many emergency telephone systems are now being installed to meet a state-imposed December 1985 implementation deadline. Second, account reserves were severely depleted by Ch 10x/83, which authorized the transfer of \$48.8 million to the General Fund in 1982-83. The projected 1984-85 deficit may not materialize, however, since recently approved telephone rate increases probably will enhance the revenue flow to the emergency telephone number account.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY

Items 1760-301 and 1760-311
from the General Fund, Special
Account for Capital Out-
lay

Budget p. SCS 113

Requested 1984-85	\$22,466,000
Recommended approval	3,541,000
Recommended reduction	17,351,000
Recommendation pending	1,574,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Transfer to the General Fund. Recommend that net savings of \$17,351,000 resulting from our recommendations on Items 1760-301-036 and 1760-311-036 be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide. 250
2. *High-Rise Fire and Life Safety. Reduce Item 1760-301-036(3) by \$75,000.* Recommend reduction because the cost for work performed by the Office of State Architect (OSA), in excess of what the Legislature approved, has already been paid and reimbursement of the OSA should not be necessary. 250
3. *HVAC System—Justice Building. Reduce Item 1760-301-036(5) by \$283,000.* Recommend deletion because funds for this project will not be required in the budget year. 251
4. *Sacramento Garage. Reduce Item 1760-301-036(7) by \$540,000.* Recommend deletion because the department has not justified the ongoing need for additional parking spaces and other alternatives to the project are available. 251
5. *Site 4. Reduce Item 1760-301-036(8) by \$1,823,000.* Recommend reduction because (1) additional planning funds above the amounts previously approved by the Legislature have not been justified, and (2) given the status of preliminary plans, working drawing funds will not be required in the budget year. 253
6. *Site 1D. Reduce Item 1760-301-036(9) by \$11,574,000.* Recommend reduction because (1) additional planning funds above the amounts previously approved by the Legislature have not been justified, and (2) given the status of preliminary plans, working drawing and construction funds will not be required in the budget year. 253
7. *Site 5. Reduce Item 1760-301-036(10) by \$644,000.* Recommend reduction because (1) additional planning funds above the amounts previously approved by the Legislature have not been justified, and (2) given the status of preliminary plans, working drawing funds will not be required in the budget year. 253

8. Prior appropriations for Sites 4, 1D, & 5. Recommend the Legislature adopt Budget Bill language which would revert unspent funds remaining from prior appropriations related to Sites 4, 1D, and 5. 255
9. **Elevator Modifications. Reduce Item 1760-301-036(4) by \$79,000.** Recommend deletion because additional planning is not needed in order to bring elevators into compliance with existing codes, and the corrective work needs to be expedited. 256
10. **PCB Equipment Replacement. Reduce Item 1760-311-036 by \$2,333,000.** Recommend deletion of funds for replacement of PCB transformers in mechanical rooms because the project is not required to comply with EPA regulations. Withhold recommendation on remaining \$1,574,000 requested for replacement of PCB transformers in food and feed areas, pending receipt of information on the location of these transformers. 257
11. **Statewide Space Planning.** Recommend that planning funds be listed separately for each affected building in order to provide accounting and cost control for individual projects. 260

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$22,466,000 from the General Fund, Special Account for Capital Outlay, for ten major capital outlay projects and three minor projects for the Department of General Services. Table 1 summarizes the administration's proposal and our recommendations.

Table 1
Department of General Services
1984-85 Capital Outlay Program
(in thousands)

<i>Project</i>	<i>Location</i>	<i>Phase^a</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recommendation</i>	<i>Future^b Cost</i>
Fire and Life Safety Modifications	Sacramento	c	\$2,831	\$2,756 ^c	—
HVAC System—Justice Building	Sacramento	pwc	283	11 \neq p	—
Parking garage	Sacramento	pw	540	—	\$10,107
Site 4	Sacramento	pw	2,049	226	44,939
Site 1D	Sacramento	pwc	11,661	87	—
Site 5	Sacramento	pw	760	116	15,907
San Francisco Backfill	San Francisco	p	171 190	100 171 p	3,808
Elevator Modifications	Statewide	p	79	7 \neq p	unknown
Replacement of PCB contaminated equipment	Statewide	pwc	3,907	pending	—
Minor Projects	Sacramento	pwc	59	59	—
Space Planning	—	p	107	107	—
Totals			\$22,466	pending	\$74,761

^a Phase symbols indicate: p = preliminary plans, w = working drawings, c = construction.

^b Department estimate.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued**Transfer to the General Fund**

We recommend that the net savings resulting from our recommendations on Items 1760-301-036 and 1760-311-036—\$17,351,000—be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend net reductions amounting to \$17,351,000 in the Department of General Services' capital outlay proposal. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tidelands oil revenues in the Special Account for Capital Outlay where it would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. We recommend that any savings resulting from approval of our recommendations be transferred to the General Fund in order that the Legislature may have additional flexibility in meeting these needs.

High-Rise Fire and Life Safety

We recommend that Item 1760-301-036 (3) be reduced by ~~\$75,000~~ ^{\$74,500} because the cost for work already performed by the Office of State Architect (OSA), in excess of what the Legislature approved, has been paid and reimbursement of the OSA should not be necessary.

The budget includes \$2,831,000 under Item 1760-301-036 (3) for fire and life safety modifications to three high-rise state office buildings. Specifically, the budget proposes to bring the Employment Development Department building and office buildings 8 and 9 into compliance with the State Building Code.

The 1981 Budget Act included \$110,223 to develop working drawings for these projects. According to the Office of State Architect (OSA), the working drawings are completed for each project. The OSA indicates, however, that the office spent \$185,223, rather than the authorized amount—\$110,223. This is \$75,000, or 68 percent, more than the amount appropriated for working drawings by the Legislature. The department's request for 1984-85 includes \$75,000 to reimburse the OSA for this overexpenditure.

It is not clear what authority the OSA has to spend funds in excess of the amount appropriated. To our knowledge, neither the State Public Works Board nor the Department of Finance authorized additional funds for these working drawings. Moreover, it would appear that neither entity is able to authorize the expenditure of additional funds for this purpose since control section 8.00 of the 1981 Budget Act limits augmentation of capital outlay appropriations to *construction* costs.

Consequently, we recommend that prior to budget hearings, the department advise the Legislature (1) how this overexpenditure occurred, and (2) what procedural changes will be made to ensure that overexpenditures will not happen in the future. In any case, since the excess cost apparently has already been paid from resources available to the department, we see no need to reimburse the OSA for these excess costs. We therefore recommend that Item 1760-301-036 (3) be reduced by \$75,000.

Accordingly, we recommend that the Legislature amend the Budget Bill as follows:

EDD Building, Sacramento	1284,000	
OB 8, Sacramento	\$1,310,000	
OB 9, Sacramento	\$667,000	682,000
	\$779,000	
	791,000	

HVAC System—Justice Building

We recommend that Item 1760-301-036 (5) be ^{reduced by \$272,000} deleted because the work proposed for funding is premature, for a savings of \$283,000.

The budget includes \$283,000 under Item 1760-301-036 (5) for preliminary plans, working drawings and construction to provide a central gas boiler heating plant system for the new Justice Building in Sacramento.

The existing space heating system for the Department of Justice facility is based on heat recovery from three refrigeration chillers. At present, one chiller is operated twenty-four hours to maintain computer center requirements for cooling. Information submitted by the department indicates that the Department of Justice is now planning to replace its computers with newer generation models which are more efficient and will not require as much cooling. Consequently, the refrigeration chiller which provides cooling for the computer center will not be operated at full capacity, and there will not be enough heat to provide an adequate environment for employees working in the building. The HVAC system requested in the budget would replace the heat lost as a result of the computer replacement program.

Department of Justice officials indicate that the five computers which will eventually be replaced are currently leased. The lease contract for two computers runs through June, 1986. The other three are leased through June, 1988.

Because these computers will not be replaced before 1986, this request is premature. Accordingly, we recommend that the funds proposed for the HVAC system be deleted from the 1984-85 budget. When the department replaces these computers, a request for a supplemental heating system may be appropriate. Any such request however, should be accompanied by a complete engineering evaluation of the existing system.

Sacramento Garage

\$281,000

We recommend deletion of Item 1760-301-036 (7), \$540,000 for preliminary plans and working drawings, because the department has not justified the need for constructing a new state garage in Sacramento.

The budget includes \$540,000 under Item 1760-301-036 (7) to prepare preliminary plans and working drawings for the proposed construction of a multi-story parking garage in Sacramento. The garage would provide approximately 800 spaces for automobiles, space for bicycle parking and 10,000 gross square feet of office space on the ground floor. The garage would be located on the west half of the block bounded by 11th, 12th, P and Q streets. Estimated future cost for construction of the proposed garage is \$10,107,000. ^{\$5,577,000}

The department maintains that four considerations underscore the need for an additional state parking garage at this time: (1) there has been an increase of 6,000 in the number of state employees working in the capital core area since 1977; (2) the city of Sacramento has instituted a residential parking permit program in the capitol area and cancelled monthly parking permits in city facilities in order to accommodate more short-term parking; (3) there has been an increase in the number of visitors to the capitol area; and, (4) surface parking areas have been

Recommend we fund Pre. Plans for \$11,000

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

converted to unspecified uses.

Need For Additional Parking Not Substantiated. The Capitol Area Plan adopted by the Legislature in 1977 is the official master plan for the development and use of state-owned land in downtown Sacramento. The Department of General Services has the responsibility for overseeing implementation of the plan and reporting on the progress of its development.

Included in the Capitol Area Plan are a number of policies which guide the development of transportation programs and facilities to serve the capitol area, including a policy to provide parking spaces for future projected demand *as needed*. The information submitted in support of the proposed Sacramento garage, however, fails to address a number of issues raised in the Capitol Area Plan which directly affect the *need* for additional parking.

For example, one policy contained in the plan is to "significantly reduce the number of automobiles driven into and parked in the capitol area by developing a coordinated program of incentives and actions to encourage state employees to use other than single-occupant automobiles for trips into the capitol area."

The November 1982 Capitol Area Plan Progress Report indicated that a number of steps had been taken to implement this policy. It also indicated, however, that additional efforts were needed in order to continue the shift away from a reliance on single-occupant vehicles. The Progress Report recommended that the state aggressively market transit, car-pool, van-pool and bicycling as commuting alternatives to state employees as means of continuing the implementation of this policy. The material provided in support of the need for a new state garage fails to take account of these efforts.

In addition, the department has not indicated how other aspects of the Capitol Area Plan will affect the need for a new parking garage. For example, the department has not addressed the impact of future light rail development on projected transit ridership. Furthermore, the Plan proposes a number of methods for preventing parking shortages as alternatives to the construction of new parking spaces, such as promoting ridesharing and oversubscription/restriping of existing parking facilities.

Finally, the department has not documented its claim that the demand for parking has increased. While the department claims that 6,000 additional employees have been brought into the core area since 1977, it has not presented information on how many additional automobiles are driven into the core area as a result of this increase, or how much of the resulting growth in automobile traffic has been absorbed by new parking facilities constructed since 1977. Nor has the department provided data regarding the number of tourists traveling to state facilities in the core area, the extent to which this affects the demand for parking, or how the addition of a state employee parking garage will alleviate this potential problem.

Other Alternatives Available. In proposing the construction of a multi-story parking garage, the department indicates that it has considered other options for addressing parking problems in the capitol area. One of these options is to develop additional peripheral parking spaces in the areas surrounding the core area. The development of peripheral parking is one of the goals of the Capitol Area Plan. The department indicates that a total of 1,580 peripheral spaces are currently available, and the 1982

Capitol Area Plan Progress Report estimated up to 4,935 spaces could be made available by the year 2000. In addition, the 1982 Sacramento Facilities Plan indicated that *existing* peripheral lots were underutilized (currently 75 percent of capacity). The department should indicate what steps are being taken to increase the use of existing peripheral lots before requesting state funding for a new parking garage. The department also claims that the development of additional peripheral lots is not desirable because of the high operating costs associated with shuttle and security services for such lots. The department, however, has provided no information to support this contention.

We recognize that the construction of additional parking garages is envisioned by the master plan for development of the capitol area. Before the significant cost of constructing additional garages is incurred, however, we believe the department should adequately address the *need* for a new parking garage at the present time, and other important aspects of the transportation element included in the Capitol Area Plan. In the absence of information substantiating an on-going need for the additional spaces, we recommend that the \$540,000 included under this item for a new parking garage be deleted.

New Office Building Construction—Sacramento

We recommend that Items 1760-301-036 (8), (9) and (10) be reduced by \$1,823,000, \$11,574,000, \$644,000 respectively, because (1) additional funds for preliminary plans have not been justified, and (2) working drawing and construction funds will not be required in the budget year.

The budget includes a total of \$14,470,000 under Items 1760-301-036 to fund (1) preliminary plans and working drawings for two state office buildings, and (2) preliminary plans, working drawings and construction of one other state office building—all in Sacramento.

In past analyses, we have recommended the construction of state-owned space to house state employees, in lieu of continuing to lease space for these employees, because it is more cost-effective. In Sacramento alone, the state currently is leasing 4.4 million square feet, at an annual cost of \$29 million. The cost per square foot of leased space has increased 12 percent in the past year. The proposed office building projects, and our recommendations on each, are discussed below.

Site 4. The department has requested \$2,049,000 under Item 1760-301-036(8) for preliminary plans and working drawings for a 391,935 gross square foot state office building in Sacramento. The proposed location of the building would be on the block bound by 16th, 17th, "L" Street and Capitol Avenue. The future cost of this building is estimated at \$47,373,536, which includes a construction cost of \$44,939,300. The proposal anticipates costs of \$115 per square foot, which exceeds costs previously approved by the Legislature for office buildings (\$105). The department should design this building to stay within this cost. The proposed tenant for the new building is the Board of Equalization.

Preliminary planning funds (\$581,000) for this project were provided in the 1979 Budget Act. The department indicates that \$355,000 of the appropriated funds have been spent to develop the planning documents. According to the department, the unspent funds have reverted and are no longer available. In addition, \$1.4 million was appropriated in the Budget Act of 1982 for the preparation of preliminary plans and working drawings for Site 4. According to the department, these funds were never expended and were reverted.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

The department is now requesting \$830,000 to complete work on the preliminary plans. Thus, the department now anticipates that the total cost of preparing preliminary plans for this building will be \$1,185,000, or 104 percent more than the amount originally appropriated by the Legislature.

Site 1D. The department has requested a total of \$11,661,000 (Item 1760-301-036 (9)) for preliminary plans, working drawings and construction for a 92,000 gross square foot state office building in Sacramento. The proposed location of the building would be on 10th Street, between "O" and "P" Streets. The budget document states that the proposed tenant is the Department of Finance. According to Office of State Architect (OSA) estimates, \$11,661,000 is required just to cover the cost of construction. Consequently, the amount included in the budget is not sufficient to fund all three project stages. In addition, the estimated construction cost—\$115 per square foot—exceeds the costs previously approved by the Legislature for office buildings of this type (\$105). The department should design this building to stay within the previously approved cost per square foot.

Preliminary planning funds (\$235,000) for this project were appropriated in the 1979 Budget Act. The department indicates that \$148,000 of these funds have been spent, and the balance has reverted. The department's request includes \$209,000 to complete work on the preliminary plans. This would bring the total cost for preliminary plans to \$444,000, 55 percent more than the amount originally appropriated by the Legislature.

Site 5. The budget also includes \$760,000 (Item 1760-301-036 (10)) for preliminary plans and working drawings for a 124,398 gross square foot office building in Sacramento. The proposed location of this building would be at the southeast corner of 9th and N Streets. The proposed tenant is the Air Resources Board. Future cost for construction of the building is estimated at \$15,907,600. This represents \$115 per square foot—more than the amount approved by the Legislature for office buildings of this type. Here again, the department should design the building to stay within the \$105-per-square-foot legislative guideline.

A total of \$287,000 was appropriated for preliminary plans for Site 5 in the 1979 Budget Act. The department indicates that \$171,000 of this amount has been spent, and the balance has reverted. The department is requesting \$317,000 to complete work on the preliminary plans. Thus, the total cost for preliminary plans would be \$488,000, 70 percent more than the amount originally appropriated by the Legislature.

Increased Cost For Preliminary Planning Not Justified

In the Budget Act of 1979, the Legislature appropriated funds for the preparation of preliminary plans for each of these buildings. The Legislature intended for these buildings to be designed as general office buildings with open-office space for maximum flexibility to meet changes in occupant space.

We know of no reason why the amounts previously appropriated together with funds available under Item 1760-301-036 (2) for space planning, are not adequate to complete the preliminary plans for these three projects.

We understand that the department is considering changing the proposed occupants for Site 5 to include the courts. If such a change in tenants for Site 5 is proposed by the department and approved by the Legislature, modifications of the building design may be required because

of the unique space needs of the courts. Under these circumstances, additional planning funds might be needed.

In the absence of a proposal to change the nature of these three projects, we recommend that the Legislature appropriate only enough planning funds to replace the amount reverted from the prior appropriations. This would require an appropriation of \$226,000 for Site 4, \$87,000 for Site 1D and \$116,000 for Site 5.

Working Drawing/Construction Funds Are Premature. Preliminary plans have not been completed for these projects. Consequently, the design of, and a firm cost estimate for, each building are not available for legislative review. Consequently, the Legislature does not have adequate information on which to base an appropriation for working drawings and construction. Accordingly, we recommend that working drawing and construction funds be deferred until the preliminary plans and cost estimates are complete, permitting a reduction in Items 1760-301-036 (8), (9) and (10) of \$1,823,000, \$11,574,000, and \$644,000 respectively. The amounts remaining in these items should provide the department with sufficient funds to complete the preliminary planning phase of these projects.

Availability of Prior Funding Uncertain

We recommend that the Legislature add Item 1760-495 to the Budget Bill in order to revert funds previously appropriated for planning office buildings in Sacramento.

The department has indicated that unspent planning/working drawing funds previously appropriated for office buildings on Sites 1D, 4 and 5, have reverted and are no longer available. The State Controller's staff, however, indicates that the unspent funds have *not* reverted. To ensure that any funds remaining from the 1979 and 1982 appropriations are reverted and thus made available to the Legislature for appropriation to meet other higher priority needs, we recommend that the Legislature revert these funds. Specifically, we recommend adoption of the following budget language:

Item 1760-495 Reversion, Department of General Services. Notwithstanding any other provision of law, as of June 30, 1984, the undisbursed balance in excess of any unliquidated encumbrances and any such balance on deposit in the Architecture Revolving Fund for the appropriations provided in the following citations shall revert to the unappropriated surplus of the fund from which the appropriation was made:

001-General Fund

- (1) Item 446 (b) Budget Act of 1979—Preliminary Plans, new state building Site 1D, Sacramento
- (2) Item 446 (d) Budget Act of 1979—Preliminary Plans, new state building, Site 4, Sacramento
- (3) Item 446 (e) Budget Act of 1979—Preliminary Plans, new state building, Site 5, Sacramento

036-Special Account for Capital Outlay

- (1) Item 1760-301-036(b) Budget Act of 1982—Preliminary plans and working drawings.

San Francisco Backfill

\$171,000

We recommend approval of Item 1760-301-036 (6), \$190,000 to develop preliminary plans for alterations of the San Francisco State office building.

The budget includes \$190,000 under Item 1760-301-036 (6) for the devel-

\$171,000

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

opment of preliminary plans to renovate office space in the existing San Francisco State Office Building. The future cost for working drawings (\$206,000) and construction (\$3,602,000) is estimated at \$3.8 million. This represents a cost of \$30 per square foot of office space, a reasonable amount for an alteration project of this nature.

Construction of the new San Francisco State Office Building began in September 1983 and is scheduled for completion in early 1986. The tenant for the new building is the Public Utilities Commission which presently occupies 118,000 square feet of space in the existing San Francisco State Building.

The department is proposing to backfill this 118,000 square feet of space by allowing existing tenants to expand their space allotment and by relocating a number of agencies that presently are occupying leased space. Funds proposed in the budget year would be used to prepare preliminary plans for altering the existing space to accommodate the new tenants. Table 2 identifies those agencies proposed to fill the vacated space.

Table 2
Existing San Francisco State Office Building
Potential Tenants that will Backfill Space Being Vacated
by the Public Utilities Commission

Agency	Approximate Square Footage	Current Location	Current Annual Rental	Lease Expiration
Dept. of Corporations	12,571	1390 Market	\$162,717	12-31-85
Attorney General	16,013	2720 Taylor	139,890	6-30-85
Dept. of Insurance	25,290	100 Van Ness	245,819	9-30-85
Dept. of Insurance	990	30 Van Ness	14,993	11-30-86
Dept. of Real Estate	12,789	185 Verry	135,052	3-31-86
Dept. of Savings and Loans	10,000	350 Sansome	104,170	10-31-88
Coastal Commission	17,382	631 Howard	305,784	12-31-87
Dept. of Conservation	8,500	Ferry Building	66,300	6-30-83
Secretary of State	780	350 McAllister	6,365	n/a
Subtotal	104,315		\$1,181,090 ^a	
Courts Expansion	14,000	13,650		
Total	118,315			

^a This represents a current average rental rate of 94¢ per square foot. It is estimated that by the summer of 1986, the average rental rate for comparable space in the Civic Center will approximate \$2.30 per square foot. This estimate is based upon a current average rental rate of \$2.00, adjusted 5 percent annually for inflation.

The department indicates that moving the agencies listed in Table 2 from leased space to state owned space could save the state up to \$1 million annually in rental costs. Our analysis indicates that this project is cost-effective, and we recommend approval.

Elevator Modifications

We recommend deletion of Item 1760-301-036 (4), a reduction of \$79,000, because additional planning for these projects will delay correction of life safety deficiencies. Further, we recommend that the department expedite completion of the project.

The budget proposes \$79,000 under Item 1760-301-036 (4) for planning activities related to a project intended to modify elevators in office build-

\$72,000
rec'd. fund \$7,000 for Pre. Plan for 7 elevators

ings statewide so that these elevators comply with California Administrative Code requirements relating to earthquake safety. At the present time, these elevators are out of compliance with the code. Under existing law, the Department of Industrial Relations, Division of Occupational Safety and Health can order that they be brought up to code.

The Budget Acts in 1981 and 1982 included a total of \$62,000 for preliminary plans and working drawings to modify 96 elevators in 21 state office buildings for seismic safety. The money included in this year's budget would be used to prepare additional plans for this project. Specifically, the department is planning to add six elevators to the project, and to conduct survey work to determine the extent of any handicap access deficiencies and the need for electrical improvements or general modernization in the elevator cabs.

7 The additional work proposed by the department may be desirable even though it is not required to correct life safety deficiencies. The Legislature has provided funding for this project because of the critical nature of the seismic safety deficiencies in these elevators. Any change in the scope of the projects, however, will further delay their completion. This would seem to run counter to legislative intent.

Accordingly, we recommend that the funds included in this item be deleted and that the department proceed with completion of the project as originally approved by the Legislature. If, in the future, the department conducts a survey and determines other deficiencies in these elevators, a request for funding to provide additional modifications may be warranted at that time.

Replacement of PCB-Contaminated Equipment

We recommend that Item 1760-311-036 be reduced \$2,333,000 because the department has not justified the need to replace PCB transformers located in mechanical rooms. Further, we withhold recommendation on \$1,574,000 requested to remove PCB transformers in food and feed areas, pending receipt of additional information from the department and a cost estimate from the state architect.

Item 1760-311-036 proposes \$3,907,000 from the Special Account for Capital Outlay to replace 67 electrical transformers containing PCB fluids which, according to the department, present an exposure threat to food or feed areas, or are located in proximity to building ventilation systems and thus pose a hazard in the event of a fire or internal faults.

Background. PCB's are insulating liquids which have been used primarily in electrical transformers and capacitors as a dielectric fluid. The PCB substances have been found to be highly toxic, and can seriously harm the health of human beings if certain concentrations are ingested over a period of time. Consequently the use, storage, and disposal of the PCB substances are strictly controlled by regulations administered by the Environmental Protection Agency (EPA) of the federal government. No health hazard exists when the electrical equipment encasements are tightly sealed. The problems arise from PCB substances leaking from the encasements.

The Legislature appropriated \$3,647,000 in the 1981 Budget Act to replace all leaking, hazardous or PCB-contaminated equipment which had been identified in a study prepared by a private consultant under contract to the Office of the State Architect (OSA). The department spent \$501,000 in 1981-82 to replace PCB-contaminated equipment which the department felt posed a risk to food or feed products, and to begin planning for

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

the replacement of other leaking or hazardous installations. Expenditure of the remaining funds (\$3,146,000) was deferred, and the funds later were reverted.

The Legislature provided \$3,147,000 in 1982-83 to complete the work originally proposed for 1981-82. Specifically, funds were provided to replace leaking or hazardous transformers in non-food handling areas, and to store the old transformers in temporary facilities constructed especially for that purpose.

In 1983-84, the Legislature appropriated \$1,806,000 for the sampling, disposal and replacement of PCB-contaminated equipment. The department indicates that this work will be fully completed by November 1984.

The funds requested in the budget year would be used to replace and dispose of an additional 67 transformers containing PCB's. None of these transformers are presently leaking.

PCB Transformers in Mechanical Rooms. The department proposes \$2,333,000 to replace 37 transformers containing PCB fluids which are located in mechanical equipment/switchgear rooms in close proximity to building ventilation systems. The department indicates that because of their proximity to ventilation systems, these transformers pose a potential hazard. According to the department, in the event of a fire or an internal fault in the transformer, PCB vapors and gases could be dispersed to occupied areas.

The transformers that the department proposes to replace originally were identified in the 1981 PCB study. At that time, these transformers were reported to be in good condition, were not leaking and posed no recognized hazard under EPA regulations. The department has not indicated that the condition of these transformers has deteriorated since that time. Rather, it is proposing to replace the transformers because a fire or internal fault in the transformer might cause PCB fluids to be released into the building through the ventilation system. In essence, the department's proposal seeks to guard against the possibility that (1) a major fire breaks out at one of these locations or that a transformer fails internally causing a combustible explosion, (2) the fire involves the mechanical room, (3) the fire or an explosion damages the transformer to the extent that PCB's are released into the air, and (4) the contaminated air is circulated throughout the building.

We recognize the serious threat that PCB contamination poses to the public, and have been supportive of the department's program to minimize this threat. Nevertheless, we recommend that funds for this project be deleted because the need for the replacement of these transformers has not been adequately established. Our analysis indicates that:

- EPA regulations do not require that these transformers be replaced,
- Current fire safety building codes require automatic shutdown of ventilation systems in the event of a fire, minimizing the risk that PCB fluids could be released into occupied areas should a fire occur,
- The EPA requires regular inspection and maintenance of PCB transformers in order to reduce further the risk of PCB transformer leaks, spills or equipment failure.
- The department's proposal fails to take account of the heat-resistive properties of PCB's and the unlikely probability that a fire would incapacitate the mechanical system, preventing automatic shutdown of the ventilation system.

If, in the future, the EPA determines that action is needed to guard against the type of calamity that the department's proposal addresses, the department should submit to the Legislature a proposal for mitigation measures, based on EPA requirements. Absent such a determination by the EPA, however, we recommend deletion of the \$2,333,000 for replacement of transformers in mechanical rooms.

PCB Transformers in Food and Feed Areas. The department proposes to replace a total of 30 electrical transformers containing PCBs that are located in close proximity to food and feed areas, at an estimated cost of \$1,574,000. EPA regulations require that, prior to October 1, 1985, all PCB items posing an exposure risk to food and feed areas must be removed regardless of the item's condition. The EPA regulations however, specifically require removal "only when there exists a potential pathway for PCBs discharged from the item to contaminate food or feed products."

The department has submitted a list of 30 transformers that it proposes to replace. These transformers originally were identified in the PCB survey administered by the Office of the State Architect and completed in May 1981. While the department has indicated *generally* where the transformers are located, it has provided no information demonstrating that because of each transformer's specific location, there exists a potential pathway for PCBs to contaminate food and feed areas.

The need to remove those transformers which pose an exposure risk to food and feed areas is unquestioned. Before this request is approved, however, the department needs to provide additional information describing the location of each transformer, and showing how the location creates a potential pathway for PCBs to contaminate food and feed areas. Pending receipt of this additional information, we withhold recommendation on \$1,574,000 contained in Item 1760-311-036.

Minor Capital Outlay

We recommend approval of Item 1760-301-036(1).

The budget includes \$59,000 for three minor capital outlay projects for the Department of General Services. These projects are summarized in Table 3.

Table 3
Department of General Services
Minor Capital Outlay Projects
1984-85
(in thousands)

Project	Budget Bill Amount	Analyst's Recommendation
Women's Locker and Restrooms—State Garage	\$12	\$12
Handicap Ramp—State Garage	12	12
Replace Loading Dock—San Francisco	35	35
	\$59	\$59

Our analysis indicates that these projects are justified and we recommend that they be approved.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued**Statewide Space Planning**

We recommend approval of Item 1760-301-036 (2). We further recommend that the planning funds for individual buildings be listed separately in the Budget Bill.

The budget includes \$107,000 under Item 1760-301-036 (2) to provide space planning funds for four projects. Table 4 shows those projects proposed for space planning funds in the budget year.

In order to provide an accounting and cost control for amounts spent on each project, we recommend that the planning funds for each building be listed separately in the Budget Bill, as shown in Table 4.

Table 4
Space Planning Projects 1984-85
Department of General Services
(in thousands)

<i>Project</i>	<i>Amount Requested</i>
Site 4.....	\$56
Site 5.....	17
Site 10.....	14
San Francisco Backfill	20
Total	\$107

If funding for preliminary plans for these projects is approved, as we recommend, space planning work for these facilities should begin at this time. Accordingly, we recommend approval of the amount requested. The Legislature took similar action in the 1983 Budget Act.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

Projects by Descriptive Category

To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which our analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.

7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The fire and life safety modifications fall under category one, and Sites 4, 5, 1D and the San Francisco Backfill project fall under category six. The three minor projects (\$59,000) and space planning activities fall under category seven.

State and Consumer Services Agency STATE PERSONNEL BOARD

Item 1880 from the General
Fund and the Cooperative
Personnel Services Revolving
Fund

Budget p. SCS 115

Requested 1984-85	\$22,897,000
Estimated 1983-84	22,295,000
Actual 1982-83	21,074,000
Requested increase (excluding amount for salary increases) \$602,000 (+2.7 percent)	
Total recommended reduction	238,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1880-001-001—Support		General	\$21,730,000
1880-001-667—Services to local governments		Cooperative Personnel Services Revolving	1,167,000
Total			\$22,897,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Operating Expenses. Reduce Item 1880-001-001 by \$8,000 and Item 1880-001-677 by \$46,000.* Recommend deletion of funding for overbudgeted or unjustified operating expenses. 264
2. *Reorganization of State Personnel Management.* Recommend that the Department of Finance report prior to budget hearings on the proposed reorganization of the state's personnel management function, as well as on the personnel, funding, and activities to be transferred from the State Personnel Board to the Department of Personnel Administration. 265
3. *Decentralized Employee Selection Program.* Recommend that the Department of Finance report prior to 265

STATE PERSONNEL BOARD—Continued

budget hearings on: (1) whether any portion of the \$297,000 deleted from the 1983 Budget Act was allocated to participating departments, and (2) the total resources to be allocated to departments for decentralized testing in 1984-85.

4. "Working-Out-of-Class" Claims by State Employees. 267
Recommend that the board report prior to budget hearings on its efforts to reduce the number of employees who must perform duties outside their job classification, and provide recommendations at the hearings on how departments can reduce the amount of "out-of-class" work.
5. *Electronic Recording at Appeals Hearing. Reduce Item 1880-001-001 by \$168,000.* 269
Recommend the deletion of 2.8 hearing reporter positions and related consulting services (for a savings of \$172,000), and recommend the purchase of three electronic recording devices (at a cost of \$4,000), for a net General Fund savings of \$168,000.
6. *Savings from Staff Reductions. Reduce Item 1880-001-677 by \$16,000 and reimbursements by \$10,000.* 271
Recommend reduction to correct for underestimated savings associated with eliminating certain positions in the local government services program.

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body consisting of five members appointed by the Governor for 10 year terms. The board has authority under the State Constitution and various statutes to adopt state civil service rules and regulations.

An executive officer, appointed by the board, is responsible for administering the merit aspects of the state civil service system. (The Department of Personnel Administration (DPA), which was established effective May 1, 1981, is responsible for managing the nonmerit aspects of the state's personnel systems). The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health, and civil defense employees, to ensure compliance with federal requirements.

Pursuant to the Welfare Reform Act of 1971, the board staff administers the Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments.

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

The board has 521.6 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$26,412,000 from the General Fund, Cooperative Personnel Services Revolving Fund, and reimbursements for support of the SPB in 1984-85. This is \$609,000, or 2.4 percent, more than estimated total expenditures for the current year. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

Board expenditures, exclusive of reimbursements, are proposed at \$22,-

897,000, which is \$602,000, or 2.7 percent, above estimated current-year expenditures. The General Fund portion of this request is \$21,730,000, which is \$634,000, or 3.0 percent, above the current-year level.

Table 1 summarizes expenditures and personnel-years for each of the board's programs for the three-year period ending June 30, 1985. As the table shows, the budget proposes to reduce SPB personnel-years in 1984-85 by 3.9 percent from the current year level.

Table 1
State Personnel Board
Budget Summary
1982-83 through 1984-85
(dollars in thousands)

Program	Actual 1982-83	Estimated 1983-84	Proposed 1984-85	Changes	
				Amount	Percent
Merit System Administration.....	\$20,162	\$21,304	\$21,737	\$433	2.0%
Appeals	1,808	1,968	2,167	199	10.1
Local Government Services.....	1,760	2,451	2,394	-57	-2.3
Administrative Services.....	3,560	3,855	3,879	24	0.6
Distributed to other programs	-3,560	-3,775	-3,765	10	0.3
Undistributed	—	(80)	(114)	(34)	(42.5)
Total Expenditures.....	\$23,730	\$25,803	\$26,412	\$609	2.4%
<i>Funding</i>					
General Fund.....	\$20,422	\$21,096	\$21,730	\$634	3.0%
Reimbursements	\$2,656	\$3,508	\$3,515	\$7	0.2
Cooperative Personnel Services Revolving Fund	\$652	\$1,199	\$1,167	-\$32	-2.7
Personnel-years	501.4	493.6	489.7	-3.9	-0.8%

Table 2
State Personnel Board
Proposed Budget Changes
1984-85
(in thousands)

	General Fund	Cooperative Personnel Services Revolving Fund	Reimbursements	Total
1983-84 Revised Budget	\$21,096	\$1,199	\$3,508	\$25,803
<i>Baseline Adjustments</i>				
Personal Services	357	-48	-3	306
Operating Expenses.....	112	16	43	171
COD salaries	190	—	—	190
<i>Workload Changes</i>				
Reductions in Administrative Services and Local Government Services Programs.....	-25	—	-33	-58
Subtotals, Proposed Changes.....	(\$634)	(-\$32)	(\$7)	(\$609)
1984-85 Proposed Budget	\$21,730	\$1,167	\$3,515	\$26,412

STATE PERSONNEL BOARD—Continued**Budget Year Changes**

The workload, cost and other changes proposed for the budget year are displayed in Table 2. The budgeted increase in expenditures is primarily attributable to (1) salary increases for SPB employees and COD program trainees and (2) the effects of inflation on the operating expenses incurred by the board.

Staffing Changes

The board's budget proposes a number of staff changes in recognition of workload redirections and workload reductions. The changes are as follows:

- Reduction of 7.8 positions and \$314,000 in the merit system administration program, to be redirected to the appeals program;
- Reduction of 1.5 positions and \$30,000 in the administrative services program, to be redirected to the appeals program;
- Reduction of \$25,000 in temporary help from the administrative services program; and
- Reduction of 17.9 positions and \$460,000 in the local government services program, due to reduced demand for personnel-related services.

ANALYSIS AND RECOMMENDATIONS**General Issues****Operating Expenses Are Overbudgeted**

We recommend a reduction of \$54,000 (\$8,000 General Fund in Item 1880-001-001, and \$46,000 in Item 1880-001-677) because operating expenses are overbudgeted or lack sufficient justification.

Our analysis of the board's Supplementary Schedule of Operating Expenses (Schedule 11) indicates that SPB has overbudgeted for legal services and pro rata charges.

Consulting Legal Services: Department of Justice. The board is requesting \$12,000 for Department of Justice legal services to the Office of Information Practices. Our analysis indicates that for the past three years, the board, on the average, made annual payments of \$3,800 to the Department of Justice for such legal services. On this basis, we believe that \$4,000 should be adequate to meet the board's need for legal services in this area. Accordingly, we recommend a deletion of \$8,000 budgeted for legal services.

Pro rata Charges. SPB's budget includes \$46,000 for pro rata charges. The Department of Finance, however, indicates that this amount has been adjusted so that there will be *no* billing to the Cooperative Personnel Services Revolving Fund (Item 1880-001-677) for the budget year. The adjustment was made to correct for overcharging of pro rata in prior years. In order to reflect this adjustment in SPB's 1984-85 budget, we recommend a \$46,000 reduction.

Further Reorganization of State Personnel Management Proposed

We have been advised by staff of the SPB and the Department of Personnel Administration (DPA) that both agencies have agreed to a proposed reorganization of the state's personnel management function which will become effective in 1984-85. Under the Governor's Reorganization Plan of 1981, DPA was established to manage the following *nonmerit* aspects of the state's personnel system: (1) salary administration, (2)

Recommend approval
mj

administration of working hours and related matters, (3) training, (4) performance evaluation, and (5) layoff and grievance administration. The SPB was to continue administering the *merit* aspects of the state civil service system.

It is our understanding that under the new reorganization, the DPA would also assume responsibility for the day-to-day functions in the administration of the state's classification plan. Specifically, the DPA would:

- Perform the analysis of classification proposals to be submitted to the SPB,
- Establish allocation standards and allocate positions to classes established by the SPB,
- Audit departments for compliance with the classification plan,
- Authorize payment for work performed by employees outside their present classifications, and
- Handle employee appeals involving out-of-class work.

The proposed reorganization would not affect the SPB's role in merit selection, affirmative action, adjudication of merit appeals, discipline, discrimination complaints, and local government services.

Budget Does Not Reflect the Proposed Reorganization

We recommend that the Department of Finance report to the Legislature prior to budget hearings on the status of the proposed reorganization of the state's personnel management function, as well as on the personnel, funding and activities to be transferred from the board to the Department of Personnel Administration.

The amounts proposed for SPB and DPA in the 1984-85 budget do not reflect any of the changes that would result from the reorganization plan. This is because at the time the budget was prepared, the specific details of the plan had not been worked out. If the administration proposes to make the reorganization effective for any part of the budget year, the Legislature must be informed of the impact that the reorganization would have on the SPB and DPA budgets. Accordingly, we recommend that the Department of Finance report to the Legislature prior to budget hearings on the status of the reorganization plan and, if the plan is to be implemented in 1984-85, on the personnel, funding and functions to be transferred from the SPB to the DPA.

Merit System Administration Program

The merit system administration program is responsible for (1) maintaining the classification plan; (2) recruiting, selecting and placing qualified candidates in state jobs; (3) developing and adopting personnel management policy; (4) administering the state's affirmative action program; and (5) developing employment opportunities for disadvantaged persons under the Career Opportunities Development (COD) program.

Allocation of Resources to Departments in 1984-85 for Decentralized Selection Is Uncertain

We recommend that the board and the Department of Finance report to the fiscal committees prior to budget hearings on: (1) whether any portion of the \$297,000 deleted from the 1983 Budget Act was allocated to participating departments and (2) the amounts to be allocated to departments for decentralized testing in 1984-85.

In 1981, the SPB initiated on a pilot basis a decentralized employee

STATE PERSONNEL BOARD—Continued

selection program. Under decentralized selection, the line agency—rather than SPB—administers the entire civil service selection process. When a department is selected for participation in the program and successfully completes a probationary period, it can then be allocated the examining resources previously budgeted for SPB.

During the first two years of the program (1982 and 1983), the board identified \$158,000 of its resources which were available to be reallocated to 10 departments participating in the program.

In the *Supplemental Report of the 1983 Budget Act*, the Legislature directed the board to report on the departments to be phased into a decentralized selection program in future years. In response, the SPB has proposed to fully implement the decentralized selection program by 1986-87.

In signing the 1983 Budget Act, the Governor reduced funding for the merit system administration program by an additional \$297,000 and eight positions to reflect the reduced workload associated with decentralized selection. There was no provision, however, for these resources to be allocated to those departments that took over the selection function from SPB.

During the current year the board has selected the following seven agencies to participate in the program in 1984-85: State Controller's Office, Department of Corporations, Department of Justice, Office of State-wide Health Planning and Development, Department of Real Estate, Department of Veterans Affairs, and Department of Transportation. The board, however, has not indicated what resources, if any, are to be allocated to these agencies in 1984-85 if the agencies successfully complete their probationary period.

In order to facilitate legislative review of the costs and benefits associated with the decentralized selection program, we recommend that prior to budget hearings, the SPB and the Department of Finance indicate (1) whether any portion of the \$297,000 deleted from the 1983 Budget Act was allocated to participating departments, and (2) the amounts to be reallocated to participating departments in 1984-85.

Status Report on SPB Departmental Personnel Audit Program

The SPB began conducting personnel audits in 1978 as a result of recommendations made by the Auditor General. The SPB schedules audits so that each state department is reviewed every five to six years, and gives priority to those departments which are likely to have the greatest number of personnel problems.

The SPB performs primarily the following two types of personnel audits:

- *Classification audits*, to review the use of positions in a department; and
- *Delegated functions audits*, to examine the personnel management functions which have been delegated from the SPB to individual departments.

Generally, the classification audits have the greater potential for achieving personnel savings in departmental budgets. Once the reports are issued, SPB staff follows-up on each report to ensure that all corrective actions are implemented.

In its July 1983 annual report, the board reported that by the end of December 1982, a total of 21 classification audits had been issued, covering

approximately 34,081 civil service positions. The board estimated that implementation of six audit recommendations conducted during calendar year 1982 could result in savings of up to \$944,000, with the savings depending on whether departments reallocated positions or restructured duties to support current classifications.

Given the potential for savings offered by classification audits, we asked the board to report on the status of the corrective actions taken by the departments in response to those audits completed since the beginning of the program. According to information supplied by the board, as of September 30, 1983:

- 269 of 337 (80 percent) general corrective actions had been accomplished, and
- 1,020 of 1,415 (72 percent) individual position misallocations had been corrected.

We will continue to monitor the corrective actions taken by departments and advise the fiscal committees of any major problems in implementing audit recommendations.

Further Efforts Are Needed to Reduce "Out-of-Class" Work

We recommend that the board (1) report to the fiscal committees prior to budget hearings on its efforts to reduce the number of employees who must perform duties outside their job classification, and (2) provide recommendations at the hearings on how departments can reduce the amount of "out-of-class" work.

Current law restricts departments from requiring employees to work "out-of-class." Specifically, Government Code Section 19255 provides that employees shall not be required to perform duties outside of their job classification except under specified conditions. The Legislature reaffirmed this policy in Control Section 3.05 of the 1983 Budget Act by prohibiting departments from maintaining an employee in an "out-of-class" position for more than 90 days or, for those employees on a promotional list, more than 180 days.

Existing law gives the SPB the authority to authorize payment to employees claiming reimbursement for performing out-of-class duties. As noted above, a reorganization plan to be proposed by the administration would transfer the responsibility for processing "out-of-class" claims from the SPB to the DPA.

We asked the SPB to provide information on the annual cost to departments of paying employees for performing duties outside the scope of their job classification. Table 3 summarizes the claims expenditures for the past three years, as reported to us by the board. As the table shows, the average claim payment during the past three years has been in the \$1,100-to-\$1,500 range.

Table 3
State Personnel Board
Claims for Working-Out-of-Class

<i>Calendar Year</i>	<i>Number of Claims</i>	<i>Total Amount of Claims</i>	<i>Average Claim</i>
1981 ^a	87	\$124,335	\$1,429
1982	296	328,118	1,109
1983	195	278,293	1,427

^a In May 1981, SPB assumed from the Board of Control responsibility for authorizing payment of working-out-of-class claims.

STATE PERSONNEL BOARD—Continued

In light of the Legislature's interest in minimizing out-of-class work and the potential it offers for reducing state costs, we recommend that the board (1) report to the fiscal committees prior to budget hearings on the board's efforts to reduce the number of employees who must perform duties outside their job classification and (2) provide recommendations at the hearings on how departments can reduce the amount of "out-of-class" work.

Career Opportunities Development Program

The purpose of the Career Opportunities Development (COD) program is to increase job opportunities in the public sector for (1) current and potential welfare recipients and (2) disabled persons. The State Personnel Board administers the program in cooperation with the Employment Development Department (EDD) and the Department of Rehabilitation (DOR). The SPB negotiates, administers, and monitors contracts with state agencies providing training to program participants. The board reimburses the contracting agencies for trainees' salaries (80 percent for welfare recipients and 90 percent for disabled persons). The agencies are expected to employ the participants in permanent state jobs, once their training is completed.

The EDD identifies and refers welfare applicants and recipients to employment and training opportunities created by the board. It also develops, negotiates, and monitors employment and training opportunities in local governments and community based organizations. The DOR identifies and refers disabled clients for training and placement in state or local jobs.

Table 4
Career Opportunities Development Program
Expenditures by Revenue Source and Program Component
1982-83 through 1984-85
(in thousands)

Programs	Actual 1982-83	Estimated 1983-84	Proposed 1984-85	1983-84 to 1984-85 Change	
				Amount	Percent
General Fund					
Salaries for welfare recipients	\$4,320	\$4,794	\$5,004	\$210	4.4%
Match for vocational rehabilitation federal funds	1,066	1,687	1,687	—	—
Agency coordinators	274	—	—	—	—
Administration	263	219	205	-14	-6.4
Subtotals, General Fund	(\$5,923)	(\$6,700)	(\$6,896)	(\$196)	(2.9%)
Reimbursements^a					
Salaries for the disabled	\$1,066	\$1,687	\$1,687	—	—
Administration of the disabled unit at SPB	155	91	93	\$2	2.2%
Subtotals, Reimbursements	(\$1,221)	(\$1,778)	(\$1,780)	(\$2)	(0.1%)
Total, Revenues and Expenditures	\$7,144	\$8,478	\$8,676	\$198	2.3%

^a Through an interagency agreement, SPB transfers an amount from the General Fund to DOR, which applies this amount towards the required state match for federal vocational rehabilitation funds. The DOR, in turn, provides SPB with (1) an amount equal to the amount transferred to pay salaries for the disabled trainees and (2) additional funds to administer a unit for the disabled in SPB.

The budget proposes expenditures totaling \$8,676,000 from the General Fund and reimbursements for support of the COD program in 1984-85. This is an increase of \$198,000, or 2.3 percent, over estimated current-year expenditures. Table 4 details proposed expenditures, by program component and revenue source.

Interagency agreements with EDD and DOR increase by \$1.3 million the amount of funds available for trainees' salaries beyond what is reflected in SPB's budget, as follows: (1) \$1 million in federal Work Incentive (WIN) program funds is included in EDD's 1984-85 budget to pay for a portion of welfare trainees' salaries and (2) \$320,000 in federal vocational rehabilitation funds (matched by \$80,000 from COD) is included in DOR's budget for salaries for the disabled in local governments. Therefore, the total program budget for COD in 1984-85 is \$9,698,000, of which \$6,004,000 will be used for salaries paid to welfare recipients and \$3,694,000 is for disabled trainees.

Appeals Program

The Appeals Program involves investigating and making recommendations relative to appeals filed with the SPB regarding examinations, discriminatory actions, grievances, and related areas.

Expand the Use of Electronic Recording at Appeals Hearings

We recommend deletion of 2.8 hearing reporter positions and related consulting services (a reduction of \$172,000), and the purchase of three electronic recording devices (an augmentation of \$4,000) in order to provide for the recording of SPB appeals hearings in a more efficient manner, for a net General Fund savings of \$168,000 (Item 1880-001-001).

The State Personnel Board conducts hearings whenever state employees appeal departmental actions or decisions involving punitive or disciplinary action against the employee. Currently, the board uses hearing reporters to record those hearings involving dismissals and rejections during an employee's probationary period. In all other cases—such as hearings involving reprimands, demotions, suspensions and reductions in salary, the board uses electronic taping devices to record the proceedings. The board feels that the use of hearing reporters for the more severe disciplinary cases provides a "more official" record of the hearing.

Our review of various studies comparing the use of hearing reporters to the use of electronic recording devices indicates that these devices offer a means for recording the proceedings that is substantially cheaper and *no less effective* than the use of reporters. For example:

- A 1977 study conducted by the Department of General Services (DGS) concluded that the use of electronic recording devices by the Office of Administrative Hearings (OAH) could result in potential savings of at least 46 percent of the cost of using hearing reporters. The DGS also found that the quality of transcripts prepared using electronically reported hearings equaled or exceeded the quality of transcripts prepared by stenographic reporters. In addition, these electronically reported transcripts have been accepted by the courts.
- In its 1981 Report to the Governor and the Legislature, OAH further emphasized the merits of using alternative means of hearing recording and transcriptions.

STATE PERSONNEL BOARD—Continued

- Another study conducted by the Auditor General of California in February 1982 found that the Workers' Compensation Appeals Board (WCAB) could save approximately \$1 million annually by using electronic recording devices to record hearings.

Our analysis also indicates that other state agencies, such as the Public Employment Relations Board, rely solely on electronic recording for adjudicatory hearings and are completely satisfied with the process.

Table 5 shows the full costs associated with the use of hearing reporters. As the table indicates, the total annual cost of a hearing reporter position is more than \$49,000, resulting in an annual cost to the SPB for 2.8 positions of \$138,000. In lieu of using hearing reporters, the board could purchase three four-track recording devices, at an approximate one-time cost of \$4,000.

Table 5
State Personnel Board
Average Cost of A Hearing Reporter Position

Salaries and Staff Benefits	\$40,297
Operating Expenses.....	4,414
Overhead	4,569
Total.....	\$49,280

Given the favorable experience with electronic recording devices reported by other state agencies and the high marks given these devices by the OAH, and the Auditor General, we do not see the need to use hearing reporters in the more severe disciplinary cases. We conclude that the board can rely solely on the use of electronic recording at appeals hearings without in any way jeopardizing the rights of those participating in these hearings. Accordingly, we recommend the elimination of 2.8 hearing reporter positions and related consulting services, for a savings of \$172,000. We further recommend that in lieu of using reporters, the board purchase three electronic recording devices, at an approximate cost of \$4,000. This will result in a net General Fund savings of \$168,000 (Item 1880-001-001).

Local Government Services Program

The Local Government Services Program consists of two interrelated elements: (1) Merit Systems Service (MSS) and (2) Cooperative Personnel Service (CPS). Under the MSS program, the SPB approves or operates merit systems for a number of local government jurisdictions. This program operates on a fully reimbursable basis.

Under the CPS program, the board provides recruitment, selection and other technical personnel services to local government agencies. All program costs, are financed on a reimbursement basis by local agencies. All reimbursements are paid into the Cooperative Personnel Services Revolving Fund (Item 1880-001-677).

Department's Staff-Reduction Proposal Underestimates Salaries and Benefits

We recommend a reduction of \$26,000 (\$16,000 in Item 1880-001-677 and \$10,000 in reimbursements) to correct for underestimated savings associated with the elimination of certain positions.

The budget proposes the elimination of 17.9 positions and \$460,000 in the local government services division. In determining the amount of salaries that would no longer be paid as a result of eliminating these positions, the board used the "old" salary rates in effect prior to January 1, 1984. Our analysis indicates that as a result, the actual reduction in salaries is understated in the budget by \$19,560. In addition, the appropriate reduction in staff benefits is also understated, resulting in the board's personal services being overbudgeted by \$26,000. We therefore recommend a deletion of this amount.

Administrative Services Program

The Administrative Services Program consists of executive management and central support services, including accounting, budgeting, mail and duplicating services. Program costs are distributed among the board's three line programs.

As was mentioned earlier, the budget proposes a reduction of \$25,000 in temporary help and a redirection to the appeals program of 1.5 positions and \$30,000. Our analysis indicates that these proposed reductions are justified due to decreased workload.

**State and Consumer Services Agency
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Item 1900 from the General
Fund, Public Employees'
Retirement Fund, and other
funds

Budget p. SCS 122

Requested 1984-85	\$28,828,000
Estimated 1983-84	28,057,000
Actual 1982-83	29,678,000
Requested increase (excluding amount for salary increases) \$771,000 (2.7 percent)	
Total recommended reduction	30,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1900-001-001—Social Security Administration		General	\$55,000
1900-001-815—Retirement Administration		Judges' Retirement	189,000
1900-001-820—Retirement Administration		Legislators' Retirement	146,000
1900-001-830—Retirement Administration		Public Employees' Retirement	25,827,000
1900-001-950—Health Benefit Administration		Public Employees' Contingency Reserve	2,548,000
1900-001-962—Retirement Administration		Volunteer Firefighters' Length of Service Award	63,000
Total			\$28,828,000

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis
page

1. *Out-of-State Travel. Reduce Item 1900-001-830 by \$30,000.* 276
Recommend deletion to correct for overbudgeting.
2. *Contingency Reserve. Recommend that legislation be enacted providing for legislative review and approval of contribution rates assessed state agencies for the Public Employees' Contingency Reserve Fund (PECRF).* 278
3. *Recapture of Funds Budgeted for Reserve. Recommend reduction of approximately \$12.2 million from various funds (approximately \$7.3 million General Fund and \$4.9 million from all other funds). Recommend that the Legislature amend the Budget Bill to include a control section authorizing the Department of Finance to recapture monies already budgeted for payments to the PECRF in 1984-85.* 279

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and related benefit programs that will serve an estimated 831,000 active and retired public employees in 1984-85. The participants in these programs include state constitutional officers, members of the Legislature, judges, state employees, most nonteaching school employees and other California public employees whose employers elect to contract for the benefits available through the system.

PERS also administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program (Social Security), which is now mandatory for state employees and is available to those local public workers whose employers elect such coverage.

Table 1 shows the PERS contribution rates for retirement benefits paid by the employer and employee-members during 1983-84.

Table 1
Public Employees' Retirement System
Contribution Rates in 1983-84
(percent of salary)

		Employees			
		In Social Security		Not in Social Security	
		Monthly Salary Threshold	Rate on Salary over Threshold	Monthly Salary Threshold	Rate on Salary over Threshold
PERS Membership	Employers				
State Miscellaneous	18.262%	\$513	5.0 %	\$317	6.0%
State Industrial	18.884	513	5.0	317	6.0
State Safety	20.615	— ^a	— ^a	317	6.0
Highway Patrol	24.306	— ^a	— ^a	863	8.0
Local Nonteaching School Employees	12.378	133	7.0	0	7.0
Local Contracting Agency Employees	Various ^b	Various ^b		Various ^b	

^a Members generally not in Social Security.

^b Varies, depending on the membership classification of the employees and benefit-provisions of the contract with PERS.

The system administers a number of alternative retirement plans, through which the state and contracting agencies provide their employees with a variety of benefits. The costs of these benefits are paid from employer and employee contributions equal to specified percentages of each participating employee's salary. These contributions are designed to fund the long-term, actuarial cost of the various benefits provided. For state employees and nonteaching local school employees, the contribution rates are determined by state law, and are adjusted whenever a statutory change is made in the benefits. For contracting local agencies, the employer and employee rates are determined by PERS actuaries, based on the cost of the particular benefit package approved by the respective governing bodies of these agencies.

The health benefits program offers state employees, and other public employees, a number of basic and major medical plans on a premium-sharing basis.

The PERS is managed by a Board of Administration, the members of which are either elected by specified membership groups or appointed. Effective October 1983, Chapter 5 of the 1983-84 First Extraordinary Session (SB 13x) increased the board's membership from 11 to 13 by adding the Director of the Department of Personnel Administration and another elected member representing the PERS membership-at-large. In addition, Chapter 5 replaced the Director of Finance and the bank official

Table 2
Public Employees' Retirement System
Budget Requirements and Funding Sources
1982-83 through 1984-85
(dollars in millions)

Program	Personnel-Years			Expenditures		
	Actual 1982-83	Estimated 1983-84	Proposed 1984-85	Actual 1982-83	Estimated 1983-84	Proposed 1984-85
Retirement.....	587.2	628.1	612.6	\$22.7	\$24.7	\$25.6
Social Security.....	16.3	17.2	17.1	0.5	0.6	0.6
Health Benefits.....	53.3	51.3	50.9	2.2	2.4	2.5
Redesign Projects.....	11.6	14.0	13.6	0.5	1.1	0.9
Administration:						
Distributed to other programs	(217.7)	(236.3)	(229.2)	(12.3)	(13.1)	(13.6)
Undistributed	14.3	14.2	13.0	0.7	0.7	0.7
Legislative Mandates.....	—	—	—	4.6	(8.2) ^a	(8.2) ^a
Totals	682.7	724.8	707.2	\$31.2	\$29.5	\$30.3
Reimbursements.....	—	—	—	-1.5	-1.5	-1.5
Net Totals.....	682.7	724.8	707.2	\$29.7	\$28.0	\$28.8
Funding Source						
General Fund				\$4.7	\$0.2	\$0.1
Public Employees' Retirement Fund				22.7	25.2	25.8
Public Employees' Contingency Reserve Fund				2.2	2.5	2.5
Legislators' Retirement Fund				0.1	0.1	0.1
Judges' Retirement				— ^b	— ^b	0.2 ^b
Volunteer Firefighters' Length of Service Award Fund				—	0.05	0.1

^a Beginning in 1983-84, these expenditures are budgeted under Item 9680.

^b In the past and current years, administrative expenses for the Judges' Retirement System were funded by the General Fund appropriation for this item. Beginning in 1984-85, these expenses are to be appropriated from the Judges' Retirement Fund, per Ch 639/83 (AB 1826).

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

appointee with the State Controller and the State Treasurer. Also, effective January 1, 1984, the act replaces the Governor-appointed public representative on the board with a member appointed jointly by the Speaker of the Assembly and the Senate Rules Committee.

In 1983-84, the PERS staff consists of 707 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total net expenditures of \$28,828,000 from various funds to support the PERS in 1984-85. This is \$771,000, or 2.7 percent, more than the estimated current-year expenditures. The increase will grow by the cost of any salary or staff benefit increase that may be approved for 1984-85. Table 2 summarizes the budget requirements and funding sources for the PERS in the past, current and budget years.

Table 3
Public Employees' Retirement System
Proposed 1984-85 Budget Changes

	<i>Expenditures (in thousands)</i>		
	<i>General Fund</i>	<i>Nongovernment Cost Funds^a</i>	<i>Totals</i>
1983-84 Revised Budget	\$187	\$27,870	\$28,057
<i>Baseline Adjustments</i>			
Deletion of One-Time Funds for Management Study	—	-500	-500
Salary Adjustments	—	401	401
Operating Costs	—	111	111
Judges' Retirement System Administration	-132 ^b	—	-132 ^b
<i>Workload Changes</i>			
Retirement Program	—	197	197
Administration Program	—	43	43
Consolidated Data Center	—	413	413
<i>Program Changes</i>			
Actuarial Valuations	—	105	105
Printing	—	70	70
Board Member Election	—	63	63
1984-85 Proposed Budget	\$55	\$28,773	\$28,828
Change from 1983-84:			
Amount	-\$132	\$903	\$771
Percent	-70.6%	3.2%	2.7%

^a Includes the Public Employees' Retirement Fund, the Public Employees' Contingency Reserve Fund, Legislators' and Judges' Retirement Funds, as well as the Volunteer Firefighters' Length of Service Award Fund.

^b This is the amount included in the 1983-84 General Fund appropriation for administration of the Judges' Retirement System. In the budget year, these administrative costs are financed from the Judges' Retirement Fund, as required by Ch 639/83 (AB 1826).

Budget-Year Changes

Table 3 summarizes the major changes in the PERS budget proposed for 1984-85. The major *baseline adjustment* is the elimination of \$500,000 provided on a one-time basis in the current year to pay for a special management study. This reduction is offset by increases for merit salaries and operating expenses. The major *workload changes* are a \$413,000 increase to fund greater usage of the Teale Data Center and a \$197,000 increase (10 positions) to handle the projected growth in the workload of the retirement and administration programs. The major *program change* is a \$105,000 increase for actuarial valuations of the Legislators', Judges', and Volunteer Firefighters' Retirement Systems (as required by law).

Membership and Benefit Payments

Table 4 shows the actual and projected growth in PERS membership and the amount of benefits paid, for the past, current and budget years. The table indicates that the number of PERS benefit recipients is growing at a faster rate than the number of active members. This is probably the result of (1) the slowdown in the rate at which public employment is growing and (2) the trend toward earlier retirement. An increase in the number of benefit recipients creates a proportionately greater increase in the PERS workload than an increase in the active membership.

Table 4
Public Employees' Retirement System
Membership and Benefits
(in thousands)

Detail	Actual 1982-83	Estimated 1983-84	Percent Increase	Projected 1984-85	Percent Change
Active Members.....	529	542	2%	540	-0.4%
Benefit Recipients.....	261	275	5	291	5
Total Participants	790	817	3%	831	1%
Total Benefits Paid	\$1,166,000	\$1,274,000	9%	\$1,410,000	10%

ANALYSIS AND RECOMMENDATIONS

Management Study Under Way

In our 1983-84 *Analysis* (pp. 250-252), we examined the adequacy of the services provided by the PERS to its members. Our analysis indicated that significant workload backlogs existed, which were indicative of a deteriorating level of service to members, particularly in the Benefits and Membership Divisions. Accordingly, we recommended that the PERS and the Department of Finance undertake a management review of the system.

In response, the Legislature appropriated \$500,000 from the Public Employees' Retirement Fund to finance an in-depth review by a private consultant of the program, organizational, managerial and staffing needs of the PERS. Following a competitive bidding process, the PERS in November 1983 hired a private management firm to conduct the review. The Legislature is to receive a preliminary report on the results of the review by March 1, 1984, and a final report 9 months later on November 1, 1984.

The proposed budget for the PERS in 1984-85 provides only for cost changes and the workload increases resulting from legislative or judicial mandates. The administration has deferred decisions on other workload-related requests by the PERS pending the outcome of the management review.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**Fundings for Out-of-State Travel Overbudgeted**

We recommend a reduction of \$30,000 from the Public Employees' Retirement Fund (Item 1900-001-830) to correct for overbudgeting of out-of-state travel.

The budget proposes \$90,000 for out-of-state travel by the Board of Administration and staff of the PERS during 1984-85. This is \$8,000, or 9.7 percent, more than *estimated* current-year expenditures for this purpose, and \$63,000, or 233 percent, more than the \$27,000 in *actual* expenditures for out-of-state travel during 1982-83.

Our analysis indicates that the PERS has consistently overbudgeted for interstate travel in recent years. This is demonstrated by the data in Table 5.

Table 5
Public Employees' Retirement System
Funding for Out-of-State Travel
1979-80 through 1982-83
(dollars in thousands)

	1979-80	1980-81	1981-82	1982-83
Amount Budgeted	\$41	\$44	\$56	\$65
Amount Spent	23	32	23	27
Unexpended Balance	\$18	\$12	\$33	\$38
Amount Spent as a Percent of Amount Budgeted	56%	73%	41%	42%

For the current year, the PERS budgeted \$87,000 for trips outside California. As of December 31, 1983, it had spent about \$30,000 of this amount.

Our analysis of information provided by the PERS indicates that in past years, the full amount budgeted for out-of-state travel was not spent because the PERS staff did not have the time to take all of the budgeted out-of-state trips due to workload demands. The unspent funds budgeted for travel were either redirected to cover underbudgeting in other areas, or reverted to the Public Employees' Retirement Fund.

In recent years, the PERS has been budgeting for out-of-state travel based on the amounts *budgeted* for the past year, rather than on *actual* expenditures for this purpose. Our analysis indicates that this is not a reliable method of budgeting for interstate travel, and that the budget, instead, should be based on the *actual* amount spent in the prior year, adjusted for inflation and program changes. This is the method specified in the State Administrative Manual. In addition, we note that the workload demands cited by the PERS as the reason why many budgeted trips have not been taken in prior years have not abated and no significant change has been proposed in PERS' staffing levels for the budget year.

We have estimated the system's budget-year out-of-state travel requirements by adjusting the actual amount spent in 1982-83 (\$27,000) for two years' worth of price increases and for a \$30,000 program increase (related to the expanded real estate investment program). This suggests the need for \$60,000 in 1984-85. We therefore recommend that the amount requested by the PERS in 1984-85 for out-of-state travel—\$90,000—be reduced \$30,000.

The Public Employees' Contingency Reserve Fund

Under the Public Employees' Medical and Hospital Care Act of 1961, the PERS is responsible for providing medical insurance coverage for active and retired PERS members through carriers who contract with the system. In support of this program, the PERS also administers the Public Employees' Contingency Reserve Fund (PECRF). The PECRF was established for two purposes. First, it provides a source of funding for the administrative costs incurred by PERS in carrying out its responsibilities under the 1961 act. Second, it serves as a *special reserve* which can be used, among other things, to: (1) defray future health insurance premium increases, (2) reduce contributions by employers and employees, and (3) increase health plan benefits.

The PECRF is funded by two separate "surcharges" on employers that are calculated as a percentage of the gross health insurance premiums they pay. The PERS board is authorized by law to set a rate of up to 2 percent of gross premiums to pay for administrative costs, and a rate of up to 4 percent for the special reserve. In 1983-84, the board set the administrative cost charge at 0.5 percent and the reserve charge at 3.0 percent.

Special Reserve Used to Subsidize One Health Care Provider

While the PECRF special reserve may be used for a variety of different purposes, in recent years, it has been used primarily to fund the state's health contributions for annuitants. In the current year, however, the special reserve is being used for an entirely different purpose: to subsidize premiums charged by one major health care provider—Blue Cross/Blue Shield (the "Blues").

Table 6
Public Employees' Contingency Reserve Fund
Fund Condition
1982-83 through 1984-85
(in millions)

	<i>Actual</i> 1982-83	<i>Estimated</i> 1983-84	<i>Projected</i> 1984-85
<i>Resources</i>			
Beginning Reserves	\$7.9	\$12.4	\$15.5
<i>Receipts:</i>			
Contributions for Administrative Costs	2.3	1.9 ^a	2.2 ^b
Contributions for Special Reserve	3.8	11.5 ^a	13.5 ^b
Investment Income	1.0	1.2	1.4
Total Resources	\$15.0	\$27.0	\$32.6
<i>Expenditures</i>			
<i>Disbursements</i>			
Administration	\$2.2	\$2.5	\$2.5
Special Reserve	0.4	9.0	9.0 ^c
Total Expenditures	\$2.6	\$11.5	\$11.5
Reserves	\$12.4	\$15.5 ^d	\$21.1

^a Projected by PERS, based on actual premium receipts during July-November 1983.

^b Based on PERS-projected gross premiums for 1984-85 and contribution rates currently in effect.

^c Amount proposed by the Governor's Budget. Actual expenditures will depend on rate set by PERS Board.

^d Of this \$15.5 million, the PERS Board has set aside \$11 million for Blue Cross/Blue Shield, in case 1983-84 claim costs exceed premiums.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 6 provides information on the condition of the PECRF. It shows that in 1983-84, the special reserve is being used to provide a \$9 million subsidy to the "Blues," pursuant to a financial commitment made by the PERS Board prior to the start of the current year. This commitment, *which is being financed through a charge on all premiums (including those of other health insurance carriers) paid by the state*, was made in order to hold down the premium rates that must be paid by employees enrolled in the Blue Cross/Blue Shield plan. These rates have been rising in recent years, in part due to the proportionately greater number of older members enrolled in the plan. The average health care costs of these older members are higher than the costs attributable to other members.

In addition to the \$9 million subsidy, the board has set aside \$11 million from the projected year-end 1983-84 reserve of \$15.5 million, as an *additional* guarantee against adverse claim experience by the "Blues." If needed, these funds would be used at the end of the current contract period to pay claims that are not covered by either the regular premiums or the \$9 million subsidy. *Thus, Blue Cross/Blue Shield may receive up to \$20 million in state subsidies to continue health insurance coverage for state employees and retirees in 1983-84.* If the "Blues" plan receives the entire \$20 million, it will have received a state subsidy equal to over one-third of the gross premiums it charged to the state in 1983-84 (approximately \$55 million).

To the best of our knowledge, the PERS board has not made any commitment to continue this subsidy for the "Blues" in 1984-85. Nor has it made a decision as to what the 1984-85 contribution rate actually will be. That decision is usually made in late May or early June, just prior to the start of the fiscal year. Nevertheless, departments have been allowed to *budget* for contributions to the special reserve at the current 3.0 percent rate. As Table 6 shows, this would result in revenues to the PECRF's special reserve of \$13.5 million. The budget proposes once again to spend \$9 million from the reserve. Thus, if the board decides to continue the subsidy to the "Blues" in 1984-85, the funds needed to provide the subsidy will be available within the budgets of the various state departments.

**The Legislature Should Review and Approve
Special Reserve Contribution Rate**

We recommend that the Legislature amend existing law to provide for legislative review and approval of the PECRF special reserve rates set by the PERS Board.

In committing \$20 million from the PECRF special reserve to the "Blues" in 1983-84, the PERS Board was acting within its statutory authority. The board's action, however, not only resulted in a major commitment of state funds; it also represented a significant policy determination: that state employees and annuitants enrolled in one particular health care plan (the "Blues" plan) should have their rates subsidized by state taxpayers in general. Despite the significant policy and fiscal implications of the board's decision, the board acted without *any* legislative review or approval.

Because of the fiscal and policy implications of decisions regarding the use of the PECRF special reserve, we recommend that the *Legislature*, rather than the PERS board, make these decisions. A precedent for this type of arrangement already exists. Each year, the state health premium

contribution rates determined by PERS must be approved by the Legislature (in Control Section 4.00) and funded through the Budget Act (Item 9800).

Specifically, we recommend that Government Code Section 22826 be amended to provide that: (1) a decision on any special reserve rate charge by the board shall be made no later than May 15 of each year, in order to give the Legislature time to review the action in its deliberations on the budget, (2) the Legislature must approve any special reserve charge proposed by the board (perhaps also using Control Section 4.00), and (3) any special reserve rate charge be funded through the augmentation for employee compensation item in the annual Budget Act.

Budgeted Reserve Funds Should Be Recaptured

We recommend that the Legislature amend the Budget Bill to include a control section authorizing the Department of Finance to recapture funds already provided in departments' budgets for the special reserve, for a total state savings of \$12.2 million (\$7.3 million to the General Fund and \$4.9 million to other state funds).

In keeping with this recommendation, we further recommend that the funds *already budgeted* by state agencies to finance their contributions to the special reserve in 1984-85 be deleted. In the event the Legislature approves a reserve charge for the budget year, the monies can and should be provided out of the employee compensation item.

Accordingly, we recommend that the Legislature adopt a general control section authorizing the Department of Finance to reduce the appropriations for all state departments to eliminate funds budgeted for special reserve contributions (3.0 percent of health contribution premiums).

Based on PERS estimates of gross health insurance premiums to be paid by state employers during 1984-85, we estimate that this recommendation would result in a savings to the state of approximately \$12.2 million. About \$7.3 million of the savings would accrue to the General Fund, and the remaining \$4.9 million would accrue to special and nongovernment cost funds. If the special reserve contributions were deleted for contracting local employers as well, these employers would realize savings in 1984-85 of about \$1.3 million.

Legislative Mandates

We recommend approval.

The budget proposes a General Fund appropriation of \$8,265,000 (Item 9680-101-001) to reimburse local entities for their costs of complying with various legislative mandates requiring additional employers' PERS contributions. This proposed appropriation is the same as estimated current-year expenditures. The appropriation is based on the amortized actuarial costs of the following mandates:

	1984-85 Proposed Amount (thousands)
Ch 1398/74 (AB 2926) Retirement credit for unused sick leave for PERS school members	\$1,300
Ch 1170/78 (AB 2545)—Pension increase for certain retired school members of PERS	5,100
Ch 1036/79 (SB 629)—Cost of living increase for retired school members of PERS.....	1,620
Ch 799/80 (SB 162) increased death benefits to survivors of PERS school members.....	245
Total.....	\$8,265

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

The budgeted amounts are based on actuarial estimates. Final costs of these mandates, however, will be determined by the actual retirement program costs which are claimed by the affected local employers. The State Controller pays the estimated claims from the respective appropriations for each mandate. After the end of the fiscal year, the estimated claims are adjusted by the State Controller to reflect final, audited cost experience. Historically, the actual costs of these mandates have exceeded the estimated actuarial costs, and the differences have been covered from deficiency appropriations in the subsequent fiscal year.

**State and Consumer Services Agency
STATE TEACHERS' RETIREMENT SYSTEM**

Item 1920 from the State Teachers' Retirement Fund and other funds

Budget p. SCS 129

Requested 1984-85	\$13,297,000
Estimated 1983-84.....	13,135,000
Actual 1982-83	10,978,000
Requested increase (excluding amount for salary increases) \$162,000 (1.2 percent)	
Total recommended reduction	72,000
Recommendation pending	\$2,000,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1920-001-835—Retirement administration	Education Code Section 24701: COLA administration	State Teachers' Retirement	\$13,138,000
		State Teachers' Retirement, Special Account	97,000
1920-001-963—Annuity administration		Teacher Tax-Sheltered Annuity	62,000
Total			\$13,297,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Reimbursements. Reduce Item 1920-001-835 by \$72,000 and increase reimbursements by an equivalent amount. Recommend adjustments to correct for underbudgeting of reimbursements.* 283
2. *Investment Services. Withhold recommendation on \$2,000,000 budgeted for investment services (Item 1920-001-835), pending receipt and analysis of a detailed expenditure plan.* 283

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves about 400,000 active and retired

members. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

The primary responsibilities of the STRS include (1) maintaining a fiscally sound plan for funding approved benefits, (2) providing authorized benefits to members and their beneficiaries in a timely manner, and (3) furnishing pertinent information to teachers, school districts, and other interested groups. In addition to having overall management responsibility for STRS, the board reviews applications for benefits submitted to the system.

Legislation enacted in 1983 made changes in the membership of the STRS Board. Chapter 5 of the 1983-84 First Extraordinary Session (SB 13x) replaced the Director of Finance with the State Treasurer on the board, effective October 1983. In addition, effective January 1, 1984, Ch 588/83 (AB 743) increased the membership of the STRS Board from 9 to 11 members by adding a STRS retiree and a public member, both appointed by the Governor.

Our analysis of funding requirements for the *benefits* provided through the STRS appears under Item 6300—"Contributions to the Teachers' Retirement Fund." This analysis covers funding requirements for the *support* of the system.

The STRS has 288 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes three appropriations from the State Teachers' Retirement Fund and two other special funds in the amount of \$13,297,000 for administrative support of the STRS in 1984-85. This is an increase of \$162,000, or 1.2 percent, over estimated current-year expenditures. This increase will grow by the cost of any salary or benefit increase that may be approved for the budget year.

Table 1
State Teachers' Retirement System
Summary of Budget Requirements and Funding
(dollars in millions)

Divisions	Personnel-years			Expenditures		
	Actual 1982-83	Estimated 1983-84	Proposed 1984-85	Actual 1982-83	Estimated 1983-84	Proposed 1984-85
Administration	27.9	28.7	28.1	\$2.6	\$1.7	\$1.6
Investment services ^a	—	9.0	—	0.1	2.0	2.0
Member services	104.9	117.4	121.5	2.6	3.0	3.5
Accounting	26.1	26.7	25.7	1.0	1.2	1.1
Automated Information System	38.8	39.8	37.8	1.6	1.5	1.8
Management services	19.6	22.9	21.9	2.4	3.0	2.4
External operations	38.2	38.0	36.3	0.9	1.0	1.1
Totals	255.5	282.5	271.3	\$11.2	\$13.4	\$13.5
Reimbursements	—	—	—	-0.2	-0.3	-0.2
Net Totals	255.5	282.5	271.3	\$11.0	\$13.1	\$13.3
Teachers' Retirement Fund				\$10.9	\$12.9	\$13.1
Teacher Tax-sheltered Annuity Fund				0.1	0.1	0.1
Retirees' Purchasing Power Protection Account, Teachers' Retirement Fund ^a				—	0.1	0.1

^a A new account established in 1983 as a depository for the STRS administrative expense-portion of General Fund revenues appropriated in the annual Budget Acts, pursuant to Ch 1606/82 (SB 1562), for supplemented cost-of-living adjustments to all STRS retirees whose pensions are below 75 percent of their original purchasing power.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

The small increase in proposed expenditures—1.2 percent—is somewhat misleading. It reflects a change in budgeting for the system between the current and budget years, rather than a constant or declining level of program activity. In the prior and current years, funds budgeted for rent of office space and furniture have been included in the appropriations for STRS support. During 1983, the STRS purchased its own office building as an investment, and intends to move into it at the beginning of the budget year. As a result, beginning in 1984–85, expenditures for rent and furniture are no longer included in the STRS support budget. Instead, they are shown as an accounting entry in the continuously appropriated State Teachers' Retirement Fund.

If an adjustment is made for this technical change, the proposed STRS budget for 1984–85 is actually \$641,000, or 4.9 percent, above estimated current-year expenditures.

Staffing, expenditures, and funding sources for the STRS in the past, current and budget years are shown in Table 1.

Table 2
State Teachers' Retirement System
Proposed 1984–85 Budget Changes
(dollars in thousands)

	<i>State Teachers' Retirement Fund^a</i>	<i>Reimbursements</i>	<i>Totals</i>
1983–84 Expenditures, Revised	\$13,135	\$330	\$13,465
<i>Baseline Adjustments</i>			
Full-year funding of 1983–84 Salary Increase	188	—	188
Three Percent Staff Reduction	–104	—	–104
Shift in Funding Source for Rent and Furniture	–479	—	–479
EDP Equipment Expenditures	295	—	295
Decreased Reimbursements	—	–72	–72
Decreased Pro rata Charges	–229	—	–229
Other Baseline Adjustments	173	—	173
<i>Program Changes</i>			
Administration of Pension Improvement Program	193	—	193
STRS Information Booklets	125	—	125
1984–85 Expenditures, Proposed	\$13,297	\$258	\$13,555
Change from 1983–84:			
Amount	\$162	–\$72	\$90
Percent	1.2%	–21.8%	0.7%

^a Includes administrative costs for a tax-sheltered annuity program and a pension adjustment program funded from the Teachers' Tax Sheltered Annuity Fund and the Retirees' Purchasing Power Protection Account of the Teachers' Retirement Fund, respectively.

Budget Year Changes

Table 2 summarizes the major changes proposed in the STRS budget for 1984–85.

The major *baseline adjustments* include: (1) a reduction of \$479,000 in facilities operation, reflecting the change in funding source for rent and furniture from the budget act support appropriation to the board's continuous appropriation, (2) increased expenditures of \$295,000 for EDP equipment required for the system's automated information system, and (3) decreased reimbursements and pro rata charges of \$301,000.

The *program changes* include (1) five new positions and related funds for ongoing administration of a new program which provides annual cost-of-living adjustments for STRS retirees to improve the purchasing power of their pensions, and (2) funds for updating and distributing various STRS information booklets.

ANALYSIS AND RECOMMENDATIONS

Underbudgeted Reimbursements

We agreed to go with budgeted level with control language on march '85 updating. mgf
We recommend (1) a \$72,000 reduction from Item 1920-001-835, and (2) an equivalent increase in budgeted reimbursements to correct for under-budgeting.

When an individual drops out of the STRS, the system charges an administrative fee for refunding the member's contributions. The STRS projects budget year reimbursements from these fees at \$258,000. This amount is \$72,000 (22 percent) less than the \$330,000 in reimbursements expected in the current year, and \$3,000 (1.1 percent) less than the \$261,000 actually received by STRS in 1982-83.

During the period 1977-78 through 1981-82, the level of fee reimbursements was fairly level, ranging from \$328,000 to \$369,000. In 1982-83, however, reimbursements were unusually low (\$261,000), presumably because the economic uncertainties that prevailed during most of that year reduced the number of occupational changes made by teachers, and thus, the number of applications for refunds.

Economic conditions have improved significantly during 1983-84, and the number of people leaving STRS has also increased. For the first six months of the current year, actual reimbursements were \$155,000, which suggests that the full-year amount will be close to the amount estimated in the budget (\$330,000).

Because an improved economic environment is expected to continue during 1984-85, it is reasonable to assume that reimbursements in the budget year will at least match the amount expected during the current year. For this reason, we recommend that the amount budgeted for reimbursements in 1984-85 be increased from the proposed \$258,000 to \$330,000 (a \$72,000 increase), and that the amount appropriated from the Teachers' Retirement Fund be reduced by a corresponding amount.

Proposed Expenditures for Investment Services Unspecified

We withhold recommendation on \$2,000,000 budgeted as a reserve for investment services, pending receipt and analysis of a detailed expenditure plan for these funds (Item 1920-001-835).

The primary support item for STRS includes \$2 million for support of its own investment services function, as required by Chapter 1434/82 (AB 3163). This is the same amount that was appropriated for the investment function in the current year.

Effective July 1, 1983, Chapter 1434 prohibits the STRS from employing, through interagency agreement, any investment personnel which concurrently serve as investment staff to the PERS. In response to the statute,

STATE TEACHERS' RETIREMENT SYSTEM—Continued

the STRS submitted to the administration a budget change proposal for its own in-house investment staff. This proposal, however, was not forwarded by the administration to the Legislature for consideration as part of the 1983-84 budget because the administration objected to the salary levels proposed. As chaptered, the 1983 Budget Act included a \$2 million, unspecified, lump-sum appropriation to permit STRS to contract for investment services.

Effective July 1, 1983, the STRS contracted with three private investment advisory firms (on an interim basis) for investment services during 1983-84, at a projected, full-year cost of \$3.7 million. Instead of using the \$2 million appropriation provided by the Budget Act, however, the STRS funded these contracts from a continuous appropriation of the State Teachers' Retirement Fund, as permitted under current law. Recently, the STRS contracted with a real estate adviser to assist the system in making real estate equity investments. This adviser will also be paid from the continuously appropriated funds of the STRS trust fund.

A portion of the \$2 million current-year appropriation (about \$370,000) was budgeted by the STRS (with the Department of Finance's approval) to fund an in-house staff of nine limited-term positions for administrative and accounting support.

According to the budget document, the STRS will submit to the Legislature in early 1984 a proposed expenditure plan for investment services in the budget year. In anticipation of this plan, the budget proposes (1) to set aside the \$1.6 million in unencumbered funds remaining from the \$2 million appropriated in 1983-84 and (2) to appropriate an additional \$2 million in 1984-85 to fund the expenditure plan during the balance of the current year and in the budget year, respectively. At the time this analysis was prepared, however, no plan had been submitted to the Legislature describing how either the currently authorized funds or the proposed funds are to be spent. Therefore, we withhold recommendation on the \$2 million budgeted for investment services in 1984-85, pending receipt and analysis of a specific expenditure plan.

STRS Has Experienced Backlogs in Processing Applications

The STRS pays three basic types of benefits to members and their survivors: service retirement allowances, disability retirement allowances, and death (survivors) benefits. The system also refunds members' contributions with interest, upon withdrawal of the member from STRS. Most of the workload for processing applications and paying benefits is handled by the Member Services Division of the STRS.

In light of numerous complaints about delays in the payment of STRS benefits, we have focused our review of the STRS budget request on the system's record of processing benefits claims. Our analysis indicates that during the past and current years, the system has experienced some delays in processing members' claims. As of January 1983, it took the system 14 to 15 months to finalize service retirement benefits. Furthermore, an audit conducted by the Auditor General found a backlog of over 900 death benefit claims awaiting processing during the first half of 1983.

These backlogs not only cause financial hardship for STRS members (or their beneficiaries); they also result in additional costs to STRS. This is because, effective January 1, 1983, Chapter 1428/82 (AB 3377) requires STRS to pay benefits within certain time periods, as shown in Table 3, or pay an interest penalty (currently 16 percent per year) on late payments.

During 1983, the STRS paid \$80,000 in *penalties* for late benefit payments, as required by Chapter 1428. According to the STRS, about \$48,000, or 60 percent, of these penalties were paid for service retirement benefits not finalized within the time limit specified.

Table 3
State Teachers' Retirement System
Application Processing Record in 1982-83

<i>Type of Application</i>	<i>Number of Applications Received</i>	<i>Type of Benefits Paid</i>	<i>Processing Standards Imposed by Ch 1428</i>	<i>Percent of Claims Processed Within Time Deadlines</i>
Service Retirements	6,545	Estimated monthly payments	Within 45 days of retirement date, or receipt of application, whichever is later.	90%
		Finalized monthly payments	Within 45 days of STRS' receipt of all necessary information.	23
Disability Retirements	500	Estimated monthly payments	Within 45 days of approval of the disability retirement.	99
		Finalized monthly payments	Within 45 days of STRS' receipt of all necessary information.	99
Death Benefits	2,828	All benefit payments	Within 45 days of STRS' receipt of all necessary information.	95
Refunds	9,802	All refunds	Within 30 days of STRS' receipt of application ^a	99

^a This standard is self-imposed by STRS. Chapter 1428 does not specify a time limit for processing refunds.

Table 3 summarizes the major workload tasks performed by the Member Services Division, the standards for these tasks imposed by Chapter 1428, and the STRS processing record in 1982-83. The table indicates that the backlog in processing finalized monthly service retirement payments is considerable, as only 23 percent of these determinations were made within the specified 45-day period.

Processing Backlogs: Causes and Remedies

Our analysis indicates that the factors which were responsible for the backlogs and the resulting delays in service included: (1) intermittent staff shortages in the Records and Information Control Unit of the Member Services Division, caused by resignations, retirements and reallocation of staff following a systemwide reorganization in 1982; (2) incomplete or incorrect applications from members; (3) delays caused by the employers (that is, the school districts and superintendents of schools) in forwarding the applications to STRS; and (4) reassignment of STRS staff to concentrate on processing service retirement applications for initial (estimated) payments during the June-July peak periods for these applications.

In view of these problems and in response to recommendations made by the Auditor General, the STRS has taken a number of corrective actions. Specifically, it has

- Established an in-house review team of managers to monitor processing workload and staff allocation;
- Assigned additional staff and overtime funds to the Records and Information Control Unit, in order to improve management of peak work-

STATE TEACHERS' RETIREMENT SYSTEM—Continued

load periods and backlogs; and

- Provided additional training for key STRS and school district personnel to reduce or eliminate delays in processing and paying claims.

The STRS actions apparently have had some positive impact on the backlogs. The STRS has reduced the average processing and payment time for service retirement finalized payments (the most labor-intensive and error-prone claim workload) from about 14 months at the beginning of 1983 to about 8 months by the end of 1983. This time frame, however, is still far short of the statutory processing standard of 45 days (once the STRS has received all necessary information) established by Chapter 1428.

Payment of Finalized Service Retirement Benefits Will Continue to be Delayed

The major reason for STRS' inability to meet the statutory processing standards for finalized service retirement benefit payments—aside from human errors in processing and computing—has been STRS' decision to concentrate on processing *initial* (estimated) benefit payments for service retirements, following receipt of claims for these benefits. According to STRS, about 65–70 percent of the total annual applications for service retirement are received during the June–July period. In order to process these claims in a timely manner, the system has been devoting the majority of its staff and overtime resources to these claims, so that members are able to receive their initial (estimated) pension checks within the time period specified by Chapter 1428. This strategy resulted in a relatively high success rate (90 percent) in meeting processing standards for these initial payments, but it also resulted in estimated payments during 1982–83 which were too low relative to the finalized, permanent monthly pensions. As mentioned earlier, about \$48,000 (60 percent) of the total \$80,000 in late penalties paid by STRS during 1982–83 was paid on the adjustment between the initial (estimated) and the finalized monthly pension amounts.

In order to reduce these costly adjustments, the STRS is attempting to estimate the initial payments more accurately. Also, in order to speed up the final determination, the system is developing an automated calculation procedure which, beginning in April 1984, will be used for finalizing all routine service retirement payments (that is, applications for which all of the necessary documentation is in order). The system is hopeful that these efforts will (1) improve its record in meeting the statutory time-frame for these benefit payments and (2) reduce the size of future adjustment (and penalty) payments.

The claim-processing and benefit-calculating procedures will not be fully automated until 1986, the target date for completion of the STRS' on-line information system. When fully operational, that system is expected to eliminate all backlogs and ensure timely processing of all benefit applications and payments. In the meantime, the STRS will attempt to improve its processing record by (1) improving management of the workload, (2) devoting more staff, funds and training to the key processing sections in the system and (3) proposing an ombudsman position to minimize member-system conflicts, as well as the administrative and legal costs which often result from these conflicts.

State and Consumer Services Agency
DEPARTMENT OF VETERANS AFFAIRS AND VETERANS'
HOME OF CALIFORNIA

Items 1960-1970 from the General Fund and special funds

Budget p. SCS 133

Requested 1984-85	\$35,276,000
Estimated 1983-84.....	33,601,000
Actual 1982-83	30,659,000
Requested increase (excluding amount for salary increases) \$1,675,000 (+5.0 percent)	
Total recommended reduction	1,523,000

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
1960-001-001—Departmental support		General	\$2,140,000
1960-001-592—Departmental support		Cal-Vet Farm and Home	813,000
1960-101-001—Local Assistance		General	420,000
1970-011-001—Veterans' Home		General	19,152,000
1970-011-890—Veterans' Home		Federal Trust	(9,688,000)
Continuing Appropriation—Administration		Cal-Vet Farm and Home	12,452,000
Continuing Appropriation—Administration		Cal-Guard Farm and Home	299,000
Reimbursements			(4,163,000)
Total			\$35,276,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Cal-Vet Consolidation. Reduce continuing appropriation by \$199,000.* Recommend reduction to reflect savings in operating costs from the closure of four district offices. 290
2. *Increased Per Diem Payments. Reduce Item 1970-011-001 by \$609,000.* Increase federal funds (Item 1970-011-890) by \$719,000. Reduce member fee reimbursements by \$110,000. Recommend reduction in state support of the Veterans' Home to reflect anticipated increase in Veterans Administration per diem payments. Further, recommend adoption of Budget Bill language transferring federal per diem payments in excess of the budgeted amount to the General Fund (potential General Fund savings of \$719,000). 291
3. *Automation Project. Reduce Item 1970-011-001 by \$649,000.* Increase federal funds (Item 1970-011-890) by \$720,000. Reduce member fee reimbursements by \$117,000. Recommend reduction in state support to reflect anticipated savings from implementation of an automated financial management system. 292
4. *Materials Management. Reduce Item 1970-011-001 by \$66,000.* Reduce member fee reimbursements by \$11,000. Recommend total reduction of \$77,000 to account for savings from improved materials management practices. 293

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs provides services to California veterans and their dependents, and to eligible members of the California National Guard, through five programs:

1. *Cal-Vet Farm and Home Loan.* Provides low-interest farm and home loans to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds.

2. *Veterans Claims and Rights.* Assists eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.

3. *The Veterans' Home.* Provides approximately 1,400 California war veterans with several levels of medical care, rehabilitation services, and residential services.

4. *Cal-Guard Farm and Home Loan.* Provides low-interest farm and home loans to qualifying National Guard members using proceeds from the sale of revenue bonds.

5. *Administration.* Provides for implementation of policies established by the California Veterans Board and the department director.

The department has 1319.5 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$35,276,000 from various state funds for support of the Department of Veterans Affairs and the Veterans' Home of California in 1984-85. This is an increase of \$1,675,000, or 5 percent, over estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

Table 1 provides a summary, by fiscal year and funding source, of all expenditures, including loans, debt service, and taxes for the Cal-Vet and Cal-Guard loan programs. As shown in the table, total expenditures of \$902,546,000 are proposed for 1984-85. This is a net increase of \$24,466,000, or 2.8 percent, over estimated current-year expenditures. The increase reflects the following changes:

- An increase of \$1,531,000, or 7.6 percent, in *General Fund* support of department administration, veterans claims and rights, and the Veterans' Home.
- An increase in *special fund* expenditures of \$23,981,000, or 2.7 percent, for the two loan programs. This increase is due largely to increased amounts proposed for loans, debt service, and taxes.
- A decrease of \$1,306,000, or 12 percent, in anticipated expenditures from *federal funds*. This decrease results mainly from a one-time expenditure of \$1.3 million for data processing equipment in the current year.
- *Reimbursement* increases of \$260,000, or 6.7 percent, from members fees and "aid and attendance" payments made by the Veterans Administration to veterans requiring special assistance.

Table 1
Department of Veterans Affairs
Funding Summary

1982-83 through 1984-85
(dollars in thousands)

	<i>Actual</i> <i>1982-83</i>	<i>Estimated</i> <i>1983-84</i>	<i>Proposed</i> <i>1984-85</i>	<i>Change From</i> <i>1983-84 to 1984-85</i>	
				<i>Amount</i>	<i>Percent</i>
General Fund					
Departmental administration	\$523	\$541	\$561	\$20	3.7%
Claims and Rights	1,361	1,540	1,579	39	2.5
Veterans Service Offices	420	420	420	—	—
Veterans' Home	16,419	17,680	19,152	1,472	8.3
Totals, General Fund	\$18,723	\$20,181	\$21,712	\$1,531	7.6%
Cal-Vet Farm and Home Fund					
Departmental administration	\$612	\$779	\$813	\$34	4.4%
Loan program administration	10,996	12,358	12,452	94	0.8
Loans, debt service, taxes	702,009	818,758	841,218	22,460	2.7
Totals, Cal-Vet Fund	\$713,617	\$831,895	\$854,483	\$22,588	2.7%
Cal-Guard Farm and Home Fund					
Departmental administration	\$30	\$36	\$38	\$2	5.6%
Loan program administration	298	247	261	14	5.7
Loans, debt service, taxes	9,484	10,824	12,201	1,377	12.7
Totals, Cal-Guard Fund	\$9,812	\$11,107	\$12,500	\$1,393	12.5%
Federal Trust Fund					
Veterans' Home	\$8,812	\$10,994	\$9,688	-\$1,306	-11.9%
Reimbursements					
Departmental administration	\$55	\$120	\$124	\$4	3.3%
Veterans' Home	3,623	3,783	4,039	256	6.8
Totals, Reimbursements	\$3,678	\$3,903	\$4,163	\$260	6.7%
Total Expenditures	\$754,642	\$878,080	\$902,546	\$24,466	2.8%

Table 2 summarizes the department's expenditures and personnel-years, by program, for the past, current, and budget years. The amounts proposed for Veterans Claims and Rights, operational support of the Cal-Guard loan program, and administration would provide for approximately the same level of service in 1984-85 as in the current year. The net increase of \$128,000 in the Cal-Vet loan program support costs results from a decrease of \$435,000 and 13.8 personnel-years related to reorganization and consolidation of district offices, and an increase of \$563,000 for inflation adjustments and employee compensation.

Program costs for the Veterans' Home will increase by a total of \$447,000, or 1.4 percent, over current-year expenditures. The major reasons for this increase are (1) the deletion of \$304,000 and 14.2 personnel-years for an expanded home health care program which was authorized in the 1982 Budget Act but never certified or staffed, (2) the addition of \$233,000 and 11 positions to provide acute psychiatric services at the home, (3) an increase of \$112,000 to provide additional contracted medical services in certain specialty areas, and (4) adjustments to offset the effects of inflation and continue employee compensation increases approved for 1983-84.

**DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME
OF CALIFORNIA—Continued**

Table 2
Department of Veterans Affairs
Program Summary
1982-83 through 1984-85
(dollars in thousands)

	<i>Actual</i> 1982-83	<i>Estimated</i> 1983-84	<i>Proposed</i> 1984-85	<i>Change From</i> <i>1983-84 to</i> <i>1984-85</i>	
				<i>Amount</i>	<i>Percent</i>
Expenditures					
Cal-Vet Farm and Home Loan					
Program support.....	\$11,608	\$13,137	\$13,265	\$128	1.0%
Loans, debt service, and taxes.....	702,009	818,758	841,218	22,460	2.7
Veterans Claims and Rights.....	1,797	1,975	2,013	38	1.9
Veterans' Home	29,416	33,103	33,550	447	1.4
Cal-Guard Farm and Home Loan					
Program support.....	328	283	299	16	5.7
Loans, debt service, and taxes.....	9,484	10,824	12,201	1,377	12.7
Administration (distributed)	(1,220)	(1,476)	(1,536)	(61)	(4.1)
Totals	\$754,642	\$878,080	\$902,546	\$24,466	2.8%
Personnel-Years					
Cal-Vet Farm and Home Loan.....	274.8	293.0	279.2	-13.8	-4.7%
Veterans Claims and Rights.....	35.6	34.8	34.8	—	—
Veterans' Home	895.8	942.3	941.4	-0.9	-0.1
Cal-Guard Farm and Home Loan	6.8	6.8	6.8	—	—
Administration (distributed)	(34.5)	(36.2)	(36.2)	—	—
Totals	1,213.0	1,276.9	1,262.2	-14.7	-1.2%

ANALYSIS AND RECOMMENDATIONS
Legislature Requires Personnel Study

The *Supplemental Report of 1983 Budget Act* requires the home to evaluate its affirmative action plan, goals and timetable, and provide to the State Personnel Board, by August 31, 1983, a report which includes (1) an updated policy statement, plan, hiring goals, and timetable, and (2) assurances that sufficient resources have been assigned to assure the realization of these goals. The supplemental report also requires the home to submit three progress reports to the board detailing activities and changes during the current year.

The department indicates that it has submitted the required reports to the State Personnel Board, and that the board is reviewing the reports and is monitoring the home's progress in meeting the affirmative action goals.

Full Savings From Cal-Vet Consolidation Not Reflected ~~\$199,000~~ \$137,000

We recommend a reduction of ~~\$199,000~~ in the continuing appropriation from the Cal-Vet Farm and Home Loan Fund to reflect savings in operating costs resulting from the closure of four district offices.

The budget indicates that future bond sales for the Cal-Vet loan program will not be as high as in previous years. In recognition of this reduction in workload, the department plans to reduce staffing and reorganize and consolidate Cal-Vet district offices in 1984-85. Specifically, the department proposes to eliminate 14 positions and close district offices in Mission Hills, Modesto, Santa Rosa, and West Covina. The budget reflects a \$435,000 savings in personnel services as a result of these actions.

Our review of information submitted by the department in support of its budget indicates that the funds for operating expenses related to the four offices were *not* deleted from the budget. Once these offices are closed, however, a total of \$199,000 budgeted for rental, supplies, telephones, postage, and travel should no longer be needed. While some additional costs may be incurred due to the shifting of personnel to other offices, there is no apparent need (and the department has not provided any documentation) for additional operating funds related to the staffing reallocation. Consequently, we recommend that the continuing appropriation from the Cal-Vet Farm and Home Loan Fund be reduced by \$199,000 to reflect the savings from closing the four offices.

Increased Per Diem Payments Not Budgeted ~~\$1,218,000~~ ^{\$1,218,000} ~~\$220,000~~

We recommend reductions of ~~\$603,000~~ from the General Fund (Item 1970-011-001) and ~~\$110,000~~ in member fee reimbursements, with a corresponding increase of ~~\$713,000~~ in federal funds (Item 1970-011-890) to reflect increased federal per diem payments which will be made on behalf of Veterans' Home members in the budget year.

We further recommend that the Legislature adopt Budget Bill language requiring the Department of Finance to reduce General Fund support of the home by the amount of federal per diem payments received in excess of the amount budgeted.

The federal Veterans' Administration (VA) makes payments to the Veterans' Home to offset a portion of the costs for room and board provided to veterans who reside there. Federal law sets specific per diem rates for different levels of care, and limits the payments to no more than one-half of the cost of the veteran's care in the home. These payments are used to offset the General Fund cost of running the home.

Public Law 98-160 recently revised the per diem rates and provides that the new rates will be effective April 1, 1984. Table 3 shows the current and revised per diem rates, by level of care. As reported in the table, payments for domiciliary and hospital care will increase 15 percent, while payments for nursing care will increase 41 percent.

Table 3
Federal Veterans Administration
Per Diem Rates By Level of Care

Level of Care	Current Per Diem Rate	Per Diem Rate Effective 4/1/84	Increase	
			Amount	Percent
Domiciliary	\$6.35	\$7.30	\$.95	15%
Nursing	12.10	17.05	4.95	41
Hospital	13.25	15.25	2.00	15

Budget Does Not Reflect Increased Rates. In estimating the level of federal funds which the home will receive in the budget year, the department used the per diem rates which are now in effect. As a result, payments totaling \$4,588,000 are expected in 1984-85. However, discussions with federal VA staff indicate that funding for higher per diem rates should be included in the VA's budget request for federal fiscal year 1985. Consequently, the department's budget should reflect an increase in per diem payments in 1984-85. Information submitted by the department indicates that the federal per diem payments generally are received about three months after the costs for which the payments are made are incurred. Thus, the home should receive higher per diem payments starting

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

January 1, 1985, resulting in additional federal funds of \$719,000, which are not reflected in the home's 1984-85 budget.

The Veterans' Home receives part of its support from fees charged to members who reside there. Existing law limits the total fees collected in any fiscal year to 18 percent of the state's General Fund cost of operating the home for that year. The operating budget for the home in 1984-85 includes revenue from members' fees at the maximum allowable 18 percent. Thus, any reduction in state support cost must be shared proportionately between the General Fund and members' fees. Consequently, we recommend that the home's General Fund budget be reduced by \$609,000, member fee reimbursements be reduced by \$110,000, and the federal fund item be increased by \$719,000 to reflect the anticipated increase in federal per diem payments in the budget year.

Additional Federal Funds Could Be Available. Federal VA staff indicate that a supplemental funding request will be submitted to Congress early this year to allow increased payments beginning April 1, 1984. If a supplemental appropriations bill were enacted in time for the higher rates to become effective April 1, 1984, the state would receive the higher payments for *all* of 1984-85. Were this to occur, VA payments in 1984-85 would be \$1,438,000 more than the amount assumed in the Governor's Budget, and \$719,000 more than the amount which we recommend be budgeted from this source. To the extent that any funds associated with the higher per diem rates are received before January 1, 1985, General Fund support of the home will be overbudgeted.

Due to the uncertainty of the date when the increased level of federal funds will actually be available in the current federal fiscal year, we recommend the adoption of Budget Bill language to insure that any federal per diem payments received in excess of the amount budgeted are transferred to the General Fund. In addition, we recommend minor changes to the language in the Budget Bill, as introduced, to correct technical drafting errors. Specifically, we recommend adoption of the following language for Item 1970-011-890:

"1. Any federal funds received by the Veterans' Home in excess of the amount set forth in this item shall be transferred to the unappropriated surplus of the General Fund in a manner prescribed by the Department of Finance, unless expenditure of such funds is authorized by the Department of Finance. Such authorization shall not become effective sooner than 30 days after notification in writing of the Joint Legislative Budget Committee or such lesser time as the committee or its designee may, in each instance, determine.

"2. Notwithstanding provision 1, any federal funds made available from the Veterans Administration for per diem payments in excess of the \$5,307,000 appropriated in this item from this source shall be transferred to the General Fund."

To the extent that Congress takes action to make the additional federal funds available prior to budget hearings, we would modify this recommendation accordingly.

Automation Project Should Result in Budget-Year Savings

We recommend reductions of \$649,000 in General Fund support (Item 1970-011-001) and \$117,000 in member fee reimbursements to reflect savings from implementation of an automated financial management system at the Veterans' Home. We further recommend an increase of \$720,000 in

federal funds (Item 1970-011-890) to reflect increased Medicare reimbursements anticipated in 1984-85.

The department is in the process of implementing an automated financial management system at the Veterans' Home. Part of the justification for the system rests on the system's ability to assist the home in improving its inventory, patient tracking, and financial information systems. These improvements will result in a net savings to the General Fund.

Several delays in implementation of the system have been experienced. In one case, the delay was due to the administration's freeze on equipment purchases in 1982-83. In another case, the project was delayed by the department's decision to reject all bids submitted in September 1983, due to material deviations by both vendors. The project was resubmitted for bids in October 1983.

On October 15, 1983, the department submitted a progress report to the Legislature which indicates that, taking into account the time needed to rebid the project, the first systems should be operational in April 1984. Additional systems will be brought on-line over the following 15 months. The progress report also identifies both one-time and ongoing savings to the General Fund in 1984-85 as a result of implementing the system. The department anticipates that the system will allow the billing period for Medicare reimbursements to be shortened from 90 to 30 days. This should result in a one-time gain to the General Fund of \$720,000 in the budget year. The progress report also indicates that one Account Clerk II position can be eliminated when the Medicare billing system is fully automated. This system should be operational by October 1, 1984, permitting elimination of the accounting position for the remaining nine months of the fiscal year, and a savings of \$14,000. In addition, the report indicates that three temporary help positions can be eliminated for the full fiscal year, for a savings of \$32,000.

Our analysis indicates that the total savings of \$766,000 identified in the department's progress report are *not* reflected in the home's budget for 1984-85. Consequently, we recommend that the home's General Fund budget be reduced by \$649,000, and that member fee reimbursements be reduced by \$117,000, for a total reduction of \$766,000, to reflect anticipated savings from automation. We further recommend that the federal fund item be increased by \$720,000 to reflect the increased Medicare reimbursements expected in the budget year.

Capture SLAMM Savings

\$46,000

\$8,000

We recommend reductions of ~~\$66,000~~ from the General Fund (Item 1970-011-001) and ~~\$11,000~~ from members fee reimbursements to reflect anticipated savings from improved materials management practices in the budget year. Also, recommend augmentation of 1 year/limited term stock clerk position.

The Director of General Services is responsible for establishing statewide standards and policies for all materials management functions. This responsibility is carried out through the Office of Procurement's Statewide Logistics and Materials Management (SLAMM) Project. One goal of the project is to reduce expendable goods inventories which are maintained at uneconomically high levels.

The Office of Procurement recently reviewed the materials management and warehousing practices of the Veterans' Home. In a report issued in October 1983, the office identified deficiencies in the home's practices, and made recommendations for improving operations. The report indicates that implementation of these recommendations will result in gross savings to the state of \$580,000 over the next five years. These savings would be offset to a limited extent by the costs of implementing the

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

recommendations, which are estimated at \$272,000. Thus, implementation of the total project should result in net state savings of \$308,000. For 1984-85 gross and net savings are estimated at \$167,000 and \$145,000, respectively. The difference between the two figures in the budget year is the cost of a warehouse manager position which the report recommends the home establish.

SLAMM project staff indicates that these savings can be achieved in the budget year if the home:

- Reorganizes its materials management staff and establishes a warehouse manager position who will be responsible for inventory control.
- Sets appropriate inventory levels and adjusts purchasing to achieve these levels.
- Establishes a training program in materials management for home staff.
- Identifies and disposes of surplus and obsolete property.

The Department of Veterans Affairs indicates that it is taking steps administratively to implement the report's recommendations. Training sessions were scheduled for January 1984 and the home is cooperating with SLAMM project staff in updating inventory practices. In addition, the department plans to redirect existing resources to establish the necessary warehouse manager position. The budget, however, does not reflect the savings anticipated from these actions.

The home advises that its 1984-85 budget has been adjusted to reduce expenditures for linen, which the SLAMM report identified as overstocked. Adjusting for this reduction, we estimate that gross and net savings from implementing the SLAMM recommendations will be \$77,000 and \$55,000, respectively, in 1984-85. Because, however, the department is redirecting existing personnel to implement the recommendations, rather than adding a new position, the higher savings of \$77,000 should be realized in the budget year. Consequently, we recommend a reduction of \$77,000, consisting of \$66,000 in General Funds and \$11,000 in member fees.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Item 1970-301 from the General

Fund, Special Account for

Capital Outlay

Budget p. SCS 145

Requested 1984-85	\$4,288,000
Recommended approval	3,324,000
Recommended reduction	436,000
Recommendation pending	528,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Transfer to General Fund. Recommend that savings resulting from our recommendations on Item 1970-301-036—\$436,000—be transferred from the Special Account for Capi-

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- tal Outlay to the General Fund to increase the Legislature's flexibility in meeting high priority needs statewide.
2. Availability of Federal Funds. Recommend enactment of Budget Bill language prohibiting commitment of state construction funds until the department obtains a commitment from the federal government to fund 65 percent of the project cost. 296
 3. Acute Care Addition. Recommend adoption of Budget Bill language reverting any appropriated funds for the Acute Care Hospital Addition in the event the federal government fails to provide funding for the project in the budget year. 297
 4. *Hospital Air Conditioning. Reduce Item 1970-301-036(3) by \$58,000.* Recommend deletion because the department has indicated that no additional state funds are required for this project. (Future Savings \$342,000.) 298
 5. Sections A, C, and D. Withhold recommendation on Items 1970-301-036(4), (5) and (6) pending clarification from the department regarding the proposed method for providing comfort conditioning for the domiciliaries. 299
 6. *Storm Drainage System. Reduce Item 1970-301-036(8) by \$324,000.* Recommend deletion because the department should conduct an engineering evaluation of the Veterans' Home drainage system before conducting any work. 300
 7. *Minor Projects. Reduce Item 1970-301-036(1) by \$54,000.* Recommend reduction of funding for one project. 301

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$4,288,000 from the General Fund, Special Account for Capital Outlay, for seven major capital outlay projects and various minor projects at the Veterans' Home in Yountville. The department's proposal and our recommendations are summarized in Table 1.

Table 1
Department of Veterans Affairs
1984-85 Capital Outlay Program
Item 1970-301-036
(in thousands)

Project Title	Phase ^a	Budget Bill Amount	Analyst's Proposal	Estimated ^b Future Cost
Construct Hospital Addition—Acute Care Facility	c	\$2,802	\$2,802	—
Hospital Addition Air Conditioning	pw	58	—	\$342
Remodel Section A (Domiciliary)	w	188	pending	3,218
Remodel Section C (Domiciliary)	w	185	pending	3,277
Remodel Section D (Domiciliary)	w	155	pending	3,039
Correct Code Deficiencies—Section F	p	84	84	2,266
Redesign Storm Drainage System.....	pwc	324	—	—
Minor Projects	pwc	492	438	—
Totals		\$4,288	pending	\$12,142

^a Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction.

^b Department OSA estimate.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued**Transfer to the General Fund**

We recommend that the savings resulting from our recommendations on Item 1970-301-036—\$436,000—be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend reductions amounting to \$436,000 in the Department of Veterans Affairs capital outlay proposal. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tidelands oil revenues in the Special Account for Capital Outlay where it would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we recommend that any savings resulting from approval of our recommendations be transferred to the General Fund.

Overview of the Master Plan

The Department of Veterans Affairs' facility in Yountville provides long-term care to qualified California veterans. In 1979, the department prepared a master plan to correct identified code and certification violations, and to renovate the facilities. The work proposed in the master plan would provide new and renovated space for the following levels of service:

- **Acute Care.** An addition to Holderman Hospital would be constructed to house 56 acute care beds, surgery, laboratory, radiology, pharmacy, and a major portion of the outpatient clinic services. Other acute care support facilities would be retained as part of the existing hospital structure.
- **Skilled Nursing.** The remaining portion of the hospital would be renovated to provide space for 308 skilled nursing beds. Modifications would correct privacy and space violations.
- **Intermediate Care.** The two annexes to the hospital and the Section B building would be remodeled to provide a total of 302 intermediate care beds. The proposed work would correct code deficiencies and privacy and space violations.
- **Residential and Domiciliary Care.** Ten buildings would be renovated to provide residential and domiciliary care for home members. The renovations would correct code deficiencies and provide one-, two-, and three-bedrooms to meet privacy and space requirements.

In addition to renovating facilities as discussed above, the master plan also proposes major improvements to other facilities. Included in the overall plan are modifications to the laundry building, boiler plant, main kitchen and dining room, maintenance shop, central warehouse, members workshops, recreation/theatre building and the administration building.

The total cost of renovations and improvements included in the Master Plan exceeds \$30 million.

Availability of Federal Funds

The department assumes that the Veterans Administration (VA) will provide funds to cover 65 percent of the total cost of implementing the master plan, and that the state's share, thus, will be 35 percent. Recovery

of the federal share, however, will not occur until after construction on the project has started.

The Budget Acts of 1982 and 1983 included language which provided that no funds for working drawings related to master plan projects could be released sooner than 30 days after the Joint Legislative Budget Committee has been notified in writing that the project qualifies for federal matching funds.

By letter dated December 1, 1982, the Director of Veterans Affairs notified the Chairman of the Joint Legislative Budget Committee that the following projects are *eligible* for 65 percent VA participation:

1. Hospital Addition (acute care).
2. Section A (domiciliary).
3. Section C (domiciliary).
4. Section B (intermediate care).
5. Section D (domiciliary).
6. Section E (domiciliary).
7. Holderman Hospital Ward 1A renovation.

The fact that a project qualifies for federal funding, however, does not mean that the federal government is committed to fund 65 percent of the total cost. Such a *commitment* should be obtained before the state enters into a contract for construction of any master plan project at the Veterans Home. Otherwise, the state would be obligated to finance the entire cost of the project in the event the federal government declined to fund it. To assure that this does not occur without prior legislative approval, we recommend that, if any construction funds are provided by the Legislature for master plan projects in 1984-85, the following language be included under Item 1970-301-036:

"No contract for construction of any project related to the Department of Veterans Affairs' master plan shall be entered into prior to the department obtaining a written commitment from the federal government to fund 65 percent of the project cost."

Acute Care Addition to Holderman Hospital

Recommend reduction of \$185,000.

We recommend approval of Item 1970-301-036(2), Hospital Addition. We further recommend that the Legislature adopt Budget Bill language reverting all appropriated funds for this item if the federal government does not provide funding for the hospital addition in the budget year.

The budget proposes \$2,802,000 under Item 1970-301-036(2) for the state's share of the cost of constructing an acute care addition to Holderman Hospital. The new addition, totaling 16,200 square feet, will accommodate a 56-bed unit with medical, surgical, intensive care and coronary care levels of service.

The Legislature previously appropriated \$714,000 to fund the preparation of preliminary plans and working drawings for this project. Preliminary plans have been completed and working drawings are being developed. The department estimates that working drawings will be completed by July 1, 1984. The funds requested for the budget year would finance the construction of the hospital addition.

Based on completed preliminary plans, the OSA estimate of the total project cost is \$9,516,000. The scope of the project and the estimated cost are both consistent with the project as approved by the Legislature last year. Consequently, we recommend approval of the request.

Federal Funds. The budget also includes \$6,000,000 in federal funds for the project under Item 1970-301-890. This amount is less than the 65

Recommend increase of \$185,000.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

percent federal share of \$6,185,000 because the federal government limits to \$6 million the amount it will provide to a single department in any one fiscal year. The department indicates that it will bill the federal government for the remaining \$185,000 in the 1985-86 budget year.

As mentioned above, the federal government has only determined that the hospital addition project *qualifies* for 65 percent federal reimbursement. To insure that no state funds are spent for this project unless the federal government provides funding in the budget year, we recommend that Budget Bill language be adopted which would revert any appropriated funds for the hospital addition in the event the federal government fails to provide funding for the project in the budget year. Specifically, we recommend the following language be included under Item 1970-301-036.

- "2. The funds in Category (2) for construction of the Hospital Addition, Acute Care Facility, shall revert to the unappropriated balance in the General Fund, Special Account for Capital Outlay if the federal government does not provide maximum matching grant funds in the federal budget for fiscal year 1984-85."

Hospital Air Conditioning

We recommend deletion of Item 1970-301-036(3) because the department has previously provided assurances that no additional state funds would be required for this project.

The budget includes \$58,000 under Item 1970-301-036(3) to provide individual chilling units for the acute care addition to Holderman Hospital in order to meet the temperature requirements for the hospital addition specified by the Legislature. Budget Bill language specifies that these funds cannot be spent unless a proposed cogeneration plant does *not* provide cooling for the hospital addition. Estimated future construction cost for this project is \$342,000.

At the December 15, 1983 meeting of the Public Works Board, we raised several concerns regarding the proposed method for providing chilled water to the hospital addition to meet the temperature requirements specified by the Legislature. (At the time, it was our understanding that the department was planning to proceed with a third-party financed cogeneration project which would provide chilled water for the hospital addition). In view of these concerns, we recommended that, prior to approving the preliminary plans, the board require the department to provide a number of assurances regarding the proposed cogeneration project, including an assurance that *there would be no additional state funds required to complete the hospital addition.*

The department provided those assurances at that meeting and indicated that it had received responses from 26 prospective developers to the third party cogeneration project announcement. The department indicated that this level of response should lead to the successful implementation of a cogeneration system for the Veterans' Home.

In addition, the Director of the Department of Veterans Affairs has recently notified the Chairman of the Joint Legislative Budget Committee of the department's plan to proceed with the third-party financed cogeneration project. In a letter to the Chairman dated January 6, 1984, the Director stated that given the viability of the third-party cogeneration project, "the Department of Veterans Affairs finds no reason for additional state funds being required to complete the Hospital Addition."

In view of the Director's letter and based on the department's representation to the Public Works Board and the board's approval with the condition that no additional state funds would be required for this project, we recommend deletion of the \$58,000 requested for this item.

Remodel Sections A, C, and D Domiciliaries ~~deletion~~

~~We withhold recommendation on funds for Sections A, C and D domiciliaries, pending receipt of (1) updated preliminary plans, and (2) clarification regarding the proposed method for providing comfort conditioning in the domiciliaries.~~

The budget proposes a total of \$528,000 under Items 1970-301-036 (4), (5) and (6) for the preparation of working drawings to remodel three domiciliaries at the Veterans' Home in Yountville. Specifically, money is included for work in Sections A, C and D to correct code deficiencies and privacy and space violations. After completion of the project, these buildings will meet code/certification requirements and will provide housing for 134, 166 and 157 members, respectively. The department indicates that these projects are eligible for 65 percent federal funding. According to departmental time tables, construction funds will be requested in the 1985-86 budget.

Table 2 shows these three projects, the estimated total cost of each and the respective state and federal share of the cost.

Table 2
Department of Veterans Affairs
State and Federal Share of Funding for Domiciliary Remodeling
(in thousands)

<i>Project</i>	<i>Estimated Total Project Cost^a</i>	<i>State Share</i>	<i>Federal Share</i>
Section A	\$3,476	\$1,216	\$2,259
Section C	3,542	1,240	2,302
Section D	3,281	1,148	2,133
Totals.....	\$10,299	\$3,605	\$6,694

^a Based on previous OSA estimates.

As shown in Table 2, the amount of federal funds to be recovered for these projects totals \$6,694,000. If the balance of federal funds not recovered in 1984-85 for the hospital addition project (\$185,000) is added to this amount, the total amount of funds to be recovered from the federal government in 1985-86 would be \$6,879,000. This is \$879,000 more than the federal government will provide in any one fiscal year to a single department. Consequently, the department would be able to recover *full* federal reimbursement for only two of the three domiciliary projects in 1985-86. While we recommend that working drawing funds for Sections A, C and D be provided in the budget year, no construction funds for these three domiciliary projects should be provided in the future unless the federal government provides written commitment to fund 65 percent of the total project cost.

Comfort Conditioning Plan Uncertain. While we believe that Sections A, C and D should proceed in the budget year, our analysis raises several concerns regarding the proposed method for providing comfort conditioning to the domiciliaries. Preliminary plans as originally designed included indirect/direct evaporation coolers for the domiciliaries.

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Subsequently, the Office of State Architect presented the results of an engineering study indicating that installation of fan coil units with individual building central chilled water systems was less expensive than the proposed evaporative coolers. In response, the department indicated that the cost to revise preliminary plans in order to provide for the fan coil units would only be a small percentage of the savings to be realized from this change. It was our understanding that the department would proceed with the individual fan coil units.

Following the department's recent decision to proceed with a third-party financed cogeneration system for the hospital addition, the department has discussed the possibility of using the cogeneration plant to provide chilled water to the domiciliaries. Before working drawing funds are appropriated for this project, the department should clarify its current intentions for providing comfort conditioning for the domiciliary units. In addition, the department should provide revised preliminary plans and cost estimates that reflect these intentions.

Accordingly, we withhold recommendation on working drawing funds for Sections A, C and D, pending receipt of clarifying information from the department.

Correct Code Deficiencies in Section F

We recommend approval of Item 1970-301-036(7), preliminary plans to remodel Section F.

The budget includes \$84,000 under Item 1970-301-036(7) for the preparation of preliminary plans to remodel the Section F building at the Veterans' Home. This structure currently houses the only residential care facility at the Home. The proposed renovations include modifications to meet handicapped requirements, installation of a heating, ventilating and cooling system and modifications to the existing electrical system.

Renovations to Section F are contingent upon the completion of Sections A, C and D which will be used as swing space to house members while other buildings at the Home are being remodeled. According to departmental project schedules, construction work on Sections A, C and D will begin in 1985-86 and will be ready for occupancy by 1986-87. Therefore, it is appropriate to begin preliminary planning work for Section F at this time and we recommend that funds for the work be approved.

Storm Drainage System

We recommend deletion of Item 1970-301-036(8) because the request to enlarge the storm drainage system is premature. We further recommend that the department conduct an engineering evaluation of the Veterans' Home drainage system, and report the results of this evaluation to the Legislature during hearings on the budget.

The budget proposes \$324,000 under Item 1970-301-036(8) to enlarge and improve the storm drainage system at the Veterans' Home. According to the department, this project originally was planned as a four-phase minor capital outlay program. Phase I (\$88,500) and Phase II (\$87,600) were not completed due to the freeze on capital outlay expenditures in 1982-83 and the funds reverted. The department indicates that the project is now being requested as one major capital outlay project because existing storm drains are inadequate and the runoff from normal rainfall has

caused damage to basements, flooring, roadways, and landscaped areas.

The department has provided a general description of the drainage areas at the Veterans' Home which it proposes to reconstruct. This information, however, is incomplete and is not based upon an engineering assessment of the drainage system and the work which needs to be accomplished in order to correct any deficiencies.

We recommend that an engineering evaluation of the drainage area at the Veterans' Home be completed before funds are appropriated for this project. Consequently, we recommend that the \$324,000 proposed for this item be deleted. The department, possibly in conjunction with the Office of State Architect, could prior to budget hearings contract with an engineering consultant to evaluate the drainage system and propose an engineering solution to any problems. In the event such an evaluation is available prior to budget hearings, we will review the study and provide our recommendations to the fiscal committees. A request based on such a report would warrant legislative consideration for funding in the budget year.

Minor Capital Outlay

We recommend deletion of one minor project, Correct Hospital Basement Drainage, because this work can be completed as part of the larger drainage reconstruction project at the Veterans' Home.

The budget proposes \$492,000 for nine minor capital outlay projects for the Department of Veterans Affairs. These projects are summarized in Table 3. With the exception of one project, we recommend that funding for them be approved.

Table 3
Department of Veterans Affairs
1984-85 Minor Capital Outlay
(in thousands)

Project	Budget Bill Amount
1. Gasoline Storage Tanks and Pumps.....	\$103
2. Handicapped Access Doors	60
3. Fire Sprinkler System for Workshop I	42
4. Standardize Dock Height.....	67
5. Correct Hospital Basement Drainage	54
6. Handicap Ramp and Cover	73
7. Relocate Chlorine Storage	39
8. Addition to Hospital to Correct Deficiency	32
9. Handicapped Drinking Fountains	22
Total	\$492

Correct Hospital Basement Drainage. A total of \$54,000 is budgeted under minor capital outlay to correct drainage problems at Holderman Hospital. The department indicates that this project would prevent annual flooding of the hospital basement.

As discussed above, we recommend that the department conduct an engineering evaluation of drainage system deficiencies at the entire Veterans' Home. This area should be included as part of that study, and the necessary corrections should be funded as part of the larger project to expand the drainage systems. Addressing drainage deficiencies on a comprehensive basis will result in a more cost-effective solution to the prob-

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lem, and accordingly, we recommend that the funds for this element of the problem be deleted.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

Projects by Descriptive Category

To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which our analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The acute care hospital addition (\$2,802,000) and Section F (\$84,000) projects fall under category one. The eight minor projects at the Veterans' Home (\$438,000) fall under category seven.