Business, Transportation and Housing Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General Fund — Budget p. BTH 2

Requested 1984–85	$14,600,000
Estimated 1983–84	14,086,000
Actual 1982–83	12,839,000
Requested increase (excluding amount for salary increases) $514,000 (+3.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Program Expenditures. Recommend that the department report prior to budget hearings on its expenditure plans for the current year and the budget year. 304

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, has the exclusive power, in accordance with laws enacted by the Legislature, to license the manufacture, importation, and sale of alcoholic beverages in California, and to collect license fees. The department is given discretionary power to deny, suspend, or revoke licenses for good cause.

The department maintains 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department is authorized 368 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $14,600,000 from the General Fund for support of the Department of Alcoholic Beverage Control in 1984–85. This is $514,000, or 3.6 percent, above estimated current-year expenditures. The increase will grow by the cost of any salary and staff benefit increases approved for the budget year.

Table 1
Department of Alcoholic Beverage Control
Program Summary
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	Estimated 1983–84	Proposed 1984–85	Increase From 1983–84 to 1984–85 Amount	Increase From 1983–84 to 1984–85 Percent
Expenditures					
Licensing	$8,836	$9,656	$9,783	$127	1.3%
Compliance	4,385	4,880	5,267	387	7.9
Administration (distributed)	(1,603)	(1,845)	(1,901)	(56)	(3.0)
Totals	$13,221	$14,536	$15,050	$514	3.5%
Personnel-Years					
Licensing	204.1	212.2	208.1	−4.1	−1.9%
Compliance	106.7	101.4	101.4	—	—
Administration	39.8	44.0	41.8	−2.2	−5.0
Totals	350.6	357.6	351.3	−6.3	−1.8%

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

The proposed increase of $514,000 reflects (1) an increase of $511,000 for merit salary and employee compensation adjustments, (2) an additional $178,000 for inflation adjustments to operating expenses, and (3) a reduction of $175,000 and 6.3 positions to reflect increased efficiencies.

The expenditure of anticipated reimbursements totaling $450,000 results in a total expenditure program for the department of $15,050,000 in the budget year. Table 1 provides a summary of expenditures and personnel-years for the department's three programs.

ANALYSIS AND RECOMMENDATIONS

Shift in Program Emphasis Not Reflected in Budget

We recommend that the Department of Alcoholic Beverage Control report prior to budget hearings on its expenditure plans for the current year and the budget year.

The department carries out its duties through two line programs, licensing, and compliance. The licensing program investigates applicants for alcoholic beverage licenses to ensure that they meet the qualifications set forth in the Constitution and statute. Compliance activities, on the other hand, are focused on enforcing laws and regulations related to the manufacture and sale of alcoholic beverages. Since 1980–81, approximately 66 percent of the department's expenditures have been directed toward licensing activities and the remaining 34 percent have been directed toward compliance. The budget indicates that this trend will continue with 66 percent and 65 percent of resources devoted to licensing in the current and budget years, respectively.

Discussions with the department, however, indicate that a significant shift in program emphasis from licensing to compliance activities is occurring in the current year and will continue into the budget year. This change is not reflected in the budget. Further, we are not aware of any communication from the Director of Finance formally notifying the Legislature of any program or expenditure changes in the department's budget, pursuant to the provisions of Section 6.5 of the 1983 Budget Act. This section authorizes the Director to augment funds appropriated for one program by transfering funds from another program within the same schedule of appropriations, and requires him to submit a quarterly report of these revisions to the Legislature. In addition, a transfer in excess of $100,000 may be authorized only after 30 days prior notification has been given to the fiscal committees of each house and the Chairperson of the Joint Legislative Budget Committee.

So that the Legislature is fully informed of the department's expenditure plan, we recommend that the department report prior to budget hearings, on its plans to change the emphasis of its programs and how this change will affect its expenditures by program for the current and the budget years.

General Fund Revenues Underestimated

The Department of Alcoholic Beverage Control is supported by the General Fund and produces revenue for the General Fund. It collects license fees and various other fees and charges, according to schedules established by statute. All money collected by the department is deposited in or transferred to the General Fund.

Table 2 provides a summary of actual, estimated, and projected revenues by fiscal year. As shown in the table, the department estimates that its activities will generate revenues to the General Fund of $27,695,000 in 1984–85. This is an increase of $300,000, or 1.1 percent, from estimated current year revenues.

Table 2

Department of Alcoholic Beverage Control
License Fees and Miscellaneous General Fund Revenues
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Projected 1984–85*
Out-of-state beer certificates	$10	$10	$10
Original license fees	3,190	3,300	3,400
Transfer fees	3,873	3,900	4,000
Special fees	324	325	325
Service charges	206	200	200
Annual fees	16,592	16,395	16,490
Offers in compromise	815	805	810
Ten percent surcharge on annual fees	1,594	1,600	1,600
Caterer's authorization, permits, and manager's certificates	535	560	560
Penalty assessments	285	300	300
Miscellaneous income	12	—	—
Totals	$27,436	$27,395	$27,695

Our review of the department's revenue estimates indicates the revenues are understated for both the current and budget years, for two reasons. First, statutory fee and surcharge increases enacted in 1983 are not taken into account in the department's calculations. Second, the estimates do not reflect the projected increase in the number of licensees in the current and budget years.

New Fees and Charges. Three measures enacted by the Legislature in 1983 made modifications to the fees and surcharges collected by the department. These changes are not reflected in the department's revenue estimates for the current and budget years. These changes, and the fiscal effect of each, are as follows:

- ***Offers in Compromise.*** The upper and lower limits on payments of offers in compromise were *tripled* by Ch 323/83. In December 1982 the department estimated that if the limits had been *doubled*, revenues would have increased by $750,000 annually. We do not have adequate information to determine the additional revenue to be gained by tripling rather than doubling the limits, because the increase depends on the distribution of payments between the upper and lower limits. It would appear, however, that at least $750,000 in additional revenue will be received annually, pursuant to this act.
- ***Administrative Hearing Surcharge.*** Chapter 1034, Statutes of 1983, established a surcharge, not to exceed 6 percent, on annual license

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

fees to cover the cost of administrative hearings. The department has set the surcharge at 4 percent. This should result in revenues of $312,000 in the current year and $611,000 in the budget year.

- ***Off-Sale Beer and Wine License.*** The fee for an original off-sale beer and wine license was doubled by Ch 323/83. Additional revenues of $87,000 and $95,000 should be collected in the current and budget years, respectively, as a result of this change.
- ***Daily Beer and Wine License.*** Chapter 323, Statutes of 1983, raised the maximum fee for special daily licenses from $5.50 to $15.00. The department now indicates that this should result in additional revenues of $91,000 in 1983–84 and $114,000 in 1984–85.
- ***Modification Fee.*** Chapter 588, Statutes of 1983, established a $100 fee for petitions to remove or modify conditions on alcoholic beverage licenses. The estimated revenue of $4,000 in the current year, and $8,000 in the budget year from this change is not reflected in the budget.

Growth in Licensees. The department estimates revenues from annual license fees at $16,395,000 in the current year and $16,490,000 in the budget year, a decrease from the $16,592,000 in fees collected in 1982–83. At the same time, however, the budget projects increases in the number of active licenses of 2.5 percent from 1982–83 to 1983–84, and 1.6 percent from 1983–84 to 1984–85. Based on the projected growth in the number of licensees, it appears that annual fee collections may be underestimated by $612,000 in the current year and $789,000 in the budget year.

In summary, our analysis indicates that the department's estimate of General Fund revenue is understated by at least $1,856,000 for 1983–84 and $2,367,000 for 1984–85.

Business, Transportation and Housing Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 2120 from the Alcoholic Beverage Control Appeals Fund — Budget p. BTH 6

Requested 1984–85	$297,000
Estimated 1983–84	400,000
Actual 1982–83	254,000
Requested decrease (excluding amount for salary increases) $103,000 (+25.8 percent)	
Total recommended reduction	None

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2120-001-117—Support		Alcoholic Beverage Control Appeals	$207,000
2120-011-117—Repayment of General Fund Loan		Alcoholic Beverage Control Appeals	90,000
Total			$297,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Special Fund Reserve. Recommend that the board report to the Legislature during budget hearings on (1) the size of the prudent reserve needed in the Alcoholic Beverage Control Appeals Fund, and (2) any adjustment to the current surcharge necessary to achieve the needed reserve. 308

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by an amendment to the State Constitution in 1954. Upon request, the board reviews decisions of the Department of Alcoholic Beverage Control (ABC) relating to the assessment of fines or to the issuance, denial, transfer, suspension, or revocation of any alcoholic beverage license. The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal.

The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members meet once each month, alternating between Los Angeles and San Francisco. The members are reimbursed for expenses, and receive a per diem of $100 for each day the board meets. In the current year, the board's 3-person staff consists of two attorneys and one clerical employee.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations from the Alcoholic Beverage Control Appeals Fund totaling $297,000 for support of the board in 1984–85. One appropriation would provide $207,000 to finance the board's activities; the other would provide $90,000 for the board to use in repaying a General Fund loan. The total of these two appropriations is $103,000, or 26 percent, less than estimated current-year expenditures from the fund. The decrease primarily reflects a reduction in the amount needed for loan repayments in the budget year.

Support Item. The budget includes $207,000 to support the activities of the board in 1984–85. This is an increase of $7,000, or 3.5 percent, from estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increases approved for the budget year. No changes in staffing or program are proposed in the budget.

Loan Repayment Item. The 1982 Budget Act companion measure (Ch 327/82) requires the board to become entirely self-supporting, and established a fee system to finance the board's activities. The 1982 Budget Act provided that the $286,000 General Fund appropriation to the board in that year was a loan, to be repaid, with interest, from fee revenue. Chapter 4, Statutes of 1983 repealed the fee system and instead required the board to establish a surcharge of not more than 3 percent on annual alcoholic beverage license fees in order to raise the money needed to finance the board's costs. The department estimates that the surcharge will raise $405,000 in the current year—enough to support the board and allow partial repayment of the loan. The budget proposes an appropriation of $90,000 to pay the remaining loan balance and interest in 1984–85.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

ANALYSIS AND RECOMMENDATIONS

Surcharge Should Reflect Ongoing Costs

We recommend that the board report to the Legislature during budget hearings on (1) the size of the prudent reserve needed in the Alcoholic Beverage Control Appeals Fund, and (2) any adjustment to the current surcharge necessary to achieve the needed reserve.

Existing law requires the board to establish a surcharge on annual liquor license fees to provide the revenue needed to finance the board's support costs. Currently, the surcharge is set at the maximum allowable level of 3 percent. The same surcharge is proposed in the budget year, resulting in estimated revenue of $405,000 to the Alcoholic Beverage Control Appeals Fund in 1984–85. Of this amount, $113,000 will remain in the fund on June 30, 1985. The end-of-year balance is equal to 55 percent of the amount requested for ongoing operation of the board. The appropriate size of a fund's year-end reserve generally depends on the degree of uncertainty regarding revenues to the fund, the likelihood that an increase in expenditures will be necessary after enactment of the Budget Act, and cash flow needs. In our judgment, the proposed 55 percent reserve appears excessive, given the board's statutory directive to establish a surcharge which will generate enough revenues to cover board costs, periodically adjusting the rate as necessary. We believe the board could reduce its surcharge rate in the budget year and still maintain a prudent reserve.

Consequently, we recommend that the board report to the Legislature during budget hearings on (1) the size of the reserve needed to deal with the economic uncertainties facing the fund and (2) the adjustments which it will make to the liquor license surcharge in 1984–85 to preclude the collection of revenues in excess of the necessary amount.

Business, Transportation, and Housing Agency

STATE BANKING DEPARTMENT

Item 2140 from the State Banking Fund — Budget p. BTH 8

Requested 1984–85	$7,829,000
Estimated 1983–84	7,369,000
Actual 1982–83	6,061,000
Requested increase (excluding amount for salary increases) $460,000 (+6.2 percent)	
Total recommended reduction	None

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2140-001-136—Support		State Banking	$7,768,000
2140-001-240—Administration of Local Agency Security		Local Agency Deposit Security	61,000
Total			$7,829,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. State Banking Department Role. Recommend adotion of supplemental language requiring the department to submit a report on its changing regulatory role in a deregulated banking environment.	310
2. Unfilled Bank Examiner Positions. Recommend the department report to the fiscal committees on its efforts to fill previously authorized bank examiner positions.	312

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from the losses that result when a bank or trust company fails. Because banks have the option of being regulated by either the state or the federal government, not all banks in California are subject to regulation by this department.

As of December 31, 1983, there were 273 state-chartered banks with 1,677 branch offices doing business in California. These banks had total assets of $68 billion. There were also 123 federally chartered banks with 2,964 branch offices doing business in the state. These banks had total assets of $211 billion.

The department also regulates licensed companies which sell money orders and travelers checks, either for domestic use or for purposes of transmitting money abroad.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Pursuant to law, the superintendent is designated as the "administrator of local agency security," and acts as an agent for approximately 1,600 local treasurers in supervising the handling of public funds by depository banks. In addition, the department licenses and regulates Business and Industrial Development Corporations (BIDCOs) pursuant to a federal law which requires state licensure of BIDCOs as a condition for receiving loan guarantees from the Small Business Administration.

The department is headquartered in San Francisco, and has branch offices in Los Angeles, Sacramento and San Diego. The department is authorized 181.5 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The department proposes expenditures of $7,829,000 from the State Banking Fund in 1984–85. This is $460,000, or 6.2 percent, more than estimated expenditures in the current year. This increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

The department anticipates receiving reimbursements of $100,000 during the budget year, resulting from fees charged for (1) examining trust companies, and (2) conducting special examinations of banks. Thus, the budget proposes total expenditures of $7,929,000 in 1984–85, an increase of $460,000, or 6.2 percent, over current year expenditures. The proposed increase is attributable to a net increase in the cost of salaries and wages ($359,000) and staff benefits ($27,000), and an adjustment to offset the effects of inflation on operating expenses ($74,000).

Table 1 shows expenditures and personnel-years for the department's programs in the past, current, and budget years.

STATE BANKING DEPARTMENT—Continued

Table 1
State Banking Department
Expenditures and Staffing
1982–83 through 1984–85
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Licensing and supervision of banks and trust companies	141.1	172.7	170.7	$6,117	$7,331	$7,782
Payment instruments	0.4	1.0	1.0	9	31	34
Certification of securities	0.2	0.3	0.3	8	10	12
Supervision of California business and industrial development corporations	0.4	1.0	1.0	17	38	40
Administration of local agency security	1.2	2.5	2.5	55	59	61
Departmental administration (prorated to departmental program)						
Executive and administration services	(12.3)	(14.0)	(13.0)	(347)	(393)	(425)
Legal and legislative services	(10.6)	(15.5)	(15.5)	(436)	(580)	(643)
Policy information services	(6.7)	(8.0)	(8.0)	(219)	(242)	(285)
Totals	143.3	177.5	175.5	$6,206	$7,469	$7,929
Reimbursements				−145	−100	−100
Net Totals				$6,061	$7,369	$7,829

ANALYSIS AND RECOMMENDATIONS

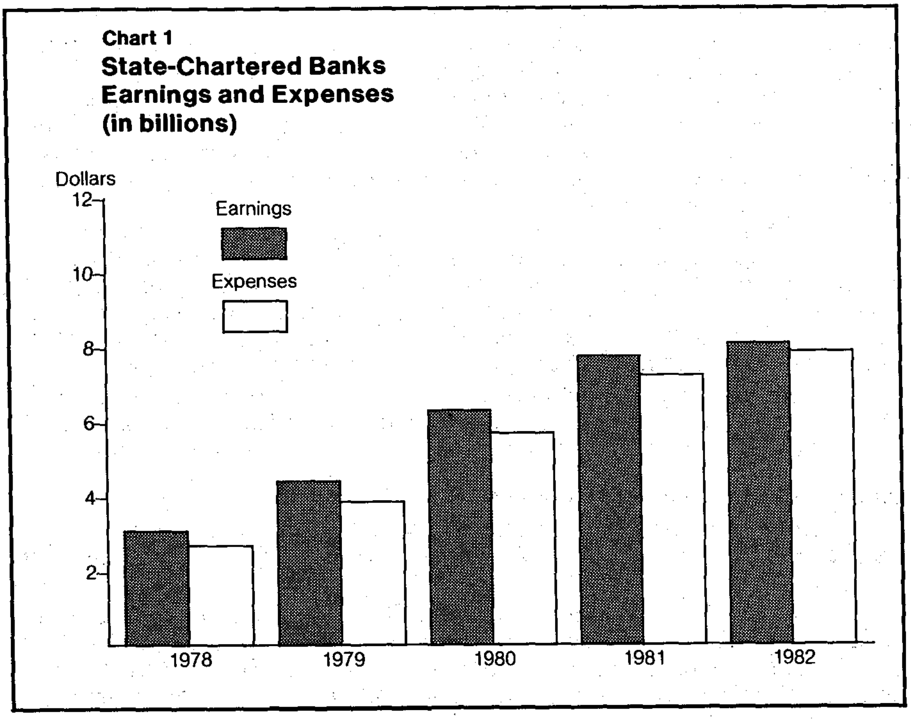
Banking Deregulation

We recommend that the Legislature adopt supplemental report language requiring the department to submit a report by December 1, 1984, evaluating its changing role as a regulator in a deregulated banking environment.

Since 1978, deregulation of the banking industry has proceeded along two separate lines: (1) interest rate ceilings on deposits have gradually been removed, and (2) new investment authority has been granted to banks. A third type of deregulation, the removal of geographic restrictions on banks that limit interstate banking, currently is being discussed at the state level.

Interest Rate Ceilings Lifted. As a result of what is generally called *deposit deregulation*, there has been an increase in competition between different types of financial institutions, including banks, for depositors' funds. Increased competition for funds has led to higher interest rates paid depositors—large and small—and, in the process, has driven up the cost of funds to banks. When combined with the generally sluggish economic conditions that prevailed during the early 1980s, deposit deregulation has had a dramatic effect on the profitability of the banking industry.

Chart 1 shows earnings and expenses for state-chartered institutions in California for the period 1978 through 1982.



As the chart shows, there have been dramatic increases in both earnings and expenses during the last five years. Expenses, however, have risen at a rate faster than earnings. Specifically, expenses are up by $5.2 billion, or 192 percent, since 1978, while earnings have increased $5.0 billion, or 162 percent. The result has been a decline in the profit margin of most state-chartered banks. Net earnings by these institutions reached their lowest point in five years during 1982 ($220 million).

Broadened Investment Authority. Traditionally, banks have been *financial intermediaries* whose primary role was deposit taker and loan maker. In this role, a bank generally faced three types of *risk*, including: (1) credit risk, (2) interest rate risk, and (3) operational risk. *Credit risk* is inherent in a debtor/creditor relationship since there is always the possibility that the debtor will default on his obligation. *Interest rate risk* reflects the fact that banks frequently loan money at a fixed interest rate and for a fixed period, and are not able to raise the rate when the cost of the money they lend increases. *Operational risk* generally refers to risks associated with a bank's (1) overhead, including its physical facilities and the people it employs, and (2) liquidity position.

New Risk Introduced. Recently, a new element of risk has been introduced into the banking equation. Chapter 1196, Statutes of 1982 (AB 3496), permits state-chartered banks to assume an *equity position* in commercial ventures, including real estate. In total, a bank's equity position may not exceed 10 percent of the bank's total assets. In addition, banks are permitted to provide new services, including real estate appraisal services, management consulting advice, and services and electronic data processing services. The effect of this new authority has been to blur the tradi-

STATE BANKING DEPARTMENT—Continued

tional lines between banking and commerce, and to introduce a new type of risk, *equity risk*, into the banking environment.

State banking officials acknowledge that the broad investment authority given to banks has introduced a new element of risk into the banking environment. They also acknowledge that bank examiners must receive additional training and experience if they are to properly evaluate the new equity risk facing banks.

In view of these changes in the banking environment and the need for a positive response on the department's part, we recommend that the Legislature adopt supplemental report language requiring the department, by December 1, 1984, to submit a report which addresses its changing role and evaluates its resource needs in order to perform this role. Specifically, we recommend adoption of the following language:

"The State Banking Department shall submit a report to the Legislature by December 1, 1984, which evaluates the department's changing role as a regulatory authority in a deregulated banking environment."

Bank Examiner Positions Go Unfilled

We recommend that the department report to the fiscal committees by April 1, 1984, on its effort to fill previously authorized bank examiner positions.

During the 1983–84 budget process, a State Banking Department request for $482,000 and 19 new bank examiner positions (10 beginning July 1, 1983, and nine on January 1, 1984) was approved. In the request, the department cited the *deteriorating condition* of state-chartered banks as the justification for these positions.

The department presently assesses the condition of banks using a uniform financial institution rating system which incorporates five key dimensions of bank performance. The dimensions include: (1) *capital adequacy,* (2) *asset quality,* (3) *management,* (4) *earnings,* and (5) *liquidity.* These performance dimensions are commonly identified by the acronym *CAMEL.* Bank regulators give banks a composite CAMEL rating of from one to five, once their examination is completed. The rating is not simply a numerical average; rather, it reflects the extent of supervisory oversight an institution might need, given a set of circumstances. The specific ratings are as follows:

- ***Rating "1".*** Indicates strong performance, significantly higher than average.
- ***Rating "2".*** Reflects satisfactory performance which is average or above; this includes performance that adequately provides for the safe and sound operation of the bank.
- ***Rating "3".*** Represents performance that is flawed to some degree and as such is considered fair. It is neither satisfactory nor unsatisfactory but is characterized by performance that is of below-average quality.
- ***Rating "4".*** Refers to marginal performance, significantly below average. If left unchecked, such performance might evolve into weaknesses or conditions that could threaten the viability of the institution.
- ***Rating "5".*** Considered unsatisfactory; performance that is critically deficient and in need of immediate remedial attention. Such performance, by itself or in combination with other weaknesses, threatens the viability of the institution.

Generally, banks with a composite CAMEL rating of 3, 4, or 5 are considered *problem banks* which require a greater amount of supervisory time.

Table 2 shows the number of state-chartered banks in each composite CAMEL rating category at two points in time: (1) when the department requested the new positions (March 31, 1983), and (2) as of December 31, 1983. As the table shows, the number of banks termed *problem banks* (those banks having a composite CAMEL rating of 3, 4, or 5) has increased during the period, while the number of banks having CAMEL ratings of 1 and 2 has decreased.

Table 2
State Banking Department
Composite CAMEL Rating of State-Chartered Banks
March 31, 1983, and December 31, 1983

	March 31, 1983		*December 31, 1983*	
CAMEL Rating	*Number of Banks*	*Percent of Total*	*Number of Banks*	*Percent of Total*
5	8	3.0%	10	3.7%
4	23	8.7	32	11.7
3	43	16.3	49	17.9
1 and 2	190	72.0	182	66.7
	264	100.0%	273	100.0%

As of December 31, 1983, only two of the 10 new bank examiner positions that were authorized on July 1, 1983, had been filled. According to the department, the remaining eight positions were not filled because of the Governor's freeze on hiring. When the nine positions approved to begin January 1, 1984 are added in, we find that there are 17 bank examiner positions unfilled. Given the importance of the function to be performed by these examiners, we recommend that the department report to the fiscal subcommittees by April 1, 1984, on its efforts to fill these vacant positions.

Business, Transportation and Housing Agency
DEPARTMENT OF CORPORATIONS

Item 2180 from the General Fund — Budget p. BTH 13

Requested 1984–85	$7,628,000
Estimated 1983–84	7,180,000
Actual 1982–83	6,356,000
Requested increase (excluding amount for salary increases) $448,000 (+6.2 percent)	
Total recommended reduction	55,000
Recommendation pending	1,759,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. ***Computer-Assisted Legal Research. Reduce Item 2180-001-001 by $25,000.*** Recommend reduction because the cost- 316

DEPARTMENT OF CORPORATIONS—Continued

effectiveness of the proposed system has not been established.

2. ***Operating Expenses. Reduce Item 2180-001-001 by $30,000.*** Recommend reduction to correct for overbudgeting. 316
3. ***Lender-Fiduciary Program.*** Recommend that reimbursements be reduced by $98,000 for 4.3 personnel-years to correct for overbudgeting. 316
4. Knox-Keene Health Care Service Plan program. We withhold recommendation on $1,759,000 requested for the Knox-Keene Health Care Service Plan program because information on the proposed reorganization of various program elements has not been provided to the Legislature. We recommend that the department submit its proposal to the fiscal committees by April 1, 1984. 318

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, fraudulent sale of securities and franchises, and improper business practices by certain entities that lend or hold money in trust. The department carries out this mission through three programs: (1) investment, (2) lender-fiduciary, and (3) health care service plans. The cost of administering the department is prorated among these three programs.

Under the *Investment program,* the department approves securities and franchises offered for sale, and conducts investigations to enforce the various laws administered by the department. The department also reviews license applications of prospective securities broker-dealers and investment advisors.

The *Lender-Fiduciary program* licenses and examines lender-fiduciary institutions regulated by the department, including check sellers and cashers, credit unions, escrow offices, industrial loan companies, consumer finance lenders, commercial finance lenders, and trading stamp companies.

The *Health Care Service Plan* program is responsible for regulating health care service plans under the Knox-Keene Health Care Service Plan Act of 1975, and for administering the charitable trust statutes as they relate to health care service plans.

The department is administered by the Commissioner of Corporations, who is appointed by the Governor. The department's headquarters is in Sacramento, and it has branch offices in San Francisco, Los Angeles and San Diego. In the current year, the department is authorized a total of 342 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $7,628,000 from the General Fund for support of the department in 1984–85. This is an increase of $448,000, or 6.2 percent, above estimated current-year expenditures. The proposed increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The department anticipates receiving reimbursements of $7,120,000 during the budget year, resulting from fees charged for examining the financial records of licensees. Thus, the budget proposes total expenditures by the department of $14,748,000 in 1984–85. This is $767,000, or 5.5

percent, more than total estimated current-year expenditures. The proposed increase is attributable to a net increase of 5.3 positions ($94,000), increases in salary and wage costs ($368,000) and staff benefits ($181,000), and an adjustment to offset the effects of inflation on operating expenses ($124,000). These increases are partially offset by an anticipated increase in reimbursements ($319,000).

It is anticipated that the department's programs will generate revenues of $10,126,000 to the General Fund in 1984–85. This reflects an increase of $484,000, or 5 percent, above what is estimated for the current year.

Table 1 shows expenditure staffing and revenue data for the department in the past, current, and budget years.

Table 1
Department of Corporations
Revenue, Expenditure and Staffing Data
1982–83 through 1984–85
(in thousands)

	Actual 1982–83		*Estimated 1983–84*		*Projected 1984–85*	
Program/Element	*PYs*[a]	*Expenditures*	*PYs*[a]	*Expenditures*	*PYs*[a]	*Expenditures*
Investment:						
Qualifications	78.4	$2,852	84.4	$3,468	81.8	$3,590
Franchises	5.9	279	5.4	286	5.5	302
Regulation and enforcement	80.8	3,594	74.4	3,510	74.9	3,766
Lender-Fiduciary:						
Check Sellers and Cashers Law	1.0	49	1.0	53	1.0	55
Credit Union Law	40.8	1,665	41.8	1,888	41.9	1,934
Escrow Law	19.3	734	19.2	865	19.3	882
Industrial Loan Law	18.1	782	18.9	860	19.0	878
Personal Property Broker Law	19.6	740	17.1	717	17.2	730
Trading Stamp Law	0.1	3	0.1	4	0.1	4
Consumer Finance Lenders	9.7	378	14.0	585	22.0	794
Commercial Finance Lenders	0.7	30	1.1	53	1.1	54
Health Care Service Plan:						
Licensing	16.4	735	18.4	914	18.4	950
Financial examinations	5.6	251	6.3	312	6.3	324
Medical survey	1.5	68	1.7	84	1.7	88
Enforcement	6.9	307	7.6	382	7.6	397
Administration: (prorated to other programs)						
General office	(6.6)	(323)	(9.0)	(447)	(8.0)	(417)
Accounting and personnel	(7.8)	(252)	(8.0)	(281)	(8.0)	(283)
Program Totals	319.2	$12,467	328.4	$13,981	333.8	$14,748
Reimbursements		6,114		6,801		7,120
Net Totals	319.2	$6,353	328.4	$7,180	333.8	$7,628
Legislative Mandate [c]		3		(4)		(4)
Totals		$6,356		$7,180		$7,628
Revenue		$8,391		$9,642		$10,126

[a] PYs = Personnel-years.
[b] The department is authorized 342 positions in the current year.
[c] For 1983–84 and 1984–85, funding for this mandate is provided through Item 9680-101-001.

DEPARTMENT OF CORPORATIONS—Continued

ANALYSIS AND RECOMMENDATIONS

Cost-Effectiveness of Computer-Assisted Legal Research Has Not Been Established

We recommend that Item 2180-001-001 be reduced by $25,000 because the cost-effectiveness of the proposed computer research system has not been established.

The department is proposing $25,000 in 1984–85 to lease a computer-assisted legal research system known as "LEXIS". The department, in response to an introductory offer, installed the system in its Los Angeles and San Francisco offices during the current year. During the trial period (which ends June 30, 1984), the department is being billed only for the computer time which it actually uses ($1,957 to date).

The department anticipates that the computer will speed up its legal research work and provide more research material.

We do not question the efficiency and thoroughness of a computer-based research system. The department, however, has not attempted to estimate the time currently spent on legal research nor the anticipated time saved if the system is funded on a permanent basis. Without this information, we have no basis on which to evaluate the cost-effectiveness of the proposed system. For this reason, we recommend that Item 2180-001-001 be reduced by $25,000.

Operating Expense Is Overstated

We recommend Item 2180-001-001 be reduced by $30,000 to correct for overbudgeting.

The department proposes to eliminate $128,000 and five personnel-years in 1984–85 as a part of the Governor's proposed *3 percent reduction.* The positions include a training officer, engineer, and three office assistants. According to the department, the duties of each will be decentralized, eliminated and redirected, respectively. The department's proposed reduction, however, does not provide for a decrease of $30,000 in expenditures for the operating expenses and equipment associated with these positions. Thus, we recommend the Legislature reduce this item by $30,000 to eliminate overbudgeted operating expenses and equipment.

Lender-Fiduciary Reimbursements Are Overbudgeted

We recommend that Item 2180-001-001 be reduced by $98,000 in reimbursements for 4.3 personnel-years to correct for overbudgeting.

The department's Lender-Fiduciary program regulates eight separate types of lender-fiduciary institutions, including check sellers and cashers, credit unions, escrow offices, industrial loan companies, consumer finance lenders, commercial finance lenders, and trading stamp companies. The budget proposes total expenditures of $5,331,000 for this program in 1984–85. This is $307,000, or 4 percent, more than the department estimates it will spend for the program in the current year.

The proposed increase would fund (1) 8.3 auditor positions ($195,000) for the purpose of conducting a greater number of regulatory examinations and (2) increased personal services and operating expense costs due to inflation ($112,000). The department is proposing to use the additional auditors to conduct regulatory examinations, primarily in the Consumer

Finance Lenders industry. This industry, which was created by Ch 724/81 (SB 140), has grown since January 1, 1982 to an estimated 1,825 licensees in the current year. The department is projecting that there will be 1,989 licensees in 1984–85, which is 164, or 9 percent, more than in the current year.

Examinations of licensees represent one of four types of auditor workload in this program. Table 2 displays the four types of workload and the hours and personnel-years associated with each, for the period 1982–83 through 1984–85. The figures in the table represent hours worked and do not include nonproductive time, such as vacation and sick leave.

Table 2
Department of Corporations
Lender-Fiduciary Program
Distribution of Auditor Work Hours
1982–83 through 1984–85

	Actual 1982–83		*Estimated 1983–84*		*Budgeted 1984–85*	
Function	*Hours*	*PYs*[a]	*Hours*	*PYs*[a]	*Hours*	*PYs*[a]
Examinations	58,913	32.7	77,576	43.7	92,253	52.0
Complaints	3,166	1.8	3,373	1.9	3,315	1.9
Licensing	3,864	2.2	4,083	2.3	4,062	2.3
Administration	73,826	41.0	77,399	43.6	77,396	43.6
Totals	139,769	77.7	162,431	91.5	177,026	99.8

[a] PYs = Personnel-years

Our analysis of information provided by the department regarding projected number of licensees to be examined in 1984–85 and average hours per examination, indicates that the department has overstated its needs. Table 3 shows each of the industries and projected total number of hours that will be needed in 1984–85 to conduct regulatory examinations. As the table indicates, we find that the department will need 84,692 hours, or 47.7 personnel-years, to conduct examinations in 1984–85. This is 7,561 hours, or 4.3 personnel-years, *less* than the department is requesting for the budget year. Accordingly, we recommend the Legislature reduce the Lender-Fiduciary program by $98,000 in reimbursements and 4.3 personnel-years because of overbudgeting.

Table 3
Department of Corporations
Projected Auditor Examination Hours—1984–85

Industry	*Licensees to Be Examined 1984–85*	*Hours Per Exam*	*Total Exam Hours*	*PYs*
Check Sellers and Cashers	10	126	1,260	.71
Credit Unions	376	63	23,688	13.35
Escrow Agents	525	31	16,275	9.17
Industrial Loan Companies	306	74	22,644	12.76
Personal Property Brokers	1,972	7	13,804	7.78
Consumer Finance Lenders	995	7	6,965	3.93
Commercial Finance Lenders	8	7	56	.03
Trading Stamp Companies	—	—	—	—
Totals			84,692	47.70

DEPARTMENT OF CORPORATIONS—Continued

Restructuring of Knox-Keene Health Care Service Plan Program

We withhold recommendation on $47,000 requested from the General Fund and $1,712,000 in reimbursements for the Knox-Keene program because information on the proposed reorganization of various program elements has not been submitted for legislative review. We recommend that the department submit its proposal to the fiscal committees by April 1, 1984.

The budget proposes total expenditures of $1,759,000 for support of the department's Health Care Services Plan program (HCSP) in 1984–85. This is $67,000, or 4 percent, more than is estimated to be spent in the current year. The increase is due solely to increased personal services and operating expenses resulting from salary and inflation adjustments.

The HCSP program is responsible for regulating health care service plans pursuant to the Knox-Keene Health Care Service Plan Act of 1975. These plans provide health care services to their members for a prepaid or periodic charge. The type of service provided to members can include (1) physician services; (2) hospital in-patient and ambulatory care services; (3) diagnositc laboratory services; (4) home health services; (5) preventive health services, and (6) emergency services. Health care service plans which (1) are *multiple-employer trusts*, or (2) serve to *substantially indemnify* plan members, are *not* subject to licensure under the provisions of the Knox-Keene Health Care Service Plan Act.

The regulatory workload of the HCSP program is divided among four separate program elements: licensing, financial and administrative examinations, medical surveys, and enforcement. The department indicates that it is planning to substantially modify and revise its procedures relating to the licensure and conduct of plan medical surveys. Without this information, we have no basis for assessing the adequacy of the amount requested. Accordingly, we withhold recommendation on the department's request for the HCSP program in 1984–85. We recommend that the department submit its proposal to the fiscal committees by April 1, 1984.

Reimbursement of Contra Costa County

We recommend approval.

Chapter 941, Statutes of 1975, requires health care services plans to be licensed by the Department of Corporations. Each plan is required to establish a department-approved system which will enable enrollees to submit grievances to the plan. Currently, Contra Costa County operates a health care service plan for its Medi-Cal recipients. Pursuant to Section 2231(a) of the Revenue and Taxation Code, Item 9680-101-001 appropriates $4,000 from the General Fund to reimburse Contra Costa County for costs associated with meeting the provisions of Chapter 941.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT

Item 2200 from the General Fund and various funds — Budget p. BTH 21

Requested 1984–85	$16,124,000
Estimated 1983–84	8,061,000
Actual 1982–83	10,251,000
Requested increase (excluding amount for salary increases) $8,063,000 (+100 percent)	
Total recommended reduction	5,548,000
Recommendation pending	4,859,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2200-001-001	Support (includes $3,023,000 transfer to the Small Business Expansion Fund)	General	$14,899,000
2200-001-801	Small Business Development Center	Support	(400,000)
2200-001-890	Support	Federal Trust	(167,000)
2200-101-922	Office of Local Economic Development, Local Assistance	Federal Trust	(425,000)
2200-101-890	Office of Local Economic Development, Local Assistance	California Economic Development Grant and Loan	1,200,000
2200-001-044	Office of Tourism, State Support (carryover appropriation)	General, (Olympic Reflectorized License Plate Account)	25,000
Total			$16,124,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Tourism Marketing and Advertising Program. Reduce Item 2200-001-001 by $5,120,000.*** Recommend deletion because the expenditures are not justified. 323
2. Business Marketing and Advertising. Withhold recommendation on $1,836,000 pending submittal and review of the department's strategic marketing program for the state. 326
3. ***Small Business Revitalization Program. Reduce Item 2200-001-001 by $125,000, and reduce reimbursements by $124,000.*** Recommend deletion of funds requested to support the state's participation in this program. 327
4. ***Office of Economic Policy, Planning, and Research Development. Reduce Item 2200-001-001 by $303,000.*** Recommend deletion because proposed new activities should be supported with existing resources. 329
5. Small Business Loan Guarantees. Withhold recommendation of $3,023,000 requested for additional loan guarantees, pending review of the Department's report on alternative sources of funding and State Controller's audit of the current loan guarantee portfolio. 332
6. California Economic Development Grant and Loan Fund. Recommend adoption of Supplemental Report language requesting the Department of Finance to restore its tradi- 334

tional method of acounting for the activity of this fund.

7. Office Automation. Recommend that proposed funding for data processing analyst instead be used to retain a consultant to prepare required Feasibility Study Report (FSR). Further recommend adoption of Budget Bill language to require that proposed expenditures of funds for office automation equipment be contingent upon the review and approval by the Department of Finance of the department's FSR. 337

GENERAL PROGRAM STATEMENT

The principal mission of the Department of Economic and Business Development (DEBD) is to stimulate economic development in the state. Its specific responsibilities include:

1. Coordinating federal, state, and local economic development policies and programs;
2. Applying for and allocating federal economic development funds;
3. Assisting state agencies to implement state economic development plans;
4. Advising the Governor regarding his annual Economic Report; and
5. Providing information and statistics on the state's economy, products, tourism, and international trade.

The department is headed by a director who is appointed by the Governor. In addition, the department receives guidance from a 21-member advisory council representing a cross-section of the state's economy. The department has 67.9 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests appropriations of $14,899,000 from the General Fund, $1,200,000 from the California Economic Development Grant and Loan Fund, and $25,000 from the Olympic Reflectorized License Plate Account of the General Fund for support of the Department of Economic and Business Development (DEBD) in 1984–85. This is an increase of $8,063,000, or 100 percent, over estimated expenditures from these sources for the current year. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

The budget also includes $592,000 in expenditures from federal funds and $216,000 in reimbursements. This brings the department's total budget year expenditures to $16,932,000, which is an increase of $5,227,000 over total expenditures for 1983–84. The department's expenditures for the past, current, and budget year are summarized, by program, in Table 1.

As Table 1 shows, the budget bill proposes an appropriation of $1.2 million from the California Economic Development Grant and Loan Fund. However, because the Department of Finance has altered its method of accounting for this fund, this figure is not consistent with the $1 million amount shown in the budget document. As we discuss later in this analysis, these adjustments are inappropriate and lead to inconsistencies in how the total expenditures from this fund are presented.

Table 1
Department of Economic and Business Development
Summary of Budget Requirements
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Small Business Development	14.2	14.6	15.4	$8,306	$6,390	$5,212
Local Economic Development	7.9	10.1	13.2	1,401	3,091	2,371
Tourism	10.8	11.6	14.3	627	836	5,890
Business and Industrial Development	14.3	21.2	21.4	605	823	2,518
Economic Planning, Policy, and Research Development	10.1	12.7	13.7	501	565	941
International Trade	2.6	—	—	100	—	—
California Commission on Industrial Innovation	1.1	—	—	76	—	—
Administration (distributed)	(15.8)	(16.2)	(17.9)	(689)	(638)	(976)
Totals	61.0	70.2	78.0	$11,616	$11,705	$16,932
Funding						
General Fund	53.7	58.6	72.4	$6,362	$6,686	$14,899
Federal Trust Fund	5.3	7.9	2.8	1,204	3,450	592
Small Business Expansion Fund	—	—	—	3,405	(3,023)	(3,023)
Economic Development Grant and Loan Fund	—	—	—	484	1,200	1,200
Olympic Reflectorized License Plate Account	—	1.4	.9	—	175	25
Small Business Development Center Fund	—	(0.5)	(1.0)	—	(6)	(400)
Reimbursements	2.0	2.3	1.9	161	194	216

As shown in Table 2, the factors responsible for this increase can be divided into three categories:

- ***Program Changes*** of $4,674,000 (89 percent of the total increase);
- ***Adminstrative Changes*** of $261,000 (5 percent); and
- ***Cost Changes*** of $292,000 (6 percent)

Program Changes. The budget includes substantial increases in expenditures to launch new economic and business development programs. Among these are increased General Fund expenditures of $5.1 million for a state tourism advertising and promotion campaign and $1.8 million for a business marketing program. The budget also proposes General Fund support of $400,000 for the Small Business Development Center program, as established by Ch 1154/83 (AB 1651). Finally, $125,000 from the General Fund and $124,000 in reimbursements are proposed to fund the state's participation in the Small Business Revitalization program. The table also shows that the 1984–85 budget reflects a substantial decline associated with federally-funded economic development programs. In 1983–84, the department used a total of $3,450,000 in federal grant funds to (1) make grants and loans and provide technical assistance to local agencies and businesses in areas affected by plant closures, and (2) provide financial assistance to small businesses that develop and market innovative products. Approximately $2.9 million of these funds were awarded to the department on a one-time or limited-term basis. Consequently, federal fund support for the department will decline by this amount in 1984–85.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

Table 2
Budget Year Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*California Economic Development Grant and Loan Fund*	*Reimbursements*	*TOTAL*
1983–84 Revised	$6,861	$3,450	$1,200	$194	$11,705
1. Program Changes					
A. Tourism Marketing and Advertising	$5,120				$5,120
B. Business Development Marketing and Advertising	1,836				1,836
C. Small Business Development Centers	300				300
D. Expanded Economic Information Activities	320				320
E. Federally-funded Programs		−2,858		−102	−2,960
F. Small Business Revitalization Program	125			124	249
G. 1984 Olympics Tourism Promotion Campaign	−150				−150
H. Economic Impact Statements	−18				−18
I. Low Priority Program Reduction	−23				−23
Total Program Changes	$7,510	−$2,858		$22	$4,674
2. Administrative Changes					
A. Office Automation	$210				$210
B. Budget Workload and CALSTARS	51				51
Total, Administrative Changes	$261				$261
3. Cost Changes	$292				$292
Total	$14,924	$592	$1,200	$216	$16,932
Net Change	$8,063	−$2,858	—	$22	$5,227

Administrative Changes. The budget proposes to augment the DEBD budget by $210,000 so the department can acquire greater office automation capability. It also includes an additional $51,000, of which $31,000 is proposed to fund a new budget analyst position and $20,000 for increased CALSTARS costs.

Cost Changes. Approximately 60 percent ($170,000) of the cost increase is due to salary and benefit adjustments and to increases intended to compensate for the higher prices the department must pay for operating expenses and equipment. These changes are consistent with the adjustments to the baseline budget permitted by the Department of Finance. The balance of the cost increase ($122,000) is for increased rental costs stemming from the Department's move to new facilities in May 1984, when its present lease expires. The department's plan to move, including the size and cost of the facilities, has been approved by the Department of General Services.

ANALYSIS AND RECOMMENDATIONS

Our analysis of the proposed budget is divided into three sections. The first section focuses on the major program changes, the second presents our review of the department's traditional programs and the budget proposals affecting these activities, while the third concentrates on issues of a more administrative or technical nature.

REVIEW OF THE GOVERNOR'S ECONOMIC DEVELOPMENT INITIATIVES

The budget proposes to add $8.7 million and 16.3 personnel years to the department in 1984–85 as the "first step" in the Governor's agenda to reshape California's business climate. These funds will be used mainly to implement three new programs, as follows:

- ***$5.1 million*** to initiate a state tourism and advertising campaign.
- ***$1.8 million*** to fund a business advertising and marketing plan, and establish field offices for this program in Los Angeles and San Jose.
- ***$249,000*** to fund California's participation in the federal Small Business Revitalization program.

No information is provided as to the succeeding steps in the Governor's business climate agenda.

Tourism Advertising and Promotion Campaign

We recommend deletion of $5,120,000 proposed for tourism marketing and advertising activities.

The budget proposes to add $5,120,000 and 2.9 positions to fund a state tourism advertising and promotion campaign. As Table 3 shows, most of this amount —$5 million—will be used to develop and place media advertisements to encourage tourists to visit California. Television, radio, and print advertising alone is expected to cost $3,414,000, or two-thirds of the total request for the campaign.

Table 3
Proposed Expenditures for Tourism Marketing

Purpose	*Amount*
Media Advertising	
• Advertisement production	$650,000
• TV/radio advertising	1,615,000
• Magazine/newspaper advertising	1,799,000
• Other advertising	16,000
• Printing and promotional	700,000
• Market research	220,000
Subtotal, Media Advertising	$5,000,000
Additional office staff	53,000
Additional office expenses (travel, postage, interdepartmental consulting)	67,000
Total	$5,120,000

The budget justifies these expenditures on the basis of the importance of tourism to the state's economy. According to the department's figures, tourism expenditures in California amount to $27 billion per year, which support 500,000 jobs. These expenditures are estimated by the department to generate tax revenues of $927 million to the state and $415 million to local governments. The tourism proposal also represents a response to increases in the level of tourism promotion efforts being undertaken by other states. The DEBD contends that California's share of the "tourism market" is falling, and that California needs to promote itself more aggressively if the state is to remain competitive with other tourist destinations. According to DEBD, California currently ranks 47th in state expenditures for tourism promotion.

Our analysis of the administration's proposal indicates, however, that the proposal fails to address serious policy and fiscal questions, and that in the development of this proposal, the department has not made any attempt to specify what each component of its program is intended to achieve or how it will achieve its objective.

How and Where will the Money be Spent? Over 97 percent of the proposed expenditures will be used directly for a tourism advertising campaign. This amount ($5 million) reflects, in part, what other states are spending to promote tourism, although it is based mainly on the Department's subjective judgment as to the amount of funds needed for the campaign to be effective. According to the department, the campaign itself will be similar to the efforts of other states. These efforts involve magazine and television advertisements, often based on a slogan (such as "I Love New York," "Try Iowa," and other state slogans) which attempt to provoke the interest of consumers and stimulate them to request further information. Prospective tourists then receive literature describing the state and listing specific attractions. While the proposal describes the object of the expenditures, it does not provide specific information as to the content or focus of the campaign. For instance, the proposal does not indicate what characteristics or regions of the state would be emphasized, nor does it specify the areas of the country that would receive the greatest advertising penetration. Unless this information is known, there is no basis for evaluating the *overall effectiveness* of the campaign. The proposal also provides no justification as to the reasons for allocating the indicated amounts for specific advertising media.

Is the proposal cost-effective? The department estimates that the proposed $5.1 million expenditure would generate $6.4 million in state tax revenues, leaving a *net* benefit to the state of $1.3 million. This figure is based on various *assumptions* the department has made regarding (1) the number of tourism inquiries resulting from the advertising campaign, (2) the percentage of persons inquiring who subsequently travel to California, (3) the total amount they spend, and (4) the tax revenues generated. Among these, the key assumption is that the advertising campaign would result in an additional 200,000 to 300,000 inquiries from tourists who are likely to visit the state. However, since the state has never had a tourism advertising campaign, there is no basis for judging whether this volume of inquiries will actually materialize, or whether it will generate a net increase in the number of tourists visiting the state. The actual number of inquiries also would depend on the content and characteristics of the specific advertising plan, which has yet to be developed.

The department also fails to address the issue raised by the 1984 Olympics in Los Angeles and the 1984 Democratic National Convention in San Francisco. These events will have a significant impact on tourism expenditures in California during 1984, but they also constitute a source of "free advertising" for the state over the next year. The coverage to be provided by major networks for these events, and the worldwide broadcast, far surpasses what the department will be able to achieve.

Our analysis further indicates that the department's estimates of $6.3 million in revenues corresponds to the high estimates of (300,000) inquiries. If a midrange estimate were chosen, the projected net tax revenue would be $1 million less, and if low-range were used (200,000) the costs would *exceed* the benefits by approximately $950,000. We realize that the revenue effects of the proposed expenditures are difficult to project, but given the uncertainties associated with the department's figures, there is no basis for concluding that the benefits from the program would significantly exceed its costs. Nor is there any basis for concluding that the advertising approach is more "cost effective" than other tourist promotion approaches.

Can the decline in tourism expenditures be traced to the state's lack of a tourism campaign? The proposal to increase tourism advertising is based, in part, on data submitted by the department showing declining growth rates for tourism expenditures in California. For example, according to the department, total travel expenditures (which include expenditures for transportation, lodging, food service and entertainment/recreation made by persons traveling more than 100 miles from home) in California grew by 9.8 percent in 1981, compared to a 14.4 percent growth rate in 1980. A significant portion of these expenditures represents *business* travel.

Our analysis suggests that the decline in the growth of travel expenditures is due more to general economic conditions than to the lack of state tourism advertising. With the economy in a recession during recent years, individuals and businesses have been forced to reduce nonessential expenditures, which for many include travel. The increase in the value of the dollar also has made foreign travel relatively less expensive than travel to domestic destinations, such as California. In addition, price increases for travel-related goods and services (such as gasoline) have had a negative impact on the growth of travel expenditures.

The department also says that the advertising is needed to prevent the California share of the tourism market from falling. It bases this conclusion on information that California's share of total domestic travel to and through the United States (as measured by the number of person-trips) has declined from 9.4 percent in 1980 to 9.1 percent in 1982. However, we question whether this decline—three tenths of a percentage point—is significant enough to justify the conclusion that California's market share is falling. In terms of another, broader measure of "market share"—travel expenditures in California compared to total travel expenditures in the United States—the state's share (13.6 percent) has remained essentially the same over the past four years.

Is the level of private expenditure for tourism advertising insufficient? We also question whether the industry's own efforts at promotion are sufficiently inadequate to warrant the additional effort proposed by the budget to increase the overall promotional effort. Although there is no complete information as to the total amount of tourism advertising in California, information provided by the department suggests that the important participants in the travel industry—airlines, hotels, visitor attractions, and convention and visitor bureaus—already spend a considerable amount for tourism promotion. For example, in 1981, selected hotels and hotel chains operating in the state spent over $15.6 million on advertising. Convention and visitor's bureaus of Los Angeles and San Diego spent another $570,000.

Does the state promote its other industries? Tourism is one of many industries that comprise the state's economy. Our analysis indicates, however, that the state provides no other General Fund support to specific industries for advertising and promotion. Within other industries, such as agriculture, numerous industry-wide commissions or boards have been established for marketing purposes, but we are aware of no state General Fund support for these activities. These privately funded promotional expenditures are undertaken for the same purpose, that is, to increase the

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

profitability of the specific private industry. Thus, the proposed tourism campaign may set a precedent for the state to be continually requested to subsidize the promotional expenditures of specific industries.

In sum, we believe that the proposed expenditures for tourism promotion have not been justified. There is no evidence that tourism will fail to continue as a strong, growing industry in California in the absence of state advertising support. Further, other alternatives may have greater potential for increasing the level of tourism. For example, the state could expand its system of tourist information centers at major highway entrances to California. The first such center (in Trinity County) has proven to be a cost-effective method of capturing tourist dollars for the local economy. Likewise, the state also could increase the availability and attractiveness of its recreational and historical attractions. Finally, even if the Legislature decided that additional advertising were needed, it still should consider options as to how these activities could be supported. For example, a state hotel or amusement park tax could be levied to support tourism promotion and development. Likewise, a state nonprofit tourism authority (as proposed by SB 1061) could be established to coordinate and raise funds for tourist promotion activities. We believe that these alternatives need to be fully examined by the Legislature before it allocates General Fund support for the department's tourism campaign. Accordingly, we recommend that the $5,120,000 included in the budget for this purpose be deleted.

Recommend deletion of entire amount.

New Program Proposed to Attract Business to California

We ~~withhold recommendation~~ of the $1,836,000 proposed for the business marketing program, pending review of the department's overall strategic marketing plan for the state.

The 1984–85 budget proposes a major funding increase—$1,836,000—for business development programs. However, rather than expand the department's existing business assistance programs, the department proposes instead to develop and implement a comprehensive program of *marketing and advertising* to expand business investments in California.

Table 4
Proposed Expenditures for Business Promotion and Marketing

Purpose	*Amount*
Media Advertising	
Advertisement Production	$290,000
TV/Radio Advertising	245,000
Magazine/Newspaper Advertising	725,000
Printing and Promotional	150,000
Direct Mail	40,000
Market Research	50,000
Subtotal, Media Advertising	$1,500,000
Additional Office Staff	
Director, External Affairs	$39,064
Direct Sales Staff (4)	123,993
Information Office Staff	28,054
Subtotal	$191,111
Other Administrative Expenses	144,889
Total	$1,836,000

According to the department, the program would result in 19,300 new jobs, generate $285 million in payroll, and produce $8.6 million in state personal income tax revenue. Table 4 provides the details on how the requested funds would be spent.

Approximately $1.5 million of the requested funding will be used for advertisement production, media advertisements, direct mail campaigns, and market research aimed at influencing business location decisions. The balance of the funding will be used mainly to establish a "direct sales" force in field offices in Los Angeles and San Jose, which would provide assistance to businesses planning to locate or expand in these areas. The proposal also includes a "Director of External Affairs" position, who would coordinate the department's domestic and foreign business marketing activities.

The department's marketing and advertising program is based on the belief that a strategic marketing plan is needed to promote economic and business development in the state. This plan differs from traditional economic development methods, such as financial and technical assistance for local communities and businesses, because it would rely on business marketing techniques and solicitations. According to the department's proposal, this would include such activities as placing advertisements in the media, making audio visual presentations to business groups on the benefits of doing business in the state, and establishing a "direct sales" force to call on businesses which might expand or locate in California.

During the current year, the department has established a task force and hired a consultant to prepare a study of California's marketing needs. Generally, the study involves the identification of California's strengths and weaknesses in attracting and retaining businesses, its specific growing industrial and commercial sectors, and an assessment of the competition that California is facing from other states. There will also be an attempt to evaluate the perceptions of corporations regarding California's attractiveness as a business location.

At the time this *Analysis* was prepared, the department's study of California marketing needs was nearing completion. However, since the specifics of the proposed marketing *program* will be based on the findings and recommendations of the study, we withhold recommendation on the proposed expenditures until we have had the opportunity to review the department's marketing plan.

Small Business Revitalization Program

We recommend deletion of $125,000 in General Fund support and $124,000 in reimbursements proposed to support the state's participation in this program.

The budget includes increased expenditures of $249,000, consisting of $125,000 from the General Fund and $124,000 in reimbursements, for services to local agencies, to allow the state to participate in the federal Small Business Revitalization (SBR) program. Under this program, the National Development Council, a non-profit economic development organization, provides training to department staff in various methods of economic and business development financing. The underlying purpose of the program is to develop the capacity at the state and local level to provide technical assistance to small and medium-sized businesses in securing long-term financing. Training is also provided to help state and local communities obtain federal Urban Development Action Grant and

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Community Development Block Grant financing for local development projects. The state must meet various criteria to participate in the SBR program. Among others, it must commit to designating four qualified staff persons for training as "economic development professionals" and provide $40,000 to the National Development Council for the training of these staff.

Our analysis of the proposed $249,000 expenditure has raised questions as to the level of benefits which will accrue to the state as a result of providing support for the SBR program. Our chief concern is that the objective of the program—to establish an ongoing capacity to provide economic and business development technical assistance—is being adequately addressed by the department's *existing* program. Mainly through its offices of Local Economic Development (OLED) and Small Business Development (OSBD), the department has been providing—for over six years—a wide range of technical services to the business and local communities. For example, OLED, reflecting its *statutory* responsibilities, has on-going programs for providing on-site, technical assistance to local entities for assessing economic development needs, development strategies, and local economic development financing plans.

In addition, according to information from the department, OLED staff *already provide* information to local communities on the availability of federal Urban Development Action Grant funds for economic development projects. OLED staff also has assisted local entities in their efforts to obtain a share of the state's $8 million allocation of its federal CDBG funds. The department is also involved in direct efforts to provide financing for small businesses. Through OSBD it administers a $21 million program which provides loan guarantees to small businesses, and provides management and technical assistance to small businesses.

Moreover, in 1984–85, the department will implement the new Small Business Development Center Act, which will draw together federal, state, local, and private resources to provide a wide range of technical and financial management services to small businesses throughout the state. In sum, we believe that the state already has an adequate "on-going capacity" to help local agencies obtain federal funds and assist them in their efforts to attract and retain business in the state.

Another consideration is that the state's commitment to the program could be met with the department's current resources. As mentioned earlier, one requirement is that the state commit four positions for the training as economic development professionals. The department accordingly plans to establish *four additional* positions for this purpose. However, our review of the program regulations indicates that positions only need to be *committed for training* rather than established on an on-going basis. The department presently has authorized 16.8 development specialist positions, four of whom could be committed for the training program. The department also indicates that approximately half of the cost of the four additional positions would be funded from reimbursements received from local agencies for services rendered. The department has traditionally refrained, however, from charging local agencies for similar types of services offered through its existing programs.

For these reasons, we believe that additional state support is not needed for the SBR program. Accordingly, we recommend that the $125,000 requested from the General Fund and $124,000 in reimbursements to support the state's participation in the program be deleted.

REVIEW OF ONGOING PROGRAMS

The department is divided into five program areas. This section briefly describes the objectives and ongoing activities of these programs, and presents our analysis of the budget proposals pertaining to these programs.

Office of Economic Planning, Policy, and Research Development

The Office of Economic Planning, Policy and Research Development, as its name implies, provides planning, analysis, and research support for the state's economic development policies and programs. Its principal responsibilities include (1) gathering, analyzing, and distributing economic information; (2) preparing studies on the economic and employment development potential of various businesses; and (3) advising the Governor and the Legislature on the economic impact of governmental policies and regulations.

The budget proposes General Fund expenditures of $889,000 to support OEPPRD's activities during 1984–85, an increase of $376,000 over estimated expenditures for the current year. Most of this increase—$320,000—is due to the department's proposals to establish a library for economic resource materials ($17,000) and expand the office's research activities ($303,000). changed to $240,000, in light of updated info.

Support for New Marketing Programs Unwarranted

We recommend deletion of ~~$303,000~~ requested to provide additional research support for the department's tourism and business marketing programs.

The budget requests $303,000 to expand OEPPRD'S data acquisition and research activities to support the department's new marketing programs. Of this amount, $28,000 is requested for an additional analyst position, $220,000 for subscription fees associated with the use of private computerized data bases to allow the department to access information about general economic conditions in specific industries, and $30,000 for the use of state data processing facilities at Teale Data Center. As indicated earlier, we are recommending deletion of the $5.1 million proposed for tourism marketing and withholding recommendation of $1.8 million proposed for business marketing. However, regardless of whether these expenditures are approved by the Legislature, there is still no need to provide this office with additional resources. The budget proposal indicates that the promotional campaigns would generate additional requests for economic information and analysis, but it does not specify the type of information and analysis that would be produced. Morever, we believe that any new workloads for OEPPRD can and should be handled by the office's current staff, which is presently supported by a total budget of $565,000 and 9.8 positions.

The OEPPR's main purpose is to provide analytic and research support for the overall department's programs, and thus, its research agenda should reflect the priorities of the department. Research into other areas of interest also may be conducted, but only to the extent that the office's resources are not needed for projects of higher priority to the Department. For 1984–85, DEBD will focus its efforts on the tourism and business marketing programs. We believe that OEPPR resources should be redirected to support these programs rather than other research activities.

According to DEBD information, OEPPRD's production of special reports and "occasional papers" would fall from 120 to 75 if additional staff were not provided. However, there is no basis, such as administrative or legislative mandates, which justify the need for the report production volume to remain at the higher rate. For these reasons, we believe that the increased level of analytical activities due to the tourism and business marketing programs should be handled by the office's current staff. On this basis, we recommend deletion of $303,000 proposed for this activity.

Office of Small Business Development

The Office of Small Business Development (OSBD) is responsible for promoting economic and business development by providing financial, technical, and management services to small business. The specific components of the program include:

- Providing loan guarantees backing private loans to small businesses that are unable to secure financial assistance through conventional lending channels;
- Providing management and other technical assistance to small, disadvantaged businesses; and
- Coordinating public and private sector efforts designed to expand economic opportunities for small businesses.

These responsibilities are carried out both directly by OSBD and by nonprofit, regional development corporations under contract with the office. In addition, the program receives guidance from the Small Business Development Board, which consists of 17 members representing the administration, Legislature, the financial and business communities, and economically depressed areas of the state.

The budget requests $5,212,000 for OSBD's programs during 1984–85. This amount includes $3,023,000 for additional small business loan guarantees, $400,000 for the Small Business Development Center program, and $967,000 to support the administrative expenses of urban and rural development corporations, as provided by current law.

Small Business Loan Guarantee Program

The Department, through the Office of Small Business Development (OSBD), operates a loan guarantee program which guarantees loans made to small businesses. Currently, this program provides guarantees for small business loans to firms that do not exceed the size limitations of a "small business," as defined by the Small Business Administration ($7 million or less in annual gross receipts). The loan guarantee program is administered by nonprofit regional and urban development corporations, which receive OSBD funding.

Loan Guarantee Provisions

Loan guarantees made by the regional corporations are backed primarily by state funds which are appropriated from the General Fund. These monies are transferred from the General Fund to the Small Business Expansion Fund, where they remain until allocated by the OSBD to loan guarantee accounts maintained for each regional corporation.

In the past, these guarantee accounts were maintained by the State Treasurer. However, Ch 875/79 provided for the transfer of the accounts to lending institutions designated by the regional corporations and approved by the state. This change was made to increase investment earnings on the loan guarantee accounts, and also to encourage the participation of banks in the program, by allowing a portion of the loan guarantee accounts to be deposited with them. The OSBD and the regional corporations decided to consolidate the separate loan guarantee accounts into a single trust to minimize administrative costs and maximize interest earnings. In 1981–82, a total of $11.0 million was transferred to this account. Regional corporations are permitted to use 25 percent of the interest earned by the trust account for administrative expenses, technical assistance, and direct loans. Other funds for administrative expenses are provided directly by the state, and from fees for loan packaging and contracts with local governments.

The funds in each corporation's guarantee account are used as "collateral" for loans made by financial institutions to businesses. As loans are made, funds in the guarantee accounts become "encumbered," or held in reserve until the loans are paid off. Current law requires that 100 percent of the guaranteed portion of the loan must be maintained in the account. For example, if a business participating in the program borrows $100,000, a guarantee is issued for 90 percent of the loan and $90,000 initially must be set aside in the guarantee account. The funds are reserved to pay off the guaranteed portion of the loan in case of default by the borrower. As the loan is paid off, the amount that must be held in reserve also declines.

Table 5 displays the amount of funds made available for loan guarantees. The department estimates that, as of June 30, 1984, a total of $21.8 million will be available for loan guarantees provided under this program. Between 1979–80 and 1983–84, General Fund appropriations provided $12.7 million for this program. The balance of funding is accounted for by recoveries from loan defaults, earnings on investments, and a one-time allocation from the Century Freeway Fund, which has been set aside specifically for businesses affected by construction of the Century Freeway project in Los Angeles.

Table 5

Small Business Loans Guarantee Funds [a]
1980–81 through 1983–84
(dollars in thousands)

	Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*
1. Fund Balance as of July 1	$6,595	$10,624	$14,216	$18,353
2. Receipts:				
a. General Fund allocations	2,300	3,100	3,024	3,023
b. Century Freeway Fund	1,200	—	—	—
c. Recoveries from defaults	—	148	21	—
d. Investment income [b]	933	458	2,217	2,264
Totals	$4,433	$3,706	$5,262	$5,287
3. Expenditures:				
a. Payment of defaults	404	114	524	986
b. Corporation expenses	—	—	601 [c]	888 [c]
Totals	$404	$114	$1,125	$1,874
4. Total Funds Available as of June 30	$10,624	$14,216	$18,353	$21,766
a. Reserves for guarantees outstanding	6,993	9,522	15,578	18,527
b. Designated reserves [d]	2,325	2,517	2,217	2,264
c. Unencumbered reserves	1,306	2,177	558	975

[a] Source: Based on information from Office of Small Business Development. Data for 1982–83 and 1983–84 are preliminary.

[b] Includes earnings from the Guarantee Trust Account and investment income earned by the regional corporation from investments of other idle funds.

[c] Includes use of interest earnings to support the administrative expenses of the regional corporations and the costs of maintaining loan guarantee accounts.

[d] Includes loan reserves and other funds set aside for specific purposes or otherwise unavailable for loan guarantees.

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Table 5 also shows that the amount of funds reserved for loan guarantees has grown significantly over the past four years. The department estimates that these reserves will reach $18.5 million by the end of the current fiscal year. Since the state guarantees 90 percent of each loan, the total face value of loans made under this program will be approximately $20.6 million by that date.

Department Report and Controller's Audit to Provide Basis for Evaluating General Fund Support for Loan Guarantees/Recommend approval

We ~~withhold recommendation~~ on $3,023,000 included in the budget for small business loan guarantees.

The 1984–85 budget request includes a transfer of $3,023,000 from the General Fund to the Small Business Expansion Fund to support additional loan guarantees. This is the same amount appropriated by the Legislature for the current year. At the time this *Analysis* was prepared, the department was preparing a report on funding alternatives for the program and the State Controller was conducting an audit of the loan guarantee portfolio. As described below, these reports (which will be available prior to budget hearings) will provide a basis for evaluating the need for additional General Fund support for loan guarantees.

Report on other sources of funds. In last year's *Analysis of the 1983–84 Budget Bill,* we pointed out that the level of services and financial assistance provided by the program would be limited as long as it relied on the General Fund as its primary source of funding. Based on our recommendation, the Legislature directed the department to prepare a study as to alternative methods of providing support for the program, and to report to the Legislature by March 1, 1984. We believe that the alternatives identified and recommended by the department should be evaluated by the Legislature before it considers providing additional General Fund support for loan guarantees.

Loan Guarantee Portfolio Under Audit. At the present time, the Department has retained the State Controller's Office to provide an audit and program review of the OSBD's active loan guarantee portfolio. This audit will address specifically whether:

- Financial operations are conducted properly;
- The regional corporations have complied with laws and regulations affecting the expenditures of state funds;
- Internal procedures have been established to meet the objectives of the state program;
- Financial reports to the state contain accurate and reliable information; and
- State funds have been loaned and guaranteed in a manner consistent with guidelines for the regional corporations.

The findings of the audit, which should be completed in February 1984, will provide important information as to how the department has utilized the loan guarantee funds. In addition, the audit findings will form the basis of the department's efforts to solicit more private participation in the program.

The findings of the audit and the department's report on alternatives to General Fund support for the program should provide a basis for evaluating the need to provide additional General Fund support for the program in 1984–85. Until we have had the opportunity to review these reports, we withhold recommendation on the $3,023,000 included in the budget for loan guarantees.

Interest Earnings and Unencumbered Revenues Should be Available for Additional Guarantees

The DEBD report and Controller's Audit will help the Legislature decide on whether to provide additional General Fund support for loan guarantees. However, it should also be noted that the interest earnings and unencumbered reserves could be used to fund a portion of the $3,023,000 proposed for loan guarantees. According to DEBD information, the funds currently held in the loan guarantee trust account will have earned an estimated $2,264,000 in interest by the end of the current fiscal year. Twenty-five percent of this amount ($566,000) is available to the regional corporations for their administrative expenses and other specific purposes. However, with regard to the balance—$1,698,000—state law is unclear as to the availability of these funds for guarantees. The OSBD and the Small Business Development Board may be able to adopt regulations which would make the funds specifically available for this purpose. In addition, the amount of unencumbered revenues—funds not backing loans—should be considered in evaluating the needs for additional funds from the General Fund for loan guarantees. As Table 5 shows, the department expects that $975,000 will be unencumbered at the end of 1983–84. These funds, together with the $1,698,000 from interest income (for a total of $2,673,000) could offset the need to provide additional General Fund support loan guarantees.

Small Business Development Center Program

We recommend approval.

In the 1983 session, the Legislature enacted the Small Business Development Center Act (Ch 1154/83). This measure established a Small Business Development Center (SBDC) within DEBD and required the department to prepare a plan for the purpose of receiving federal funds to support the SBDC program. The department recently completed its SBDC plan, and currently the plan is under review by the federal Small Business Administration. Under the proposed plan, two SBDCs will be established during the current year, and two additional centers will be established each year between 1984–85 and 1987–88. These centers will provide technical assistance to small business clients, conduct workshops and training sessions, and provide clients with access to a computerized data base containing information on business regulations, economic statistics, and services available to small businesses.

The budget requests $400,000 from the General Fund to match federal small business funds available to the state for SBDC. This amount includes $300,000 in additional General Fund monies, along with a redirection of $100,000 in new project funds from the Office of Small Business Development's budget.

The total funding for the SBDC program will be $1.3 million in 1984–85. In addition to the $400,000 appropriation from the General Fund, $630,000 in federal funds is available from the Small Business Administration (SBA) and $271,000 from in-kind contributions (such as facilities, publication, and

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donated personal services) from other state agencies and private organizations. These funds will be used both by OSBD to administer the program and by the local SBDCs to provide the actual assistance to small businesses. Approximately $160,000 will be used specifically for information processing activities, such as access to computer data bases and the use of minicomputers to help businesses with financial analyses. The Budget Bill includes language that funds cannot be expended for information processing until the Department of Finance has approved a Feasibility Study Report for the program.

Our analysis indicates that the department's budget request is consistent with the Legislature's intent regarding the SBDC program. In addition, the plan has been approved by the Legislature, as required by Ch 1154/83. However, at the time this analysis was prepared, the proposed SBDC plan had not yet been approved by the federal SBA.

California Economic Development Grant and Loan Program

We recommend that the Legislature adopt supplemental report language requesting the Department of Finance to restore its traditional method of accounting for activity in the Economic Development Grant and Loan Fund.

The Office of Local Economic Development, together with the Office of Small Business Development, is responsible for administering economic development grants and loans. These grants and loans are made for public works construction and business expansion in economically distressed areas of the state. Table 6 shows the actual and projected receipts and expenditures for this program during the past, current, and budget years.

In the past, this program has been supported by federal funds allocated by the Economic Development Administration (EDA) under Section 304 of the Public Works and Economic and Development Act of 1965. The state was required to contribute $1 for each $4 provided by the federal

Table 6
California Economic Development Grant and Loan Fund
Revenues and Expenditures
1981–82 through 1984–85
(in thousands)

	Actual 1981–82	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Balance as of July 1	$2,984	$770	$1,331	$831
Revenues				
Federal Allocations	952	—	—	—
State Allocations	325	—	—	—
Loan Repayments	250	331	200	200
Income from Investments	853	714	500	500
Transfer from Federal Trust Fund		560		
Total Funds Available	$5,364	$2,375	$2,031	$1,531
Expenditures				
Grants	—	—	—	—
Loans	4,594	1,044	1,200[a]	1,200[a]
Other				
Unencumbered Funds as of June 30	$770	$1,331	$831	$331

[a] A limited portion of this amount may be used for grants, as needed.

government for each economic development project assisted under the program. Funds made available for this program from all sources are deposited in the California Economic Development Grant and Loan Fund. Federal and state support ceased after 1981–82 because of the termination of the Section 304 program by the federal government in 1981. As a result, the program has relied on income from investments and loan repayments to support additional grants and loans.

Table 6 also shows that expenditures for local assistance will be $1.2 million in both the current and the budget years.

It should be noted that our presentation of the activities of this fund differs significantly from the presentation in the budget document. Most important, we have treated loan repayments as an *increase* in the *resources* available to the program. This is consistent with the way they were displayed in the past. However, the budget for 1984–85 treats loan repayments as an expenditure reduction, because the Department of Finance does *not* view expenditures from funds made available through loan repayments as *new* expenditures. However, this treatment results in the *understatement* of the total activity or expenditure from this fund. Specifically, as shown in Table 6, $1.2 million will be available for grants and loans in 1984–85. *This also is the amount requested in the budget bill.* However, the budget document gives the impression that only $1 million will be spent. For these reasons, we believe that the previous method provides a more reasonable basis for showing the current activities of this fund. Accordingly, we recommend that the Legislature adopt the following supplemental report language requesting the Department of Finance to restore its traditional method of accounting for the activity of this fund:

> "The Department of Finance shall restore its previous method of accounting for expenditure and revenue activities within the California Economic Development Grant and Loan Fund."

Office of Tourism

The Office of Tourism is responsible for increasing the numbers of tourists and visitors to California as a way of expanding job opportunities and business development in the state. Its principal activities include (1) preparing and distributing various promotional materials; (2) conducting research on tourism in California; (3) providing technical assistance to private and public agencies involved in tourism promotions; and (4) responding to inquiries from prospective visitors. The budget proposes $5,785,000 and 10.2 positions from the General Fund to support these programs in 1984–85. As discussed earlier, most of this amount is proposed for the tourism advertising program.

Tourism Promotion for Olympic Games

The Office of Tourism plans to spend $175,000 during the current year and $25,000 during the budget year for tourism promotion activities in connection with the 1984 Olympic Games to be held in Los Angeles. The funds will be used mainly to support a California travel pavilion at the site of the Olympics, where films will be shown and promotional materials will be available, to encourage Olympics visitors to travel to other parts of the state. These activities will be funded by proceeds from the sale of 1984 Olympics reflectorized license plates, as provided under Ch 1282/83 (AB 2193). This measure appropriated $200,000 from these proceeds to fund the Office's tourism promotion campaign for the Olympic games.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

Office of Business and Industrial Development

The Office of Business and Industrial Development is responsible for promoting the expansion of business activity in California. A key activity of the office is providing assistance to businesses wishing to locate or expand in the state. Often, this information consists of providing information on labor markets, wage rates, land costs, and other factors important to site location decisions. In addition, OBID assists businesses by expediting the processing and review of permits, and it acts as a liaison between government and the business community. In 1983–84, the office will assist an estimated 380 businesses. The budget proposes expenditures $2,518,000 for this office. Most of this amount ($1,836,000) is requested to fund the department's business marketing programs.

The office also has been involved in programs designed to relieve economic hardships caused by plant closures. The components of the program include job retraining and referral assistance, assessing alternatives for averting plant closures, and providing assistance to communities in establishing plant closure response programs. In 1983–84, 4.4 positions were established (on a limited-term basis) with $125,000 in federal grant funds and $42,000 in reimbursements from the Employment Development Department for these programs.

OTHER BUDGET ISSUES

This section of our analysis reports on issues not directly related to specific department programs.

Report on Fees for Technical Services

The 1983 Budget Act included supplemental report language which required the Legislative Analyst's office to report to the Legislature on practices in other states regarding fees for economic development technical services. One of the functions of DEBD is to provide *technical* assistance to local governments and businesses. Technical assistance involves a wide range of services. For instance, the department may help some local agencies apply for grants or secure other types of financing for economic development projects, while others may receive assistance in establishing a tourist promotion program or an economic development corporation. Businesses also benefit from the department's technical assistance in contacts with state agencies. The Department's technical assistance programs are supported mainly from the General Fund. It has also received federal funds for specific projects, and recently the Legislature authorized the department to charge fees for technical services.

Survey of Other States. In order to meet the legislative directive we contacted economic, business, and community development offices at the state level in thirteen states. The states contacted include those with the largest state economies (i.e. the top ten, in terms of state personal income). We also contacted other, smaller states, to have some degree of geographic balance in our sample.

Findings. The principal findings of our survey are:

- All of the states that we surveyed have economic development technical assistance programs, but none indicated that they charge specific fees for such assistance. The states' General Fund provided most of the financial support for the programs.

- In some states, the local governments which benefit from technical assistance pay part of the costs of providing the service. For example, in Florida, in order to promote business development, the state helps local governments develop economic profiles of their communities. Often, this requires data processing activities, the cost of which is paid by the localities. Other states provide training workshops for local government in economic development, and part of the costs (such as materials and facilities) are offset by nominal fees.
- All the states we surveyed also provide technical assistance and information to businesses. Generally, fees are not charged for the services, except where states help businesses package loans or secure other types of financing. In such cases, some states (Minnesota, Michigan, and Virginia, for example) may charge a small fee. The amount usually is a percentage of the amount of the loan, and sometimes it may be waived.

Despite these findings, the state's policy regarding fees for technical assistance should be guided less by practices in other states than by the principle that the cost of state services should be borne by those who benefit the most, particularly if the services are provided to profit-making organizations. Indeed, the fee-for-service policy was reflected in the Legislature's recent action authorizing the department to charge fees for technical services (Ch 323/83). During the current year, DEBD expects to receive $92,000 in fees for loan financing and tourism publications, although the department has not begun to charge fees for its technical assistance services. For the budget year, the departments expects to receive an additional $125,000 in fees for services provided under the Small Business Revitalization Program. Other departments, such as the California Debt Advisory Commission and the Department of Housing and Community Development, also are authorized to charge fees for various technical services.

withdrawn because new info. shows consultant costs would be high.

Budget Requests Funds for Office Automation

4 ***We recommend that the funds proposed to establish one data analyst position instead be used to retain a consultant to prepare the office automation Feasibility Study Report. We also recommend that the expenditure of $177,000 for office automation be contingent upon the review and approval of the department's feasibility study report by the Department of Finance.***

The department's budget request includes $210,000 and one personnel year to support the costs of the first-year of implementation of its three year plan for office automation. This amount includes $33,000 in personnel costs for a data processing analyst, $125,000 for office automation equipment, and $52,000 for other expenses.

At the present time, the department uses a variety of information and office automation systems. For example, several word processors are used for production typing, and the department has microcomputers to perform statistical analysis of economic data. The department also uses outside data processing systems, such as the CALSTARS system for accounting functions and systems at the Teale Data Center for maintaining mailing lists. DEBD has indicated, however, that its current inventory of office automation equipment is inadequate and inefficient, mainly because units operate exclusive of each other.

To remedy this problem, the department proposes to acquire, over a

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three year period, an integrated office automation system. The heart of the proposed system will be a central computer, which will link together terminals, or "workstations," and printers located throughout the entire department. According to the department's information system plan (ISP), this system will have capabilities for word processing, financial analyses and accounting, storage of large data bases, modeling, electronic mail and other office automation applications.

The department's ISP already has been reviewed by the Department of Finance (DOF). However, the department has yet to prepare a Feasibility Study Report (FSR) for review by the DOF, as required by state administrative procedures for projects of this size.

The DEBD has indicated to us that an FSR will be prepared in 1984–85, under the direction of the data processing analyst proposed in the budget. This position is being proposed because DEBD presently has no expertise in the area of data processing. Our analysis, however, suggests that the funds for this position—$33,000—would be better spent if they were used by the department to hire a consultant to do the FSR. Even if the department established the position, there would still be no assurance that the individual hired would have sufficient expertise in office automation to prepare the report. The department has had difficulty in its preliminary efforts to recruit individuals for the position. On the other hand, if the funds were budgeted for consultant services, the department could solicit proposals from private consultants who have experience in developing office automation programs for public and private organizations. We believe that the department is more likely to obtain the expertise it needs for the FSR if the funds presently proposed for the new position were used for consultant services instead. Accordingly, we recommend that $33,000 in the DEBD budget be redirected from personal services to external consultants and professional services.

Regarding the balance of the proposed expenditure ($177,000), we recommend that the expenditure of these funds be contingent upon the review and approval by the DOF. This would provide additional review of the cost-effectiveness of the department's office automation program before the expenditures are actually made. We also recommend that the FSR not focus solely on the office automation plan described in the budget proposal and ISP. As indicated earlier, this plan calls for a fully integrated system, linking all of the department's offices. Such systems may be appropriate for large organizations, but they may be less suitable or cost-effective than "stand alone" systems for departments the size of DEBD.

Thus, to ensure that the department's office automation plans receives adequate review and that a *range* of alternatives are considered, we recommend that the Legislature adopt the following Budget Bill language:

"Provided that none of the funds appropriated for acquisition of office automation equipment shall be expended until the Department of Finance's State Office of Information Technology has reviewed and approved the Feasibility Study Report for the program. This report shall assess and compare the cost-effectiveness of office automation alternatives, including but not limited to, integrated office-wide information management systems and decentralized stand-alone systems."

Budget Requests Additional Funds for Administrative Activities

We recommend approval.

The administrative division of the DEBD handles the personnel, budgetary, and general management responsibilities of the department. For 1984–85 the budget includes $976,000 for administrative activities, an increase of $338,000 over estimated expenditures for these activities during the current year. Most of this amount, ($210,000) will be used for the department's office automation system, which is discussed earlier. In addition, the budget includes a request for $31,000 to add a budget analyst for the department, and $20,000 to support the CALSTARS accounting system. The new position is being requested because the department presently has no professional budget analyst in its administrative unit to perform technical budget work. The additional CALSTARS funding is requested because the department's current year costs for the system are turning out to be significantly higher than estimated by the Department of Finance. Our analysis indicates that the request is adequately justified, and accordingly, we recommend approval.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Item 2230 from the Industrial Development Fund — Budget p. BTH 29

Requested 1984–85	$273,000
Estimated 1983–84	226,000
Actual 1982–83	153,000
Requested increase (excluding amount for salary increases) $47,000 (+20.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 (AB 74) for the purpose of evaluating industrial development bonds (IDBs). IDBs are issued by local development authorities. The proceeds of these bonds are used to assist private businesses to construct or purchase industrial facilities. The commission is responsible for reviewing all proposed IDB issues to ensure that they comply with disclosure regulations, have proper security, and satisfy specified public policy requirements.

The commission consists of the State Treasurer, the State Controller, the Director of Finance, the Director of the Department of Economic and Business Development, and the Commissioner of Corporations. It has four authorized positions in the current year.

The commission activities are funded from fees charged to those entities submitting IDB issues for review. Currently, the commission charges a fee of $2,500 for each IDB application plus an amount equal to one-half of 1 percent of the total face value of the proposed issue. These fees are expected to generate $350,000 in revenues during the budget year.

Since the program was enacted, approximately 125 applications have been received by the commission. If these applications are approved and the full amount of bonds contemplated by them are sold, the sales would

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued

yield $330 million in tax-exempt financing for industrial development projects. As of December 1983, $230 million of these bonds had been issued. This is approximately $180 million more than the amount issued as of December 1982. The large increase may be due to expectations that the Congress will act in 1984 to restrict the purposes for which IDB's may be issued.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $273,000 from the Industrial Development Fund for support of the California Industrial Development Financing Advisory Commission in 1984–85. This is an increase of $47,000, or 20.8 percent, over estimated expenditures in the current year. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

The change in the commission's budget for 1984–85 is attributable to a variety of factors. The budget includes an increase of $57,000 in personal services costs, reflecting greater reliance on in-house staff, rather than on outside consultants, for the review of IDB proposals. This is accompanied by a corresponding reduction of $72,000 for external consultants and professional services. In addition, the budget proposes increased expenditures of $62,000 for other operating expenses. Of this amount, $32,000 is attributable to the assessment of pro-rata charges, and $19,000 is attributable to increased expenditures for *internal* consultants and professional services. The latter includes legal, financial, and administrative services rendered by the State Treasurer's office, and the commission's share of the cost of a proposed research center library for the state's various financing authorities.

Business, Transportation and Housing Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various special funds — Budget p. BTH 31

Requested 1984–85	$34,987,000
Estimated 1983–84	51,790,000
Actual 1982–83	46,670,000
Requested decrease (excluding amount for salary increases) $16,803,000 (−32.4 percent)	
Total recommended reduction	598,000
Recommendation pending	28,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2240-001-001—Support		General	$5,384,000
2240-001-245—Support		Mobilehome Parks Revolving	1,927,000
2240-001-451—Support		Mobilehome and Commercial Coach License Fee Account, (General)	1,684,000
2240-001-635—Support		Housing Predevelopment Loan	190,000
2240-001-648—Support		Mobilehome-Manufactured Housing Revolving	9,606,000
2240-001-890—Support		Federal Trust	(832,000)
2240-001-925—Support		Land Purchase	37,000
2240-001-929—Support		Housing Rehabilitation Loan	413,000
2240-001-936—Support		Homeownership Assistance	228,000
2240-001-938—Support		Rental Housing Construction	340,000
2240-001-980—Support		Urban Housing Development Loan	84,000
Subtotal, Support			($19,893,000)
2240-101-001—Local Assistance		General	$6,900,000
2240-101-635—Local Assistance		Housing Predevelopment Loan	2,025,000
2240-101-925—Local Assistance		Land Purchase	386,000
2240-101-927—Local Assistance		Farmworker Housing Grant	(2,500,000)
2240-101-929—Local Assistance		Housing Rehabilitation Loan	376,000
2240-101-936—Local Assistance		Homeownership Assistance	116,000
2240-101-938—Local Assistance		Rental Housing Construction	1,866,000
2240-101-942—Local Assistance		Special Deposit—Office of Migrant Services	800,000
2240-101-980—Local Assistance		Urban Housing Development Loan	2,625,000
2240-101-890—Local Assistance		Federal Trust	(40,027,000)
Subtotal, Local Assistance			($15,094,000)
Total Funding			$34,987,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Employee Housing Program. Reduce Item 2240-001-001 (General Fund) by $224,000.*** Recommend increase in reimbursements and corresponding reduction in General Fund support, in order to comply with legislative intent (no impact on current level of program). 348
2. Employee Housing Program. Recommend enactment of legislation authorizing the department to issue civil citations to violators, and to retain the fines collected from violators to offset program costs (potential annual savings to the General Fund: $551,000). 348
3. ***Factory-Built Housing Inspection Program. Reduce Item 2240-001-001 (General Fund) by $61,000.*** Recommend increase in reimbursements and a corresponding reduction in General Fund support, to comply with prior legislative action (no impact on current level of program). 349

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

4. ***Housing Rehabilitation Loan Program. Reduce Item 2240-001-001 (General Fund) by $246,000.*** Recommend increase in expenditures from the Housing Rehabilitation Loan Fund (Item 2240-001-929) and a corresponding reduction of General Fund support, in order to make program entirely self-supporting (no impact on current level of program). 350
5. ***Technical Budgeting Errors. Reduce various items by $67,000 ($49,000 from the General Fund, and $18,000 from various special funds). Reduce reimbursements by $112,000.*** Recommend reduction to correct for technical overbudgeting errors. 351
6. Consulting Contracts. Withhold recommendation on funding for consultant services, pending receipt of further information. 352
7. Mobilehome Registration and Titling Program. Recommend adoption of supplemental report language calling for the elimination of 27.5 positions on July 1, 1986, and 18 additional positions on July 1, 1987, to reflect staff savings resulting from the installation of a new data processing system. 353

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development (HCD) has the following responsibilities:

(1) To protect the public from the inadequate construction, manufacture, repair, or rehabilitation of buildings, particularly dwelling units;
(2) To promote, provide and assist in the availability of safe, sanitary and affordable housing; and
(3) To identify and define problems in housing, and devise appropriate solutions to these problems.

The department carries out these responsibilities through four programs: (1) Codes and Standards, (2) Community Affairs, (3) Research and Policy Development, and (4) Administration.

The department has 576.3 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $80,273,000 from various sources, including federal funds and reimbursements, for support of the Department of Housing and Community Development (HCD) in 1984–85. This is $16,229,000, or approximately 17 percent, *less* than estimated current-year expenditures. Excluding federal funds and reimbursements, expenditures in 1984–85 are budgeted at $34,987,000, or 32 percent, *less* than the estimated current-year expenditures. This, however, makes no allowance for the added cost of any salary or staff benefits increases that may be approved for the budget year.

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1985. It indicates that the General Fund would finance about 15 percent of the department's total expenditures in the budget year; special funds would support approximately 28 percent of these expenditures, and federal funds would support about one-half of the total.

The department anticipates receiving approximately $41 million in federal funds in the budget year. Most of this funding—$27 million—is associated with the department's management of the Small Cities portion of the federal Community Development Block Grant program. The HCD first assumed statewide management of the program in October 1982.

Table 1

Department of Housing and Community Development Expenditures and Funding Sources (in thousands)

Program Expenditures	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Codes and Standards Program	$11,504	$13,447	$14,801	$1,354	10%
Community Affairs Program	73,247	82,029	64,396	−17,633	−21
Research and Policy Development	1,857	1,026	1,076	50	5
Administration—Distributed	(3,770)	(4,724)	(5,705)	(981)	(21)
Total Expenditures	$86,608	$96,502	$80,273	−$16,229	−17%
Source of Funds					
General Fund	$12,693	$12,163	$12,284	$121	1%
Farmworker Housing Grant Fund	250	—	—	—	—
Housing Predevelopment Loan Fund	2,388	2,033	2,215	182	9
Housing Rehabilitation Loan Fund	1,661	6,057	789	−5,268	−87
Mobilehome-Manufactured Housing Revolving Fund	7,498	8,527	9,606	1,079	13
Mobilehome Parks Revolving Fund	1,570	1,771	1,927	156	9
Mobilehome and Commercial Coach License Fee Account (General Fund)	1,445	1,569	1,684	115	7
Rental Housing Construction Fund	10,994	10,003	2,206	−7,797	−78
Homeownership Assistance Fund	2,597	2,039	344	−1,695	−83
Land Purchase Fund	350	556	423	−133	−24
Office of Migrant Services Account Special Deposit Fund	800	800	800	—	—
Urban Housing Development Loan Fund	4,414	2,772	2,709	−63	−2
Seniors Shared Housing—Special Deposit Fund	—	300	—	−300	−100
Emergency Housing and Assistance Fund	—	2,700	—	−2,700	−100
Rural Communities Facilities Fund	—	500	—	−500	−100
Total State Funds	$46,660	$51,790	$34,987	−16,803	−32%
Federal Trust Fund	$36,667	$39,833	$40,859	$1,026	3%
Reimbursements	3,281	4,879	4,427	−452	−9
Total Funds Available	$86,608	$96,502	$80,273	−$16,229	−17%

Proposed Budget-Year Changes

Table 2 summarizes the significant changes reflected in the department's proposed budget for 1984–85, including changes affecting the General Fund, special funds, federal funds, and reimbursements. The table shows that for the budget year, increased expenditures are proposed from federal funds ($1.0 million) and the General Fund ($121,000), while reduced expenditures are proposed from the department's special funds ($16.9 million) and reimbursements ($452,000).

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 2
Department of Housing and Community Development
Proposed 1984–85 Budget Changes
(in thousands)

	General	*Special*	*Federal*	*Reimbursements*	*Total*
1983–84 Estimated	$12,163	$39,627	$39,833	$4,879	$96,502
Baseline Adjustments					
Full-Year Funding of Salary Increase	159	318	18	251	746
Increases to offset effects of inflation	97	254	11	84	446
Increased Statewide Indirect Costs	—	185	1	—	186
Funding Substitution (Factory Built Housing Program)	—	160	—	−160	0
One-time Legislation (Ch 1051/83 and Ch 1124/83)	—	−117	—	—	−117
Workload Changes					
Staffing Reductions	−211	−159	—	—	−370
Reduced Reimbursements	—	—	—	−627	−627
Program Changes					
Increased funds for CDBG—Small Cities Program (State Operations)	—	—	920	—	920
Increased Funds for CDBG—Small Cities Program (Local Assistance)	76	—	76	—	152
Development of New EDP System	—	865	—	—	865
Loan and Grant Activity (Local Assistance)	—	−18,430	—	—	−18,430
1984–85 Proposed	$12,284	$22,703	$40,859	$4,427	$80,273
Change from 1983–84:					
Amount	$121	−$16,924	$1,026	−$452	−$16,229
Percent	1.0	−42.7	2.6	−9.3	−16.8

The budget proposes the following significant augmentations:

- ***Small Cities Community Development Block Grant Program (CDBG).*** The budget proposes an additional $920,000 in expenditures from federal funds, due to an increase in the federal allocation of CDBG funds to California.
- ***Mobilehome Registration and Titling Program.*** The budget includes $865,000 in additional funding to continue the multi-year development of a comprehensive data processing system. This system will be operational in the fall of 1985.

Table 2 appears to indicate that the department's loan and grant activity would be reduced by $18.4 million from the current-year level. This apparent reduction in departmental activity is due primarily to two factors.

First, during the current year, HCD received approximately $14 million in additional one-time special fund money for housing. As a result, HCD expenditures in 1983–84 are unusually high. This money was redirected from the California Housing Finance Agency (CHFA), pursuant to legislation enacted in 1983 (this is discussed in greater detail below). HCD expects to expend all of these funds in the current year.

Second, HCD plans to commit during the current year most of the loan funds remaining from Ch 1043/79. (This measure appropriated $100 million in 1979 to HCD and CHFA for various housing programs.) The commitment of these remaining funds in the current year—approximately $4 million—also tends to distort the comparison between the current and budget years.

1983 Legislation Spawns New Housing Programs

During 1983, the Legislature enacted several measures that redirected $24 million from the Rental Housing Construction Fund (RHCF) to six new housing programs. The redirected funds originally were set aside for use by the California Housing Finance Agency (CHFA) pursuant to Ch 1043/79. However, as we described in the 1983–84 *Analysis,* the CHFA demonstrated that it did not require the set-aside funds to maintain its financing commitments to the various developments under the Rental Housing Construction Program. In November 1982, CHFA substituted proceeds obtained from the sale of CHFA tax-exempt mortgage revenue bonds for commitments made earlier from the RHCF, thus "freeing" approximately $24 million in the RHCF.

In response, the Legislature, through a series of measures, ordered the transfer of these funds to seven programs (six new and one existing) relating to housing and economic development. Table 3 provides a summary of these programs and their current status.

Table 3
Department of Housing and Community Development
Status of Programs Supported With Funds Redirected from the Rental Housing Construction Fund

Program	*Enabling Legislation*	*Purpose*	*Funding*	*Status*
Emergency Shelter Program (Administered by HCD)	Ch 1089/83 (AB 1363-Sher)	Awards grants to local agencies to provide shelter to homeless persons.	$1.7 million (additional $1 million, if available)	Proposals to be solicited in February 1984, with awards to be made to applicants in April 1984.
Rural Rental Housing Subsidies (administered by HCD)	Ch 1097/83 (AB 1765—Costa)	Provide rental assistance payments to eligible rural households residing in housing developments financed under federal programs.	$5.2 million (additional $1 million, if available)	"Notice of Funds Availability" issued in December 1983; funds to be provided in June 1984.
Rural Community Technical Assistance (administered by HCD)	Ch 1152/83 (AB 1604—Costa)	Provides technical assistance seed money to low-income rural communities to obtain funding for public facilities.	$500,000	Proposals to be solicited in April 1984, with awards to be made in June 1984.
Special User Housing Rehabilitation Program (administered by HCD)	Ch 682/83 (SB 26—Petris)	Financing for the acquisition and rehabilitation of residential hotels to create additional rentals for lower-income individuals.	$3 million (additional $2 million, if available)	Proposals to be solicited in April 1984, with awards to be made in July 1984.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Senior Citizen's Shared Housing Program (administered by HCD)	Ch 1307/83 (SB 19—Mello)	Awards grants to local agencies that provide shared housing services to senior citizens.	$300,000	Awards to be made in April 1984.
Subordinated Mortgages Program (administered by CHFA)	Ch 1448/82 (SB 1763—Marks)	Financing for rental housing developments.	$8.1 million	All funds currently committed.
Affordable Student Housing Program (administered by California State University	Ch 1125/83 (AB 133—Hughes)	Financing the development of on-campus rental housing for students from low-income backgrounds	$2.5 million	CSU Trustees adopted funding guidelines and priorities in January 1984; further implementation by the Chancellor's Office pending.

ANALYSIS AND RECOMMENDATIONS

The Employee Housing Program

The Employee Housing Program in the Division of Codes and Standards is responsible for enforcing minimum sanitary and safety standards in employee housing units and labor camps that are occupied by five or more employees. Employee housing regulations require operators of these units or camps to obtain annual operating permits, and to comply with prescribed standards. Currently, 625 camps are registered under the state enforcement program.

The California Labor Code permits local agencies to assume responsibility for the statewide sanitary and safety regulations. Where a local agency has opted to enforce the standards, the department must annually monitor and evaluate the local enforcement effort.

The fees collected by the state under this program are deposited in the General Fund and used to offset the cost to the General Fund of administering the program.

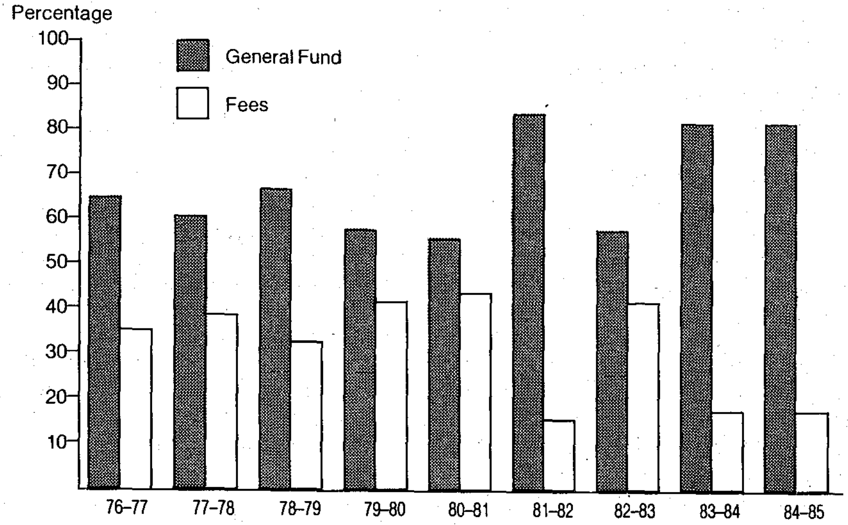
Table 4

Department of Housing and Community Development
Employee Housing Program
Budget Summary: 1976–77 Through 1984–85
(in thousands)

	Expenditures (in thousands)			*Distribution*	
	General Fund	*Fees*	*Total*	*General Fund*	*Fees*
1976–77	$305	$162	$467	65%	35%
1977–78	238	154	392	61	39
1978–79	299	150	449	67	33
1979–80	188	139	327	58	42
1980–81	314	250	564	56	44
1981–82	697	132	829	84	16
1982–83	359	258	617	58	42
1983–84 (estimated)	790	175	965	82	18
1984–85 (proposed)	775	175	950	82	18

Table 4 shows the growth in this program and the amount of funding support derived from the General Fund and from fees. As the table shows, the General Fund support for the program is expected to increase significantly in both the current and budget years, while fee support is scheduled to decline. The resulting dramatic shift in the funding ratio is shown both in Table 4 and graphically in Chart 1.

Chart 1
Department of Housing and Community Development
Employee Housing Program
Funding Summary



In the 1979–80 *Analysis*, we noted that the department was not collecting sufficient revenue to cover the program's administrative and enforcement costs. Subsequently, the Legislature adopted language in the *Supplemental Report of the 1979 Budget Act* which stated that "It is the intent of the Legislature that the Employee Housing Inspection program be of a self-supporting nature." In the 1981–82 *Analysis*, we recommended that all General Fund support for this program be deleted in order to reflect the intent of the Legislature, as reflected in the supplemental report language two years earlier.

In the 1982 Budget Act, the Legislature revised the funding for the Employee Housing Program. The act provided for increased fees to support the program, permitting a net $107,000 General Fund reduction from the amount originally proposed by the Governor. In taking this action, the Legislature sought to restore the funding ratio for the program to what it had been in 1979–80: 58 percent General Fund support and 42 percent fee support.

The Governor's Budget for 1983–84 once again proposed to shift support

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

of the Employee Housing Program from fees to the General Fund. In the 1983–84 *Analysis,* we recommended that, in order to restore the funding ratio to what the Legislature had approved for 1982–83, reimbursements be increased by $292,000 and General Fund support be reduced by the same amount. The HCD and the Department of Finance concurred with this recommendation. The changes, however, were not reflected in the final version of the Budget Bill, resulting in a further funding shift toward the General Fund. As Table 4 indicates, the General Fund is providing 82 percent of the support for the program, and only 18 percent is coming from fees.

Budget-Year Request Continues Overreliance on General Fund

We recommend a General Fund reduction of $224,000 and a corresponding increase in reimbursements for the Employee Housing Program (Item 2240-001-001) in order to bring the funding ratio for the program closer to what the Legislature intended for it to be (no impact on current level of program).

For 1984–85, the budget proposes $950,000 in expenditures for the Employee Housing Program, of which $175,000, or *18 percent*, would be financed from fees. This is nearly one-third below the level of fees actually received in 1982–83. As a consequence, the General Fund's share of program costs in 1983–84 would be 82 percent, compared with 58 percent in 1982–83.

The department maintains that the costs of certain of its enforcement activities under the program should not be recovered from fees. The department maintains that when HCD investigators find that complaints filed by employee-residents of registered camps are without merit, it would be inappropriate for the employer to have to cover the investigation costs through increased fees.

In evaluating the department's budget request for the Employee Housing Program, we can find no basis for the contention that fees can support *only one-fifth* of total program expenditures. In three of the past four years, fees have supported more than 40 percent of these expenditures. Furthermore, given the enactment of Ch 1210/83 (please see below), the department should have additional fee revenues to cover program spending beginning in the current year. In sum, we see no reason why the funding ratio for this program cannot be restored to what the Legislature approved in prior years (58 percent General Fund and 42 percent fee and other support). Accordingly, we recommend that General Fund support of this program be reduced by $224,000 and that reimbursements be increased by a corresponding amount. Approval of this recommendation would have no effect on the level of activity under the program.

Legislature Should Consider Giving HCD Authority to Assess Civil Penalties

We recommend that legislation be enacted authorizing the department (1) to issue civil citations against violators of the Employee Housing Act, collect fines from violators, and (2) to use the collected fine revenues to offset the ongoing program costs (potential annual General Fund savings: $551,000).

In the past, the department has not been eligible to receive any fines resulting from violations of the law that it detects. This is because local agencies, which prosecute such cases, receive all of the proceeds from fines. Thus, although the state bears most of the enforcement costs under the program, it gets none of the revenues that result from its efforts. Furthermore, since HCD lacks the authority to penalize violators of the Employee Housing Act, HCD's investigators must rely on the local prosecutor to pursue criminal sanctions against violators. Consequently, state enforcement is dependent on local officials' priorities for prosecution.

In enacting Ch 1210/83 (SB 459), the Legislature addressed some of these problems. Chapter 1210, which became effective January 1, 1984, doubles the existing penalties for violations of the Employee Housing Act. It also permits the investigating enforcement agency (HCD or the delegated local agency) to collect all fine revenue in excess of the first $500 imposed for each violation of the act. This legislation would result in additional revenue to the HCD program to the extent that violators are prosecuted and the fines collected exceed $500 per violation. (HCD did not adjust its program funding schedule to reflect these increased reimbursements.)

As a means of making HCD's enforcement more cost-effective and efficient, we recommend the enactment of legislation authorizing HCD to issue civil citations directly to violators. This authority could be modeled after the authority given to the Department of Industrial Relations to enforce state laws governing child labor and unlicensed contractors. The legislation should also permit HCD to use any fines collected from violators to offset General Fund support. This could result in the program becoming entirely self-supporting, as the Legislature originally intended (potential annual General Fund savings of $551,000).

Factory-Built Housing Program Should Stand Alone

We recommend the elimination of General Fund support for the Factory-Built Housing program in order to comply with existing law, for a savings of $61,000 in Item 2240-001-001.

Under Sections 19960–19997 of the Health and Safety Code, the department is responsible for regulating the design, manufacture, and installation of factory-built housing. Factory-built housing principally includes residential buildings or units that are wholly or partially manufactured at a site other than the location at which they will be assembled. State law requires that all factory-built housing units sold or offered for sale by the initial installer obtain an insignia of approval issued by HCD (or the local enforcement agency, when responsibility has been delegated by the department).

In our 1983–84 *Analysis*, we recommended deletion of all General Fund support for the Factory-Built Housing program on the grounds that Section 19982 of the Health and Safety Code requires the administrative and enforcement costs of the program to be entirely covered by fees. We also noted that we could find no compelling reason why the General Fund should subsidize this function, since the benefits accrue primarily to manufacturers and vendors of factory-built housing.

The Legislature deleted all General Fund support for the program. In addition, the Legislature enacted Ch 706/83 (SB 1186), which directs HCD to deposit all fees collected under the Factory-Built Housing Program in the Mobilehome–Manufactured Housing Revolving Fund (MMHRF). Monies in the MMHRF are continuously appropriated to HCD to pay for the program's enforcement and administrative costs.

In apparent disregard of existing law and prior legislative action, the budget proposes $61,000 from the General Fund to support the Factory-

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Built Housing program in 1984–85. If approved, the General Fund would again be subsidizing an activity that primarily benefits a relatively small group.

Consistent with the provisions of existing law, we recommend a deletion of all General Fund support (Item 2240-001-001) for the Factory-Built Housing Program, for a General Fund savings of $61,000.

General Fund Overly Accommodates Housing Program

We recommend a reduction of $246,000 in Item 2240-001-001 (General Fund) and a corresponding increase in Item 2240-001-929, (Housing Rehabilitation Loan Fund) because all Housing Rehabilitation Program activities should be funded exclusively out of the special fund established for that purpose.

The department's Housing Rehabilitation Loan programs, established pursuant to Chapter 884, Statutes of 1978 (SB 966) provide low interest loans "for financing all or a portion of the cost of rehabilitating existing housing to meet rehabilitation standards".

Under this program, loan funds are provided to local entities operating programs that provide housing rehabilitation assistance for low and moderate income households. Chapter 884, Statutes of 1978 appropriated $2 million from the General Fund to the Housing Rehabilitation Loan Fund (HRLF) for the initial support of the program. Chapter 1043, Statutes of 1979, appropriated an *additional* $10 million for expansion of the original program. The program will receive up to $5 million in additional funding under Chapter 682, Statutes of 1983 (SB 26), for the purpose of financing the acquisition and/or rehabilitation of residential hotels for occupancy by lower income individuals.

During the budget year, the department proposes expenditures of $789,000 from the Housing Rehabilitation Loan Fund to provide 22 loans (estimated value of $376,000) to eligible borrowers. The support expenditures proposed for the program in 1984–85—$413,000—include the costs of making new loans and monitoring local activities funded by HRLF loans in past years.

The agency also proposes $246,000 in *General Fund* support to fund the monitoring activities associated with the following HCD housing rehabilitation programs:

- *Independent Living Housing Assistance Program,* under which HCD staff (1) monitor the construction of assisted projects which received funding in 1982 and (2) prepare final reports;
- *Residential Hotel Demonstration Program,* under which HCD staff (1) monitor the construction work on assisted projects and (2) collect relevant data on residential hotels; and
- *Rehabilitation Local Government Assistance Program,* under which HCD staff conduct training sessions and provide other technical assistance to develop local housing rehabilitation programs.

We can find no compelling reason for supporting these activities from the General Fund.

Section 50661 of the Health and Safety Code, which creates the HRLF, continuously appropriates all monies in the fund (1) for making loans pursuant to program goals and requirements, and (2) "*for related administrative expenses of the department.*" Our review indicates that the activities for which $246,000 in General Fund support is sought are "related administrative expenses" of the department associated directly with the housing rehabilitation loan programs. As such, we conclude that such expenses can and should be paid from the HRLF.

Furthermore, the HRLF has adequate resources to fund these activities. The department estimates that, after all loans are made and staff support costs are paid, the fund will have a *surplus* of $611,000 at the end of 1983–84 and $271,000 at the end of the budget year. Past experience suggests, moreover, that these estimates represent the minimum surplus that can be anticipated, as fund surpluses are likely to be much larger than these projections. In fact, HCD has underestimated the annual carryover surplus amounts by as much as $1 million.

Since existing law provides for program-related administrative expenses to be paid from the HRLF and there are adequate funds in the HRLF to cover these expenses, we recommend that General Fund support for administrative activities associated with the department's rehabilitation loan programs be replaced with funding from the HRLF, for a General Fund savings of $246,000 in Item 2240-101-001.

Reduction of $138,000 (total)

Budget Includes a Series of Technical Errors

We recommend a reduction of $49,000 from the General Fund, $18,000 from various special funds and $112,000 from reimbursements to correct for overbudgeting.

Our analysis of the department's budget indicates that it includes a number of technical budgeting errors, as follows:

Escrow and Property Management Services Double-Budgeted. The budget proposes $112,000 for escrow and property management services associated with the HCD Century Freeway Housing Replacement program in Los Angeles. These are routine expenses relating to the disposition of various housing units as they are made ready for occupancy by eligible families in the Century Freeway corridor area. Our review found that due to an error, funding for these services was included in the budget twice. To correct this error, we recommend a reduction of $112,000 from reimbursements in Item 2240-001-001.

Community Development Program Administration Overbudgeted. The Community Development Program in the Division of Community Affairs requests $800,000 from the General Fund for various program activities. These activities include the Small Cities portion of the federal Community Development Block Grant Program, the Rural Development Assistance Program and administrative support for these programs. Our analysis indicates that $126,000 of the $800,000 proposed for these programs is to support 1.5 positions. Only $80,000, however, is needed for these positions. In order to correct for this overbudgeting, we recommend that Item 2240-001-001 (General Fund) be reduced by $46,000.

Loan and Grant Committee Expenses Overbudgeted. The department maintains two committees composed of HCD personnel and local public officials to oversee the department's loan and grant awards. During the current year, the budget includes $10,000 to cover the per diem reimbursement and travel expenses of the local officials who attend the monthly HCD committee meetings. The budget proposes $18,000 to cover these expenses during 1984–85. Based on routine price increases for air fare and other special expenses for committee members, our analysis indicates that $15,000 more accurately reflects the department's budget-year need for these expenses. Therefore, we recommend that Item 2240-001-929 be reduced by $3,000.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Incorrect Salary Ranges Used. In determining the amount of salaries that would no longer be paid as a result of eliminating 17 positions, the department used incorrect salary levels. The salaries of these positions were not adjusted to reflect the across-the-board 6 percent salary increase which went into effect January 1, 1984. Our analysis indicates that, as a result of this error, the reduction in salaries is understated by $11,000—$3,000 in Item 2240-001-001 (General Fund), $1,000 in 2240-001-635, and $7,000 in Item 2240-001-648.

Impact of Workshift Changes Omitted. Due to increased program efficiencies, the department proposes to terminate in 1984–85 ten "evening shift" positions in the Mobilehome Registration and Titling Program. Because of this reduction, HCD plans to eliminate the "evening shift" in the program, and transfer the remaining program personnel to the "day shift". All of this program's personnel could then be supervised by the day managers, thus reducing supervisorial costs.

This transfer eliminates the need for the salary shift-differential presently paid to those personnel working evenings. This differential is the amount of additional hourly compensation granted to employees who work evening shifts. Since *no* employees in the program will be working in the evening shift during 1984–85, the program's salaries expenses will be reduced by the amount of the shift differential. Therefore, we recommend a reduction of $7,000 in Item 2240-001-648 to eliminate the differential amount.

In order to correct for these budgeting errors, we recommend that the department's expenditures be reduced by $179,000 (consisting of $49,000 from the General Fund in Item 2240-001-001, $14,000 from Item 2240-001-648, $3,000 from Item 2240-001-929, $1,000 from Item 2240-001-635 and $112,000 in reimbursements in Item 2240-001-001).

Budgeting for Consultant Services May Be Premature

We withhold recommendation on $28,000 proposed for various consulting contracts in 1984–85, pending the release of a Task Force report justifying the need for these contracts.

The department requests $28,000 for two consultant contracts. One contract, budgeted at $20,000, would be let in order to retain a consultant who would study various alternatives for financing local infrastructure. The second contract, budgeted at $8,000, would fund the preparation of a manual assisting local governments in understanding the requirements of the California Environmental Quality Act (CEQA).

The department reports that both of these contracts are proposed in response to recommendations that are included in an Infrastructure Task Force report, which is due for release sometime in the spring of 1984. The task force, headed by the Secretary of the Business, Transportation, and Housing Agency, was organized in 1983 to design an economic development program for the new administration.

Until this report is released, we cannot properly evaluate the need for these contractual expenditures. Therefore, we withhold recommendation on the $28,000 that is proposed in Item 2240-001-001 (General Fund) for these contracts, pending the release of the task force report. When the report is released we will review it and submit our recommendations to the fiscal committees regarding the need for these contracts.

New Automated System Proposed for Mobilehome Program

We recommend that the Legislature adopt supplemental report language directing the department to terminate 27.5 positions effective July 1, 1986, and 18.0 additional positions effective July 1, 1987, to reflect ongoing cost savings resulting from the installation of a new data processing system for the Mobilehome Registration and Titling Program.

The budget proposes the establishment of 20 additional positions in the Office of Data Processing in the Administration Program to develop, design and implement a comprehensive data processing system for the department's Mobilehome Registration and Titling function. In order to support these positions in 1984–85, $865,000 is requested from the Mobilehome-Manufactured Housing Revolving Fund.

According to the department's Feasibility Study Report (FSR), the installation of the new system will take place over approximately 22 months. The system development commenced in November 1983, with the approval of the state Office of Information Technology (OIT). The department anticipates total development costs of approximately $1.35 million over the three-year period.

Table 5 summarizes the staffing changes expected by HCD as a result of implementing the new system. It shows that after the new EDP system begins operating in 1985–86, the department will be able to eliminate—beginning July 1, 1986—27.5 staff positions (3.5 from the program staff and 24.0 from the technical EDP development staff). An additional 18.0 positions will be unnecessary as of July 1, 1987, because of further personnel savings resulting from the new system.

Table 5
Mobilehome Registration and Titling Program
Summary of Staffing Changes

	Mobilehome Program Staff	*Data Processing Staff*	*Total Staff*	*Change From Prior Year*
1983–84 (estimated)	151.75	30	181.75	—
1984–85 (proposed)	151.75	50	201.75	20.0
1985–86 (projected [a])	151.75	59	210.75	9.0
1986–87 (projected [a])	148.25	35	183.25	−27.5
1987–88 (projected [a])	137.25	28	165.25	−18.0

[a] Source: July 1983 Feasibility Study Report submitted by HCD.

We have reviewed the data prepared by the department in support of this automation project. We found that the reports were well prepared in their presentation, clarity and thoroughness. We conclude that the investment of these funds would lead to an efficient and cost-effective means for managing the state's ongoing responsibilities in the regulation of mobilehomes and the manufactured housing industry. For these reasons, we recommend approval of this proposal.

In order to ensure that the estimated cost savings are incorporated into the department's budget at the appropriate time, we recommend that the Legislature adopt supplemental report language stating the Legislature's intent that the department eliminate, effective July 1, 1986, 27.5 positions, (3.5 in the Mobilehome program and 24 from the system development staff in the Office of Data Processing) and an additional 18 positions (11 from the program staff and 7 from the system development staff) on July 1, 1987.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Specifically, we recommend the following language:

It is the intent of the Legislature that the Department of Housing and Community Development, effective July 1, 1986, eliminate 27.5 positions, and an additional 18 positions, July 1, 1987, from the department's authorized staff to reflect cost savings resulting from the installation of the new data processing system servicing the Mobilehome Titling and Registration Program.

Business, Transportation and Housing Agency

CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California Housing Finance Fund — Budget p. BTH 45

Authorized 1984–85	($6,591,000) [a]
Estimated 1983–84	(5,855,000) [a]
Actual 1982–83	4,871,000

Requested increase (excluding amount for salary increases) $736,000 (12.6 percent)

[a] Appropriation authority provided pursuant to Section 51000 of the Health and Safety Code.

GENERAL PROGRAM STATEMENT

The primary mission of the California Housing Finance Agency (CHFA) is to provide financing for the development and rehabilitation of housing for the state's low and moderate income residents. Funding for its programs is derived mainly from the sale of tax-exempt revenue bonds and notes, the proceeds from which are used to (1) make direct loans to developers of multiple-unit housing or (2) provide loans and insurance through private lenders to low and moderate income households for the purchase and/or rehabilitation of homes in designated areas. Bond proceeds are deposited in the California Housing Finance Fund, and are continuously appropriated to the agency by Section 51000 of the Health and Safety Code.

The agency is governed by an 11-member board of directors, and has 115 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The Board of Directors of the California Housing Finance Agency has authorized expenditures by the agency of $6,591,000 for operating expenses in 1984–85. These expenditures would be financed from the California Housing Finance Fund (CHFF), which derives its revenues from service fees charged to borrowers and lenders and from interest earnings on loans made out of bond proceeds. The expenditure level approved by the board is $736,000, or 13 percent, higher than estimated expenditures for operating expenses in the current year. This increase will grow by the cost of any salary or staff benefit increases that may be approved in 1984–85.

Agency's Budget Does Not Require Legislative Review or Approval

Under the provisions of Section 51000, funding for the agency's support budget need *not* be provided through the annual budget act. In lieu of the regular legislative budgetary review, Section 50913 of the Health and Safety Code (as amended in 1983) requires CHFA to submit to the Business, Transportation and Housing Agency, the Director of Finance, and the Joint Legislative Budget Committee, on or before January 10, a final budget for the ensuing fiscal year.

Nevertheless, the Legislature included an item in the 1982 Budget Act appropriating funds for the agency's operating expenses in 1982–83. The Legislature elected not to include an item in the 1983 Budget Act appropriating funds for support of the agency in 1983–84, allowing the agency to adopt its own support budget without legislative review or approval.

The 1984 Budget Bill proposes to continue this policy and does not include an item of appropriation for CHFA support expenses. In the absence of action by the Legislature to appropriate funds for the CHFA's operating expenses in the 1984–85 Budget Bill, the budget approved for 1984–85 by the Board of Directors is final.

Changes Approved for the Budget Year

Table 1 summarizes the agency's operating budget for the three-year period ending June 30, 1985.

Table 1
California Housing Finance Agency
Support Budget
1982–83 through 1984–85
(in thousands)

	Actual	*Estimated*	*Adopted*	*Change*	
Personal Services	*1982–83*	*1983–84*	*1984–85*	*Amount*	*Percent*
Salaries and Wages	$2,640	$3,111	$3,567	$456	14.6%
Staff Benefits	595	964	963	–1	—
Subtotals, Personal Services	($3,235)	($4,075)	($4,530)	($455)	11.2%
Operating Expenses and Equipment					
State Administrative Charges	$252	$250	$235	–$15	–0.6%
Interagency Contracts	19	30	30	—	—
Consulting Services:					
General and Audit	46	60	60	—	—
Financial and Legal	59	60	63	3	5.0
Trustee Fees	130	175	250	75	42.9
General Expenses	132	170	170	—	—
Data Processing	124	165	90	–75	–45.4
Travel	313	315	335	20	6.3
Communications	192	182	218	36	19.8
Facilities Operation	290	340	335	–5	–1.5
Earthquake Insurance	120	250	150	–100	–40.0
Housing Bond Credit Committee	69	75	95	20	26.7
Equipment	30	58	30	–28	–48.3
Subtotals, Operating Expenses and Equipment	($1,776)	($2,130)	($2,061)	(–$69)	(3.2)
Totals	$5,011	$6,205	$6,591	–$386	6.2
California Housing Finance Fund	*$4,871*	*$5,855*	*$6,591*	*–$736*	*12.6*
Reimbursements	*140*	*350*	—	*–350*	—

CALIFORNIA HOUSING FINANCE AGENCY—Continued

As shown in Table 1, the Board of Directors has approved an increase in the agency's personal services cost of $455,000, which is 11 percent over estimated current-year expenditures. This increase primarily reflects the board's decision to add 9.0 permanent positions in 1984–85, and to grant salary increases to exempt officers of the agency.

The board has also approved a level of funding for operating expenses in 1984–85 that is $69,000 below the current-year level. The reductions reflect decreased data processing costs ($75,000), the discontinuation of earthquake insurance coverage for single-family units ($100,000) and fewer equipment acquisitions ($28,000). These reductions are partially offset by increases in communications (telephones), trustee fees, and travel.

Table 2 shows the salary increases granted, effective July 1, 1984, by the CHFA Board of Directors to the agency's five exempt officers. As reflected in the table, these increases range from 9.2 percent to 16.9 percent. It is not clear whether further salary increases will be granted to these officers in 1984–85 if the Legislature approves any general across-the-board increase for state employees.

Table 2
California Housing Finance Agency
Salaries of Exempt Positions
1983–84 and 1984–85

	Salary		*Change*	
Exempt Officers	*Existing 1983–84*	*New 1984–85*	*Amount*	*Percent*
Executive Director	$62,016	$72,500	$10,484	16.9%
Director of Financing	52,980	57,925	4,945	9.3
Director of Multi-family Programs	52,980	57,875	4,895	9.2
General Counsel	50,532	55,925	5,393	10.7
Director of Government Relations and Public Information	39,072	43,575	4,503	11.5
Totals, Exempt Salaries	$257,580	$287,000	$30,220	11.7%

In Table 3, we summarize the position changes in the agency's 1984–85 budget approved by the board. The table shows that the agency intends to add 14.5 positions in 1984–85 due to increased workload under existing programs and the workload associated with new programs. The cost of these new positions is $362,000. (Salaries for these and other *non*exempt positions in the agency are adjusted by the board to reflect salary cost-of-living adjustments granted state employees.) The CHFA also plans to terminate 5.5 positions due to various workload and program changes, for a savings of $130,000. As a result of these staffing adjustments, the agency expenditures for personnel services will increase by $232,000, or 6.5 percent, over the current-year level.

Table 3
California Housing Finance Agency
Summary of Position Changes
1984–85

Positions added: 14.5	*Salary* [a]
Director of Insurance Programs	$45,924
Housing Finance Officer (3.0)	103,644
Housing Finance Specialist	27,336
Housing Finance Associate (2.5)	62,190
Housing Finance Assistant	20,688
Maintenance Inspector	26,712
Programmer II	20,688
Secretary	13,992
Office Technician (1.5)	20,610
Accounting Technician (1.5)	20,610
Subtotals, Positions Added	$362,394
Positions Deleted: 5.5	
Director of Program Development	–$45,924
Senior Field Inspector	–37,116
Account Clerk II	–12,300
Word Processing Technician	–14,820
Office Technician	–13,740
Data Entry Technician (0.5)	–6,372
Subtotals, Positions Deleted	–$130,272
Net Increase in Salaries	$232,122

[a] These salaries do *not* include the 6 percent increase, effective January 1, 1984.

Agency Develops New Housing Programs

Over the past two years, significant changes have occurred in what formerly were the California Housing Finance Agency's (CHFA) two principal types of financing programs: single-family housing mortgage programs and federally subsidized "Section 8" multifamily rental housing programs.

Multifamily. In 1982–83, the federal government stopped authorizing "Section 8" rental subsidies for *new* multifamily construction. Previously, the agency relied on the federal subsidies to make CHFA-financed multifamily housing projects economically attractive to and feasible for developers. The cut-off of "Section 8" subsidies for new construction has left the agency unable to finance additional rental housing developments for lower-income families and individuals under its existing program.

In response, CHFA has initiated the following *new* programs for the development of rental housing in California.

- *Unsubsidized Rental Housing ("The 80/20 Program").* Federal agencies have approved the use of tax-exempt bonds to finance the development of rental housing projects where at least 20 percent of the units will be available at rates that are affordable to lower income persons. (The remaining units can rent at "market rates.") While no developments currently are under construction, the CHFA estimates that it will finance up to 3,500 units in 1984–85 under this program.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

- ***Housing Rehabilitation Underwriting Program.*** This program will provide money to local agencies to make funds available for the rehabilitation of rental housing stock. The agency intends to launch the program by issuing $50 million in tax exempt bonds, with the objective of servicing 3,000 units during 1984–85.
- ***Multifamily Mortgage Insurance Program.*** Under this program, which began in the current year, CHFA insures mortgage loans made by either private lenders or CHFA. Agency staff believe that this program will stimulate the production of more privately financed rental housing. The agency expects to insure 5,000 units of new construction under the program in 1984–85.

Single-Family. The CHFA's single-family housing programs that are supported through the sale of tax-exempt revenue bonds have been indefinitely suspended. This is because the federal Mortgage Bond Subsidy Tax Act of 1981 terminated, effective January 1, 1984, the authority of states to issue tax-exempt bonds to finance mortgages on single-family housing units. It is not clear when—or if—this authority will be reinstated by Congress. In the interim, no new bonds can be sold. Program staff will continue to commit funds secured from bond sales that took place *prior to* January 1, 1984.

Pending Congressional action in this area, the agency is developing other single-family mortgage programs:

- ***Builder Buy-Down Program.*** Under this program, which was authorized by Ch 1450/82, the state subsidizes the interest rate on mortgages offered to homebuyers. It does this by appropriating funds in the annual Budget Act to reimburse builders for all funds provided by the builders to "buy-down" the interest rate on loans made to eligible borrowers to finance the purchase of new housing. According to CHFA, implementation of the program has been delayed indefinitely, due to uncertainties regarding the availability of reimbursement funds.
- ***Cal-First Homebuyers Act.*** Proposition 5, which was approved by voters at the November 1982 election, and companion legislation (Ch 320/82) authorized the sale of up to $200 million of general obligation bonds to finance interest rate buy-down loans for first-time homebuyers. Under this program, CHFA will make supplemental payments to provide a graduated buy-down of the interest rate during the initial years of home ownership. In exchange, CHFA will hold an interest-bearing note secured by a second deed of trust on the property being purchased. Buyers will repay the CHFA buy-down through higher payments beginning in the seventh year, or through accumulated equity when they sell their homes. In December 1983, CHFA supervised the sale of $15 million in bonds to support the program. The staff estimates that the proceeds from these bond sales will finance approximately 2,000 loans under this new program.

Business, Transportation and Housing Agency

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE

Item 2270 from the General Fund, Mortgage Bond Allocation Fee Account — Budget p. BTH 48

Requested 1984–85	$15,000
Estimated 1983–84	15,000
Actual 1982–83	5,000
Requested increase—None	
Recommendation pending	15,000

GENERAL PROGRAM STATEMENT

The California Mortgage Bond Allocation Committee (MBAC) was established by Ch 1097/81 to assure the state's compliance with the requirements of the Federal Mortgage Subsidy Bond Tax Act of 1981. The MBAC is responsible for allocating among state and local government entities the amount of tax-exempt mortgage revenue bonds that may be issued in California to finance loans for owner-occupied housing. Such an allocation is necessary because the federal government has imposed a ceiling on the amount of mortgage revenue bonds that may be issued to finance owner-occupied housing in any one year. In 1983, the ceiling for California was $1,451,802,000. Bonds with a face value of approximately $1,450,050,000, or 99 percent of the ceiling amount, were issued in 1983.

The seven-member committee is composed of the State Treasurer (Chairman), the Governor (or, in his absence, the Director of Finance), the State Controller, the Directors of the Department of Housing and Community Development and the California Housing Finance Agency, and two local government representatives. The committee staff consists of one part-time Executive Director.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $15,000 from the Mortgage Bond Allocation Fee Account in the General Fund for support of the committee in 1984–85. This is the same amount that MBAC received in support of its activities during the current year.

The MBAC budget is entirely supported from the application fees deposited in the Mortgage Bond Allocation Fee Account. These fees are collected from the state and local bond-issuing entities which seek MBAC authorization to sell bonds.

Committee May Not Be Needed in 1984–85

We withold recommendation pending possible federal action on states' use of tax-exempt mortgage revenue bonds.

The Federal Mortgage Subsidy Bond Tax Act of 1981 terminated the federal income tax exemption for interest earned on mortgage revenue bonds issued after December 31, 1983, for the development of owner-occupied housing. Thus, unless federal legislation extending the exemption is enacted by the Congress, state and local agencies will not be able to issue mortgage revenue bonds (MRBs) that are federally tax-exempt during 1984–85. In that event, we believe the sale of MRBs will be signifi-

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE—Continued

cantly reduced, if not halted altogether. Consequently, unless there is a change in federal law, the MBAC will have no function to perform in 1984–85, and would not, therefore, need any additional spending authority.

We believe it is likely that the Congress will reinstate the tax-exempt status for these MRBs early in 1984. Pending such action, we withhold recommendation on its budget. At the hearings on its budget, we will advise the Legislature on the status of federal law governing MRBs so that it will be able to assess the need for continued funding of this entity.

Business, Transportation and Housing Agency

DEPARTMENT OF INSURANCE

Item 2290 from the Insurance Fund — Budget p. BTH 49

Requested 1984–85	$18,154,000
Estimated 1983–84	16,962,000
Actual 1982–83	15,272,000
Requested increase (excluding amount for salary increases) $1,192,000 (+7.0 percent)	
Total recommended reduction	489,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. *Financial Examinations. Reduce by $175,000.* Recommend deletion of four positions because the department has overestimated workload.	362
2. *Interest Expenses. Reduce by $200,000.* Recommend funds for interest expenses be deleted because the budget does not anticipate the need for borrowing in 1984–85.	364
3. *Carryover for Cash-flow Needs.* Recommend department advise the fiscal subcommittees why it has not requested carryover funds to meet its cash-flow needs in 1984–85.	364
4. *Out-of-state Travel. Reduce by $73,000.* Recommend that travel expenses be reduced because the increase has not been fully justified.	364
5. *Legal Assistant Positions. Reduce by $41,000.* Recommend deletion of two positions that are not justified on a workload basis.	365

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business that is entirely regulated by the states, rather than by the federal government. In California, the Department of Insurance is responsible for regulating the activities of insurance and title companies, as well as insurance agents and brokers, in order to protect insurance policyholders.

Currently, there are about 1,300 insurers licensed to do business in California. The department estimates that these insurers write policies in the state that carry premiums of approximately $26 billion annually.

The department's Regulation Program provides for: (1) the processing of inquiries and complaints from the public regarding the actions of insurance companies; (2) the examination and rating of insurers; and (3) the examination of applicants seeking to be licensed as insurance agents or brokers; and (4) the investigation of complaints concerning insurance agents and brokers.

The department also investigates insurance fraud under the Fraud Control program, and collects premium, retaliatory, and surplus line broker taxes from insurance companies under the Tax Collection program.

The Insurance Commissioner, who is appointed by the Governor, administers the department. The department maintains headquarters in San Francisco, and branch facilities in Los Angeles, San Diego and Sacramento.

The department is authorized to have 410 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of $18,154,000 from the Insurance Fund for support of the department in 1984–85. This is an increase of $1,192,000, or 7.0 percent, over estimated expenditures in the current year. The increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

Chapter 722, Statutes of 1982 (AB 1797), created the Insurance Fund to support the department's activities beginning July 1, 1983. Previously, the department was supported by appropriations from the General Fund.

Revenues deposited in the Insurance Fund are derived primarily from license fees and renewals and from insurance company examination fees. According to the department's estimates, the Insurance Fund will accrue revenues of $18,957,000 in the current year, and $22,263,000 in the budget year.

In the budget year the department is proposing to make the following program changes:

- Add $293,000 and seven positions to the Financial Analysis Division to handle increased workload.
- Add $84,000 and three positions to the Actuarial Division to address increased workload.
- Add $98,000 to the Field Examination Division for an increase in out-of-state travel.
- Add $41,000 and two positions to the Legal Division to handle increased workload and eliminate a backlog in applications.
- Delete $73,000 and three positions from the Administration Division in response to the Governor's "3 percent reduction". This reduction actually amounts to about 1 percent of current authorized positions of 410.

Table 1 shows actual and estimated expenditures and staffing, by program, for 1982–83, 1983–84, and 1984–85.

DEPARTMENT OF INSURANCE—Continued

Table 1
Department of Insurance
Expenditures and Staffing, by Program
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83		*Estimated 1983–84*		*Proposed 1984–85*	
Program	*PYs*	*Expenditures*	*PYs*	*Expenditures*	*PYs*	*Expenditures*
Regulation						
Insurance companies	176.7	$10,979	167.6	$12,044	176.2	$13,026
Insurance producers	109.0	3,681	114.0	3,997	114.0	4,149
Fraud Control	12.7	522	20.0	784	20.0	831
Tax Collection and Audit	3.0	90	5.0	137	5.0	148
Administration (distributed)	80.1	(3,017)	87.0	(3,870)	87.0	(4,002)
Totals	381.5	$15,272	393.6	$16,962	402.2	$18,154
Reimbursements		−5,559		-		-
Net Totals	381.5	$9,713	393.6	$16,962	402.2	$18,154

ANALYSIS AND RECOMMENDATIONS

Financial Examination Workload Is Overestimated

We recommend a reduction of $175,000 and four positions requested for the examination of financial statements because we believe the department has overestimated workload for the Financial Analysis Division.

The Financial Analysis Division is primarily responsible for: (1) analyzing the financial statements of licensed insurance companies, and (2) assisting the Legal Division by providing financial examinations of insurers applying to do business in California. The budget proposes an increase of seven personnel-years, or 54 percent, over current-year staffing levels to handle anticipated increases in workload for the division, at a cost of $293,000.

In 1982–83, the division had 13 positions (11 professional and 2 clerical) to process the financial statements submitted by 1,221 licensed insurers and 430 new applicants. This provided 17,300 person-hours of professional staffing. For 1983–84, staffing for the division was continued at essentially the same level and is expected to process the same number of financial statements for licensed insurers and as well as statements for 495 new applicants.

The department is proposing seven additional professional positions in the budget year to examine financial statements for a projected 3,160 licensed insurers and 569 new applicants. This amounts to an increase in the number of financial statement analyses totaling 1,940 (160 percent), and an increase in the number of applicant examinations totaling 74 (15 percent), compared with estimated workload in the current year. The department proposes to more than double its surveillance of licensed insurers because of the steady increase in the number of licensed companies and an increase in the number of financially troubled companies, particularly property/casualty and smaller life insurers.

Table 2 shows the division's financial examination workload for 1982–83, 1983–84 and 1984–85.

Table 2
Department of Insurance
Financial Examination Workload and Staffing
1982–83 through 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Legislative Analyst's Estimate 1984–85*
Examinations of New Applicants	430	495	569	430
Examinations of Licensees	1,221	1,221	3,160	3,160
Personnel-Years (professionals)	11	11	18	14

The department has provided the Legislature with workload information to support its request for seven new professional positions. Our analysis, however, indicates the department's projected workload for processing financial statements in 1984–85 is probably overstated, for two reasons.

First, the projected 15 percent increase in the number of examinations of new applicants, from 495 estimated in 1983–84 to 569 in 1984–85, is not consistent with current trends. During the first half of the current year, there was a 31 percent *decrease* in the number of new applications received—175, compared with the 247 anticipated. Furthermore, we know of no reason to expect a major upsurge in applications during the last six months of 1983–84; in fact, the number of new applications received in the last half of 1981–82 and 1982–83 did not show an appreciable increase over applications received in the first half of these fiscal years.

Given the sharp reduction in the number of applications received during the first half of the current year, it now appears that approximately 350 applications will be received and processed in 1983–84, rather than the 495 as originally projected by the department. Consequently, we believe that a more realistic estimate of the number of new applications likely to be submitted in 1984–85 is 430, rather than 569 as projected by the department.

Second, the department's information on actual workload for 1982–83 indicates that examinations of annual and quarterly financial statements submitted by existing licensees require six personnel-hours and two personnel-hours, respectively. In developing its estimate for the budget year, however, the department increased the estimated time required to examine statements by 38 percent. According to the department, the reason for the increase was to provide more time for the development of internal priorities for examining companies having financial troubles.

According to our analysis, the department has not justified the proposed increase in examination time requirements. We find that the department, for some time, has been prioritizing companies before commencing examinations. This is evidenced in the "Commissioner's 1982 report to the Governor", which states that the department "analyzes and maintains an ongoing surveillance of admitted (licensed) insurers for the purpose of identifying companies in or approaching hazardous financial conditions."

In view of our findings, we recommend that the department's staffing levels (1) be increased from three to six personnel-years to examine 3,160 licensees in the budget year, and (2) be maintained at eight personnel-years (no change), to examine 430 new applicants. Accordingly, we recommend approval of three professional positions, rather than the request-

DEPARTMENT OF INSURANCE—Continued

ed seven positions. This would result in a reduction of four positions and a savings of $175,000.

Interest Expense Not Needed

We recommend the deletion of $200,000 requested for interest expenses because the budget does not anticipate the need for a loan to meet the department's cash-flow needs in 1984–85.

The 1983 Budget Act transferred $2,793,000 from the General Fund to the Insurance Fund to meet the department's cash-flow needs during the first year in which funding for the department is to come from the Insurance Fund, rather than from the General Fund. Repayment of the loan is required by October 1, 1984.

According to the Department of Finance, the loan principal and $200,000 in interest will be repaid with program revenues during the *current* year.

Despite the planned retirement of the loan in 1983–84, however, the department has budgeted $200,000 for interest expenses in 1984–85. Although the department has informally suggested that another loan may be needed in 1984–85, no such loan is provided for in the budget. For that reason, we recommend that the $200,000 proposed for interest expenses be deleted.

No Provision for Cash-flow Needs

We recommend that the department, at the time of budget hearings, explain to the fiscal subcommittees why it has not requested carryover funds to meet its cash-flow needs in fiscal year 1984–85.

In enacting Ch 722/82, the Legislature provided that any balance remaining in the Insurance Fund at the end of the fiscal year may be carried forward to the next fiscal as necessary to provide for the department's cash flow needs. Any excess balance is to revert to the General Fund.

In neither the 1983–84 nor the 1984–85 budgets has the department provided for the carryover of funds for cash flow purposes. Given the lag in revenue collections during the first four months of the fiscal year, it would seem that some carryover funds would be needed to cover the department's expenditures early in the year. For that reason, we recommend the department explain to the fiscal subcommittees why it has not budgeted carryover funds for cash-flow purposes.

Out-of-State Travel Request Is Excessive

We recommend a reduction of $73,000 requested for out-of-state travel by the Field examination Division because the increase has not been fully justified.

The Field Examination Division examines the fiscal operations of (1) licensed insurance companies headquartered in California, and (2) insurance companies doing business in California that have their headquarters out-of-state. In performing out-of-state examinations, the department's travel and administrative costs are fully reimbursed by the companies.

In the budget year, the division is proposing $373,000 for out-of-state travel. This is $112,000, or 43 percent, more than the current-year budget allotment of $261,000 for this purpose. The department advises us that the augmentation is required to provide for inflationary increases and possible extended trips out of state. Table 3 displays the department's out-of-state travel expenditures since 1981–82.

Table 3
Department of Insurance
Out-of-State Travel Expenditures
1981–82 through 1984–85
(in thousands)

	Actual 1981–82	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Budget Allotment	$220	$233	$261	$373
Actual expenditure	238	344	258 [a]	—
Difference from Allotment	$18	$111	−$3	

[a] Estimate based on actual expenses of $86,000 for the first four months of the fiscal year.

The division based the proposed 1984–85 level of out-of-state travel expenses ($373,000) on the amount expended in 1982–83 ($344,000), adjusted upwards by 8.5 percent to offset the effects of inflation.

We agree with the department that field examinations of out-of-state insurance companies are important in protecting California policyholders. At the same time, however, we find that the department has not provided the Legislature with sufficient workload information to justify a 43 percent increase *over* estimated out-of-state travel expenses in the current year.

In the absence of information documenting the need for the proposed increase in out-of-state travel costs, we recommend a reduction of $73,000 and approval in the reduced amount of $300,000—the average of actual expenditures in 1982–83 and estimated expenditures in 1983–84. This would allow for a 15 percent increase in out-of-state travel over estimated expenditures in the current year.

Legal Assistant Positions Not Justified

We recommend a reduction of $41,000 and two legal assistant positions because the positions have not been justified on a workload basis.

The department's Legal Division is primarily charged with examining applications from insurance companies seeking to do business in California.

The budget proposes the addition of two legal assistant positions, at a cost of $41,000, in order to handle an anticipated increase in workload. This is an 18 percent increase in staffing over the current-year level. Currently, the division is authorized 11 positions, consisting of 10 attorney positions and one legal assistant position to examine applications. Three of the 10 attorney positions presently are vacant, due to the Governor's hiring freeze.

Although the department has provided workload information from 1976–77 through 1983–84, it did not (1) provide *any* workload estimates for the budget year, or (2) explain how its backlog would be reduced by increasing its staff in the budget year. In the absence of such basic information, our review indicates the request has not been adequately justified. We therefore recommend denial of the department's request for $41,000 and two legal assistant positions.

Business, Transportation and Housing Agency

DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 54

Requested 1984–85	$17,889,000
Estimated 1983–84	17,463,000
Actual 1982–83	13,608,000
Requested increase (excluding amount for salary increases) $426,000 (+2.4 percent)	
Total recommended reduction	725,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Word Processing Equipment. Reduce by $46,000.*** Recommend a reduction because the amount requested has not been justified. 367
2. ***Education and Research. Reduce by $472,000.*** Recommend reduction because amount requested for programs at University of California campuses should be funded in legislation, rather than in the Budget Bill. 368
3. ***Limited-Term Positions. Reduce by $207,000.*** Recommend reduction of 7 limited-term positions for the subdivision program because they are not justified by workload. 368
4. Mortgage Loan Brokers. Recommend the department submit to the fiscal subcommittees a progress report on the mortgage loan broker program, including an analysis of workload and staffing requirements. 370

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for enforcing the Real Estate Law, and for protecting the public in connection with offerings of subdivided property, real property securities, and certain real estate transactions.

To carry out its responsibilities, the department administers four programs: (1) *licensing and education,* which conducts licensing examinations throughout the state and maintains ongoing real estate research projects and continuing education activities; (2) *regulatory and recovery,* which investigates violations of real estate law and may pursue formal proceedings and disciplinary action of licensees; (3) *Subdivisions,* which administers the subdivision law and publishes annual public report filings with relevant information on subdivided property for sale; and (4) *administration,* which is the central management, administrative, and nontechnical support program of the department.

The department is headed by the Real Estate Commissioner, who is appointed by the Governor. Department headquarters is in Sacramento, and district offices are located in San Francisco, Los Angeles, San Diego, Sacramento, Fresno, and Santa Ana. In the current year, the department has 429.5 authorized positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $17,889,000 from the Real Estate Fund for support of the department in 1984–85. This is $426,000, or 2.4 percent, more than estimated expenditures in the current year. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year. In addition, the department proposes expenditures of $240,000 to be financed by reimbursements from fingerprint fees paid by applicants. Thus, the total expenditure program proposed for the department in 1984–85 is $18,129,000.

The budget proposes several changes for 1984–85 including: (1) an increase of $295,000 and 10 limited-term positions for the subdivision program, (2) an increase of $93,000 for word processing equipment, and (3) a reduction of $245,000 and 12 positions as part of the Governor's "3 percent reduction". Table 1 presents expenditure and staffing data, by program, for 1982–83, 1983–84, and 1984–85.

Table 1
Department of Real Estate
Expenditure and Staffing, by Program
1982–83 through 1984–85
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Program	*Actual 1982–83*	*Estimated 1983–84*	*Projected 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Projected 1984–85*
Licensing and Education						
Licensing	72.2	88.2	84.5	$2,455	$3,128	$3,275
Education	6.6	7.4	7.4	440	972	981
Regulatory and Recovery	163.7	178.1	174.6	6,818	8,155	8,418
Subdivisions						
In-state	119.5	124.3	113.5	4,347	5,190	5,175
Out-of-state	5.0	5.0	5.0	225	258	280
Administration (Distributed)	(34.7)	(41.0)	(41.0)	(2,386)	(2,897)	(2,994)
Totals	367.0	403.0	385.0	$14,285	$17,703	$18,129
Reimbursements (from fingerprint fees)				−677	−240	−240
Net Totals				$13,608	$17,463	$17,889

ANALYSIS AND RECOMMENDATIONS

Word Processing Equipment

We recommend a reduction of $46,000 requested for word processing equipment because the department's request is overstated.

The department proposes to spend $93,000 for word processing equipment for its San Francisco and Los Angeles branches in order to improve the efficiency and productivity of these branches. Currently word processing equipment is utilized in the department's principal offices in Sacramento.

The department advises us that this equipment will be used to process (1) the large volume of correspondence to licensees, subdividers, and the public, and (2) the large number of subdivision public reports published annually by the department.

Budget Request is Overstated. In October, 1983, the department conducted a study which indicated that the use of advanced information processing equipment would greatly improve program efficiencies in its

DEPARTMENT OF REAL ESTATE—Continued

San Francisco and Los Angeles offices. The cost of the needed equipment was estimated to be $47,000. This estimate sharply contrasts with the $93,000 requested in the budget for word processing equipment in 1984–85. The department has not provided the Legislature with an adequate explanation of why $93,000 is needed to purchase this equipment, rather than the $47,000 estimated in the department's own report.

In the absence of clear justification for the $93,000 request, we recommend a reduction of $46,000 and approval in the reduced amount of $47,000.

Education and Research Projects

We recommend a reduction of $472,000 requested for education and research projects because funding would be more appropriately proposed in legislation authorizing real estate endowed chairs at the University of California, rather than being requested in the department's budget.

Section 10450.6 of the Business and Professions Code requires that 15 percent of all license fees collected by the department be reserved in a separate account to provide for educational and research projects related to the real estate industry.

The budget proposes to spend $672,000 from the reserve for various education and research activities in 1984–85. Of the total, the department proposes to spend $200,000 for grants to the real estate centers at the University of California, Berkeley (UCB) and the University of California, Los Angeles (UCLA). The department proposes to spend the remaining $472,000 to increase the level of funding for real estate endowed chairs at UCB and UCLA. The department also intends to propose the enactment of legislation authorizing the use of the funds for these chairs.

Funding of Chairs should be in Legislation. Traditionally, the Legislature has followed the policy of providing funds for a new program or activity in the legislation authorizing the program or activity. This policy would seem to apply to the department's request for funds to endow chairs at UCB and UCLA. Moreover, given the department's plan to seek legislation authorizing funding for these chairs, we believe that it is particularly appropriate for these funds to be considered in connection with that Legislation, rather than as part of the Budget Bill. For these reasons, we recommend deletion of the $472,000 requested for the endowed chairs in 1984–85.

Limited-Term Positions in Subdivision Program

We recommend a reduction of $207,000 and 7 positions requested for the subdivision program, because they are not justified on a workload basis.

Section 11018.2 of the Business and Professions Code requires landowners to obtain a public report from the Real Estate Commissioner before offering any lots or parcels in a subdivision for sale or lease. The department's subdivision program prepares and publishes these public reports.

There are two types of public report filings: (1) *standard filings,* and (2) *common interest filings.* The standard filings are for subdivisions with no areas owned in common, whereas common interest filings are required for subdivisions which include areas owned in common, such as subdivisions involving condominiums. The commissioner's report is in effect for five years, and must be renewed after the expiration date if additional subdivisions are to be offered for sale or lease. In addition to new filings, the department receives applications to amend or renew public reports.

The department proposes $295,000 for the reestablishment in 1984–85 of 10 limited-term real estate specialist positions for the subdivision program. The positions are due to terminate on June 30, 1985. The positions, which would be located in the department's district offices, would review subdivision filings and prepare subdivision public reports. Total staffing requested for the subdivision program in the budget year is 116.5 positions. This would be 11.5 positions, or 9 percent, less than the current-year staffing level of 128 positions. Table 2 summarizes current year and budget-year staffing adjustments for the subdivision program.

Table 2
Department of Real Estate
Subdivision Program Staffing
1983–84 and 1984–85

1983–84		*1984–85*	
Adjustment	*Positions*	*Adjustment*	*Positions*
Total authorized positions	128	Baseline positions	110.5
Limited-term positions, expire 6/30/84 • ten real estate specialists • one staff services manager	−11	Governor's three percent reduction • one real estate manager • one real estate specialist • one office supervisor • one temp-help clerical blanket position	−4.0
Limited-term positions, expire 6/30/84 • 6.5 clerical positions	−6.5	Reestablish ten limited-term real estate specialists, expire 6/30/85.	10.0
Net authorized positions at year-end	110.5	Budget-year request	116.5

Of the 128 positions authorized in the current year, 45 positions, or 35 percent, were vacant at the time this *Analysis* was prepared. The vacancies include the 10 limited-term positions proposed for the subdivision program. According to the department, the vacancies are due primarily to insufficient workload and the hiring freeze imposed by the Governor in the current-year.

Authorized Positions Remain Vacant. The department indicates that reestablishment of the 10 limited-term positions will be needed in 1984–85 to handle an estimated 31 percent increase in workload over current-year estimates. Our analysis indicates, however, that the workload data available does not indicate a need for all 10 positions. In making its request to reestablish the positions, the department has disregarded the fact that during the first half of this year, it handled a 27 percent increase in subdivision filings (a major component of total department workload) compared to the same period in 1982–83, without having to fill the 45 vacant positions or use of overtime. Thus, it appears that the productivity and efficiency of staff in the department's subdivision program is considerably higher than what existing workload standards would indicate.

Given the department's 35 percent vacancy rate in its subdivision program in 1983–84, our analysis indicates that the department should be able to handle a 31 percent increase in workload in the budget year with 109 positions rather than the 116.5 positions as requested. Accordingly, we recommend a reduction of $207,000 and seven limited-term specialist positions in the subdivision program because these positions are not justified on a workload basis. In view of the importance of the subdivision program and the degree to which its workload is dependent upon the state's economic climate, we will continue to monitor the department's workload

DEPARTMENT OF REAL ESTATE—Continued

and inform the fiscal subcommittees during budget hearings of any significant workload changes.

Regulation of Mortgage Loan Brokers

We recommend that the department submit to the fiscal committees by April 1, 1984, a progress report on the mortgage loan broker program.

Mortgage loan brokers negotiate new loans or the exchange of promissory notes secured by real property in order to facilitate real estate transactions. All mortgage loan brokers are licensed as real estate brokers under Section 10230 of the Business and Professions Code, and are regulated by the Department of Real Estate.

According to the department, bankruptcies involving mortgage loan brokers have increased in recent years. Since March 1980, the department estimates that there have been about 70 bankruptcies involving mortgage loan brokers, out of 1600 brokers identified by the department.

Recent Legislation Affecting Mortgage Loan Brokers. Recognizing that bankruptcies are growing in the industry, the Legislature enacted two statutes designed to increase regulatory oversight of mortgage loan brokers. Chapter 1117, Statutes of 1981 (AB 1212), requires brokers who negotiate 20 or more new loans and contracts representing more than $2 million of property sales to file annually, with the Commissioner of Real Estate, an audit report on their business activities. In addition, mortgage loan brokers are required to submit a summary of the aggregate dollar amount of loans, trust deed sales, and real property sales transactions negotiated, fees collected, and funds held in trust. Chapter 1117 further requires the brokers to (1) provide both lenders and borrowers a disclosure statement describing the parties involved in the transaction, the property involved, and all financial arrangements, and (2) submit all advertisements of brokerage activity to the department for prior approval.

Chapter 886, Statutes of 1982 (AB 3666), requires all brokers who meet the 20 loans/$2 million sales criterion to file a quarterly trust fund report with the Commissioner. A broker who does not meet the criterion must attest to that fact on a form provided by the Commissioner.

Recently Authorized Positions. In its budget request for the current year, the department sought an increase of $283,000 and 10 positions in its regulatory and recovery program to provide for regulation of the mortgage loan broker industry pursuant to Chapter 1117 and Chapter 886. When the department appeared before the budget subcommittees on the 1983–84 budget, it stressed the urgent need for the positions in order to provide for greatly increased regulatory oversight of the troubled mortgage loan broker industry. The Legislature approved the department's request in the 1983 Budget Act.

Delays in Filling Positions has Stalled Program Start-up. Despite the degree of importance attached to this issue by the department, it has taken over six months in the current year to fill the program's chief auditor and secretary positions. According to the department, the delay in filling these two positions can be attributed to difficulties associated with securing (1) approval for the positions from the Department of Finance and the State Personnel Board, and (2) an exemption from the Governor's hiring freeze. Without explanation, however, is the department's failure, during the first seven months of the current year, to seek an exemption from the

Governor's hiring freeze for the remaining eight authorized positions. This has stalled the start-up of the program to the point of raising a serious question as to whether the urgency originally attached by the department to this regulatory program still exists.

No Evidence of Real Problems. In order to determine the degree of urgency surrounding implementation of the department's mortgage loan broker program, we have sought evidence of severe problems in the mortgage loan broker industry which require the department's immediate attention. We found that the department has some information on bankruptcies being filed by mortgage loan brokers, but has been unable to provide any clear-cut evidence establishing the nature or extent of any problems which have adversely affected either the public or the licensees.

Progress Report Needed. Giving full consideration to the department's (1) failure to aggressively fill and use 10 vacant positions for its mortgage loan broker program in the current year, and (2) inability to provide clear-cut evidence demonstrating that serious problems exist in the mortgage loan broker industry which directly affect the public or licensees, we recommend that the Department of Real Estate submit to the fiscal committees by April 1, 1984, a progress report on the mortgage loan broker program, to include (1) clear-cut examples of problems in the industry affecting the public or the licensees, (2) a discussion of regulatory functions the department plans in order to oversee and reduce the effects of existing problems, and (3) an analysis of existing and future workload and staffing levels and associated costs.

DEPARTMENT OF REAL ESTATE—REVERSIONS

Items 2320-495 and 2320-496 to
the Real Estate Fund Budget p. BTH 54

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes two reversions to the Real Estate Fund, effective June 30, 1984.

1. ***Item 2320-495***—Reversion of the unencumbered balance of $472,000. The Budget Act of 1982 appropriated $672,000 from the Education and Research Account of the Real Estate Fund to the department for various research activities. The department obligated only $200,000 of that amount. Thus, we recommend that reversion of the unencumbered balance of $472,000 be approved.

2. ***Item 2320-496***—Reversion of the unexpended balance of $200,000 plus interest. This amount initially was provided to the Student Aid Commission, pursuant to Section 10465.2 of the Business and Professions Code, to establish scholarships related to the study of the real estate industry. The program was repealed in 1979. Thus, we recommend that reversion of the unexpended balance of $200,000 plus interest to the Real Estate Fund be approved.

Business, Transportation and Housing Agency

DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings Association Special Regulatory Fund — Budget p. BTH 58

Requested 1984–85	$4,357,000
Estimated 1983–84	3,680,000
Actual 1982–83	3,788,000
Requested increase (excluding amount for salary increases) $677,000 (+18.4 percent)	
Total recommended reduction	511,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Regulatory Oversight. Reduce Item 2340-001-337 by $392,000.*** Recommend reduction of nine proposed new positions which are not needed to maintain current level of regulatory coverage and would result in the department taking on a new function for which it has neither the statutory mandate nor the expertise needed. 375
2. ***Operating Expenses. Reduce Item 2340-001-337 by $16,000.*** Recommend reduction to correct for overbudgeting of operating expenses and equipment. 377
3. ***State Pro Rata Charges. Reduce Item 2340-001-337 by $80,000.*** Recommend reduction to correct for overbudgeting of state pro rata charges. 377
4. ***Rent Expense. Reduce Item 2340-001-337 by $23,000.*** Recommend reduction to correct for overbudgeting of office rent expense. 377

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan protects the public by preventing conditions and practices which could jeopardize the safety and solvency of state-licensed savings and loan associations.

Savings and loan associations doing business in California have the option of being regulated by either the state or federal government. As of December 31, 1982, there were 123 state-chartered savings and loan associations. These associations had 865 branches and total assets of $55.5 billion. There were also 52 federally chartered savings and loan associations, with 2,091 branches and total assets of $126.5 billion. Deposit insurance is provided to both state-chartered and federally chartered savings and loan associations by the Federal Home Loan Bank Board through the Federal Savings and Loan Insurance Corporation (FSLIC).

The department is supported from the Savings Association Special Regulatory Fund, whose revenues are derived primarily from an annual assessment on the asset base of individual associations. The assessment rate levied against assets is set annually by the commissioner, in consultation with the savings and loan industry, at a level deemed sufficient to finance the department's operating costs and provide a reasonable reserve for contingencies.

3-26-84
Recommend budget control language requiring full reimbursement for cost of providing employee parking.

The department is headed by a commissioner who is appointed by the Governor. It has its headquarters in Los Angeles and a branch office in San Francisco. In the current year, the department is authorized 88 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $4,357,000 from the Savings Association Special Regulatory Fund for support of the department in 1984–85. This is $677,000, or 18.4 percent, above estimated current-year expenditures of $3,680,000. This increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

The budget proposes to eliminate $961,000 in reimbursements and 22 appraiser positions to reflect the termination of an interagency agreement with the Department of Transportation. In addition, the budget reflects a reduction of $46,000 and two positions as part of the Governor's proposed "3 percent reduction". These reductions are partially offset by the proposed addition of $881,000 and 20 new positions to handle projected workload increases.

The proposed increase in expenditures by the department in 1984–85—$677,000—is primarily attributable to (1) an increase in salaries and wages ($383,000) and staff benefits ($27,000), (2) additional operating expenses and equipment associated with the proposed new positions and (3) adjustments to offset the effects of inflation ($150,000).

Table 1 shows expenditures and personnel-years for the department in the past, current, and budget years.

Table 1
Department of Savings and Loan
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Supervision and Regulation Activities	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Examination	29.1	35.0	46.0	$1,507	$1,873	$2,379
Appraisal	23.8	6.5	7.0	1,110	456	489
Facilities licensing and legal assistance	2.8	3.0	4.0	205	257	316
Administration	23.5	27.0	25.0	966	1,094	1,173
Totals	79.2	71.5	82.0	$3,788	$3,680	$4,357
Reimbursement				−787	—	—
Net Totals				$3,001	$3,680	$4,357

ANALYSIS AND RECOMMENDATIONS

The primary responsibilities of the Commissioner of Savings and Loan under the Savings Association Law are to (1) require that all state-chartered savings and loan asasociations meet minimum standards required for licensure, and (2) prevent state-chartered associations from engaging in activities that may cause insolvency and endanger the savings of depositors.

State Regulation of Savings and Loan Associations in Transition

Chapter 1091, Statutes of 1983, which became effective January 1, 1984, reduced the state's regulatory control over the savings and loan industry. Specifically, it recodified the existing Savings and Loan Law and expanded investment opportunities for associations, their holding companies, and

3-26-84 Recommend SRL requiring report to Legislature which evaluates the dept's changing role as a regulatory authority in a deregulated savings & loan environment.

DEPARTMENT OF SAVINGS AND LOAN—Continued

their subsidiary service corporations. In addition, Chapter 1091 changed the method which the commissioner uses to determine the annual assessment on associations that finances the department's administrative and regulatory costs. It also renamed the Savings and Loan Inspection Fund as the Savings Association Special Regulatory Fund.

In mid-1982, interest in both obtaining a state charter and converting to a state charter from a federal charter began to increase as a result of two factors: pending legislation to deregulate state-chartered associations and an easing of the Federal Home Loan Bank Board's requirements for establishing a new association (specifically, the deletion of the requirements that each new association organizing group have a minimum of 400 stockholders and collect savings pledges).

According to the department, however, the level of interest in opening new associations has declined in recent months. There appear to be three reasons for this: (1) the commissioner has increased the minimum amount of capital required to open a new association from $2 million to $3 million; (2) the commissioner has required that each new association submit a projected *business plan* for the first two years of its operation; and (3) actions taken by the Federal Home Loan Bank Board to administratively slow the granting of deposit insurance—which, under California law, new associations must obtain, before they can receive a state charter. At the same time that interest in opening new associations has declined, the department indicates that interest in purchasing existing associations appears to be on the rise.

The following sections discuss the effect that these changes in both the statutory context of regulation and the level of interest in obtaining state charters have had on the department and how it proposes to respond to the changes.

Asset Base Rebounds

In our *Analysis of the 1982–83 Budget Bill,* we indicated that the conversion of many state-chartered savings and loan associations to federal charter had caused the asset base, on which assessments are made for support of the department, to decrease dramatically. In our *1983–84 Analysis,* we indicated the conversion rate had slowed. The rate hit bottom during the period July 1 through December 31, 1983, when *no* state-chartered associations converted to a federal charter. In fact, during this period four federally chartered associations with assets totaling $17 billion, converted to state charter.

Table 2 shows the number of associations which converted from state to federal charter and from federal to state charter during the period July 1, 1981 through December 31, 1983.

Table 2
Department of Savings and Loan
Charter Conversions
1981–82 through December 31, 1983

Charter	*1981–82*	*1982–83*	*July 1 through December 31, 1983*
State to Federal	26	7	0
Federal to State	0	1	4

Table 3 shows the effect that charter conversions have had on the asset base subject to regulation by the department for the period 1980–81 through 1984–85.

Table 3
Department of Savings and Loan
State-Chartered Associations and Asset Base
1980–81 through 1984–85
(dollars in billions)

	Actual			*Estimated*	*Projected*
	1980–81	*1981–82*	*1982–83*	*1983–84*	*1984–85*
Number of associations	126	105	109	156	313
Association assets	$82.9	$33.7	$35.0	$60.0	$69.0

New Applications for State Charter on the Rise

As of December 31, 1983, there were 123 associations under state charter. The number of applications filed for state charters increased from 13 in 1981–82 to 133 in 1982–83. During the first six months of 1983–84, the department received an additional 75 applications. According to the department, however, the bulk of the applications received in the current year were received in July, August, and September. During the second three-month period, applications had slowed to an average of five per month. Table 4 shows the actions taken by the department on these applications from July 1, 1981 through December 31, 1983. Recommend SRL requiring quarterly report on status of charter application processing backlogs.

Table 4
Department of Savings and Loan
Action Taken on Applications Received
July 1, 1981 through December 31, 1983

Applications	*Actual 1981–82*	*Actual 1982–83*	*July 1 through December 31, 1983*
Pending action at beginning of period	4	13	94
Filed	13	133	75
Approved	4	52	36
Denied	0	0	0
Pending action at end of period	13	94	133

Increased Regulatory Oversight

We recommend the Legislature reduce Item 2340-001-337 by $392,000 and nine positions because these positions (1) are not needed to maintain the existing level of regulatory coverage for state-chartered associations, and (2) would be used to take on new functions for which the department has neither a statutory mandate nor the needed expertise.

The department is authorized 30.4 examiner positions in the current year. Of these, 17.4 are used to conduct routine association examinations,

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DEPARTMENT OF SAVINGS AND LOAN—Continued

and the remaining 13 examiner positions provide management and supervision, handle complaints, and review and analyze applications for charter.

In recent years, the department has conducted its examinations of associations jointly with the Federal Home Loan Bank Board's examiners. The frequency with which state-chartered associations are examined varies according to the financial condition of the institution. In no case, however, are examinations conducted less frequently than once every three years.

Proposed increase in service. In 1984–85, the department proposes to add 18 new positions (17 examiners and one office assistant), at a cost of $420,000, to: (1) handle the projected growth in routine examinations due to a greater number of associations with state charters, and (2) expand the department's monitoring program to provide for *monthly* visits to *all* new associations during their first two years of operation. Five of the new examiners are needed to conduct routine examinations; the other 12 new examiners are requested to increase the frequency of field visits.

The proposed monthly field visits would be conducted to measure the new association's performance against the *business plan* it submitted during the chartering process. In 1984–85, the department estimates, that there will be 89 new associations (excluding associations which have converted from federal to state charter) and proposes to visit each one once per month, for a total of 1,071 monthly visits. The department indicates the additional positions will enable the earlier detection of problems and quicker supervisory action in order to keep the new associations on the right track. Our analysis confirms the need for five new positions to handle the increased workload associated with the increase in the number of associations subject to regulation by the department. Accordingly, we recommend approval of these positions. We do not believe, however, that the expansion in the department's regulatory program is warranted. While we agree that new associations initially may need a greater level of oversight, we believe the department's proposal to commence monthly site visits is *excessive* in terms of what is needed to protect the public. More importantly, the proposal represents a dramatic change in the department's activities. It would shift the emphasis from oversight and make the department, in effect, a financial consultant to the savings and loan industry. This is a role for which the department would seem to have neither the statutory mandate nor the needed expertise.

We conclude that quarterly—rather than monthly—field visits to new associations during their *first* year—rather than during their first two years—of operation would provide a sufficient level of regulatory oversight for newly chartered associations to fulfill the department's statutory responsibility to protect the public. In order to conduct quarterly field examinations of new associations, we estimate that the department would need an additional three examiners in 1984–85. This is nine examiner positions (and $392,000) less than what the department is requesting for this purpose in 1984–85. Accordingly, we recommend a reduction in Item 2340-001-337 of $392,000 and nine examiner positions. The reduction would still permit the department to conduct 356 quarterly field visits to new associations during 1984–85. The department has not been able to indicate what negative impact, if any, there would be if field visits were conducted less frequently.

Operating Expenses are Overbudgeted

We recommend the Legislature reduce Item 2340-001-337 by $16,000 because operating expenses and equipment are overbudgeted.

The department proposes to delete $46,000 and two personnel-years in 1984–85 as part of the Governor's proposed 3 percent reduction. The positions include an administrative assistant and one office technician. According to the department, the duties of each will be redistributed among existing staff. The department's budget, however, includes $16,000 in operating expenses and equipment associated with these positions. We, therefore, recommend a $16,000 reduction in Item 2340-001-337 to correct for overbudgeting.

Overbudgeted State Pro Rata Charges

We recommend the Legislature reduce Item 2340-001-337 by $80,000 to correct for overbudgeted state pro rata charges.

Included in the budget of every state agency that is not supported entirely from the General Fund is an amount to pay for the general administrative services which it receives from the State Controller's Office, State Treasurer's Office, State Personnel Board, State Department of Finance, and State Board of Control, the Legislature, tort liability excess coverage premium, and annuitants' health benefits. The amount needed each year is determined by the State Board of Control and represents a pro rata charge to each state agency.

The Department of Finance estimates that the department will need $131,000 in 1984–85 to pay for its share of the state's general administrative cost. The amount included in the department's budget for 1984–85, however, is $211,000. This is $80,000 more than the department will need to pay for these costs. We therefore recommend that the Legislature reduce Item 2340-001-337 by $80,000 to reflect the actual amount the department will need for this charge in 1984–85.

Rent Expenses are Overbudgeted

We recommend a reduction in Item 2340-001-337 of $23,000 to correct for overbudgeting of rent for the department's offices.

The department currently rents office space in both Los Angeles and San Francisco. The amount of square footage and the monthly rental are 8,222 square feet at $12,333 per month, and 10,001 square feet at $9,327 per month (effective February 1984), respectively. Although the department will not acquire any additional office space in 1984–85, the monthly rental rate at each location will increase.

The Department of General Services (DGS) indicates that the department's leases contain escalator clauses for inflation. Specifically, the department's lease for its Los Angeles office will be adjusted, as of July 1984, by an estimated $150 to $12,483. The department's lease for its San Francisco office will cost $9,327 from July through January, and then increase by $220 to $9,547 for the period February through June.

Thus, the total estimated office space rental cost for the department in 1984–85 is $263,000. The amount included in the department's budget for rental expense in 1984–85, however, is $286,000. This is $23,000 more than will be needed for this purpose. We therefore recommend that the Legislature reduce Item 2340-001-337 by $23,000 to correct for overbudgeting.

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State Transportation Fund — Budget p. BTH 62

Requested 1984–85	$1,085,000
Estimated 1983–84	1,035,000
Actual 1982–83	950,000
Requested increase (excluding amount for salary increases) $50,000 (+4.8 percent)	
Total recommended reduction	110,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2600-001-042—Support		State Highway Account	$117,000
2600-001-046—Support		Transportation Planning and Development Account	968,000
Total			$1,085,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Operating Expenses and Consulting Services. Reduce by $110,000.*** Recommend reduction in various operating expenses and consulting and professional services because of overbudgeting. 379
2. Commission Biennial Report. We recommend that the commission explain to the fiscal subcommittees and the Joint Legislative Budget Committee by March 15, 1984, why the statutorily required biennial report has not been submitted to the Legislature. 381

GENERAL PROGRAM STATEMENT

The California Transportation Commission (CTC), was created by Ch 1106/77 (AB 402), to replace the California Highway Commission, the California Toll Bridge Authority, the Aeronautics Board, and the State Transportation Board. The commission consists of nine members, all appointed by the Governor.

The commission's major responsibilities include (1) adopting a five-year State Transportation Improvement Program (STIP), (2) determining transportation projects to be funded within annual appropriations, (3) adopting and issuing one-year and five-year transportation revenue estimates for use by regional transportation planning agencies in developing regional transportation programs, (4) recommending to the Legislature funding priorities among various elements of the state's Mass Transportation program, (5) issuing a California transportation plan in a biennial report, and (6) evaluating the Department of Transportation's annual budget and the adequacy of current state transportation revenues.

In the current year, the commission has 12 authorized staff positions, including an Executive Director appointed by the commission, six professional staff and five clerical positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $1,085,000 in support of the California Transportation Commission during 1984–85, which is $50,000, or 4.8 percent, higher than estimated expenditures in the current year. This amount will increase by the amount of any salary or staff benefit increases approved for the budget year.

Funding for the proposed expenditures would come from two sources: the Transportation Planning and Development (TP and D) Account—$968,000, and the State Highway Account, State Transportation Fund—$117,000.

The budget proposes to maintain staffing for the commission at the current-year level—12 positions.

ANALYSIS AND RECOMMENDATIONS

Pattern of Overbudgeting

We recommend a reduction of $110,000 requested from the Transportation Planning and Development Account (Item 2600-001-046) for various operating expenses and consulting services in order to correct for overbudgeting.

Total Expenditures. In comparing the amounts appropriated to the commission with actual expenditures in the prior year, we find a consistent pattern of overbudgeting. This is illustrated in Table 1, which shows that the commission has reverted a significant percentage of the funds appropriated in each of the last four fiscal years. This pattern is expected to continue in 1983–84.

Table 1
California Transportation Commission
Fund Reversions
1979–80 through 1984–85
(thousands)

	1979–80	*1980–81*	*1981–82*	*1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Appropriation	$928	$1,016	$1,076	$1,126	$1,035	$1,085
Expenditure	752	741	801	950	853[a]	—
Reversion	176	275	266	133	182	—
Reversion as % of Appropriation	19.0%	27.1%	24.7%[b]	11.8%[c]	17.6%	—

[a] CTC estimate based on actual expenditures from July–October 1983.
[b] Does not reflect a $9,000 unallotment in travel funds required by the Governor.
[c] Does not reflect a 25 percent reduction in travel mandated by Section 27.10 of the 1982–83 Budget Act.

Several factors appear to have contributed to the overbudgeting. Some of the factors are beyond the commissioner's control and are difficult to predict, such as freezes imposed by the Governor. Others, however, may be predicted with some degree of accuracy. For example, the budget request assumes that *each* commissioner will attend *every* meeting and earn his or her $100-per-day per diem. Experience indicates, however, that some commissioners do not attend every meeting.

Based on our review of the commission's spending patterns, and adjusting for uncontrollable factors (such as freezes), we conclude that the commission's budget request for 1984–85 is overstated in two areas: (1) operating and travel expenses and (2) consulting and professional services.

CALIFORNIA TRANSPORTATION COMMISSION—Continued

Operating and Travel Expenses. Table 2 shows budgeted and actual expenditures for various operating and out-of-state travel expenses in the fiscal years 1979–80 through 1982–83. The table also shows estimated expenditures for 1983–84 and proposed expenditures for 1984–85.

Table 2
California Transportation Commission
Budget Allotment Versus Actual Expenditures
For Various Operating Expenses[a]
1979–80 through 1984–85
(thousands)

	1979–80	*1980–81*	*1981–82*	*1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Budget Allotment[c]	$89	$124	$110	$124	$85	$51
Actual Expenditure	32.4	19	39	31	33.5[b]	—
Amount Unspent	$56.6	$105	$71	$93	$51.5	—
Percent of Total	64%	85%	65%	75%	61%	—

[a] These various operating expenses include general expense, printing, communications, postage, and out-of-state travel.
[b] CTC estimate, based on actual expenditures from July–October 1983.
[c] Budget allotments do not reflect any expenditure restrictions that may have been imposed by the Governor or the Legislature.

As Table 2 indicates, the commission's actual expenditures for various operating expenses over the five-year period have been significantly lower than the amount budgeted. On this basis, we believe the proposed expenditure level of $51,000 for these expenses in the budget year is overstated. Accordingly, we recommend a reduction of $12,000 in this category of expenditures. The remaining amount—$39,000—would still represent an increase of 16 percent over estimated current-year expenditures.

Consulting and Professional Services. Table 3 shows the commission's expenditures for consulting and professional services since 1980–81:

Table 3
California Transportation Commission
External Consulting and Professional Services Expenditures
1980–81 through 1984–85
(thousands)

	1980–81	*1981–82*	*1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Budgeted Amount	$222	$226	$245	$217	$234
Actual Expenditure	146	91	238	69.8[a]	—
Amount Unspent	$76	$135	$7	$147.2	—
Percent	34.2%	59.7%	2.9%	67.9%	—

[a] CTC estimate

With the exception of 1982–83, Table 3 shows that the commission's external expenditures for consulting services have been significantly lower than the amount budgeted since 1980–81. The average annual expenditure for these services during the past four years is $136,000, or 60 percent of the average amount allocated.

In the current year, the commission estimates it will spend only $69,805 of the $217,000 budgeted for external services, leaving $147,000, or 68 percent of the budgeted amount, unexpended. This is another example of the commission's tendency to overstate its needs in this area.

The budget requests $234,000 for external consulting and professional services in 1984–85. The commission, however, has not provided any detail as to how this money would be used, nor has it provided a generic list of what consulting services will be needed during the budget year. Since the request exceeds anticipated expenditures during the current year by 235 percent, it would seem that such information should be made available to the Legislature.

In the absence of any information documenting the amount requested for 1984–85 for consulting and professional services, we recommend the budgeted amount be reduced from $234,000 to $136,000. This amount is equal to the average level of expenditures during the past four years, and would result in a *savings* of $98,000. This savings, when combined with the reduction of $12,000 in operating expenses that we recommend, would permit a total reduction of $110,000 in the amount budgeted for operating and travel expenses and consulting services during the budget year.

Biennial Report to the Legislature is Overdue

We recommend that the commission explain to the fiscal subcommittees and the Joint Legislative Budget Committee by March 15, 1984, why the statutorily required biennial report has not been submitted to the Legislature.

The commission is required by statute to submit three separate reports to the Legislature: (1) Section 14523 of the Government Code requires the commission to prepare an evaluation of the Department of Transportation's budget and submit its recommendations to the Legislature by March 1 of each year; (2) Section 14529 specifies that the commission adopt and submit to the Legislature and Governor, by July 1 of each year, the five-year State Transportation Improvement Program (STIP); and (3) Section 14535 stipulates that the commission adopt and submit to the Legislature, not later than December 31, 1978, and biennially thereafter, a report on significant transportation issues.

The annual evaluation of the Department of Transportation's budget and the adopted STIP generally have been submitted to the Legislature by the statutorily required deadlines. The commission, however, historically has been late in adopting and submitting the biennial report to the Legislature.

The *first* biennial report, which dealt with California transportation finance issues, was due by December 31, 1978, and was submitted four months late in April of 1979. The *second* biennial report dealt primarily with state highway finance issues and again was submitted four months late in April of 1981. The *third* biennial report, which will deal primarily with aeronautics funding and safety issues was due on December 31, 1982, but was 13 months overdue at the time this *Analysis* was prepared.

The Legislature has delegated major responsibilities to the commission in the area of "advising and assisting the Legislature in formulating and evaluating state policies and plans for transportation programs in the state" (Section 14520 of the Government Code). The timely submission of required reports is an important ingredient in keeping the Legislature

CALIFORNIA TRANSPORTATION COMMISSION—Continued

adequately informed on actions taken and issues faced by the commission. Consequently, we recommend that the commission submit to the fiscal subcommittees and the Joint Legislative Budget Committee, by March 15, 1984, an explanation as to why the statutorily required biennial report has not been submitted to the Legislature on a timely basis.

Business, Transportation and Housing Agency
SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 64

Requested 1984–85	$79,800,000
Estimated 1983–84	88,000,000
Actual 1982–83	70,000,000
Requested decrease $8,200,000 (−9.3 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***STA Funding. Delete appropriation of $79,800,000*** and accompanying language in Item 2640-101-046 and insert language appropriating 60 percent of sales tax revenues deposited in the TP and D Account. 383

GENERAL PROGRAM STATEMENT

Chapter 322, Statutes of 1982 (AB 2551), made major changes in how Transportation Planning and Development (TP and D) Account funds are distributed among the various state transit programs. The act also increased the authorized appropriation to the Secretary of Business, Transportation and Housing for the State Transit Assistance program, from approximately 50 percent of the TP and D Account revenues to 60 percent of the account's sales tax revenues. These funds are allocated by the Secretary to regional transportation planning agencies on the basis of population and local transit revenues.

Chapter 502, Statutes of 1982 (SB 320), established the Ridesharing and Alternative Transportation (RAT) Fund to increase funding for ridesharing programs. Tax revenues generated by limiting gas tax deductions taken by certain personal income taxpayers are transferred from the General Fund to the RAT Fund and are continuously appropriated to the Secretary. The Secretary can allocate up to 1 percent of the fund to the Department of Transportation to pay administrative expenses for the program. The balance is allocated to regional transportation planning agencies on a population basis to fund ridesharing services.

Both of these programs are funded as special transportation programs, outside of the agency's and the Department of Transportation's budget.

OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget proposes an appropriation of $79,800,000 from the Transportation Planning and Development Account to finance the State Transit Assistance program in the budget year. This is a decrease of $8,200,000 (9.3 percent) from the current-year appropriation.

In addition, the budget proposes to continue in effect the provision of the 1983 trailer bill which suspends the transfer of money from the General Fund to the RAT Fund during 1984–85. Consequently, no funding from the RAT Fund is proposed for 1984–85.

ANALYSIS AND RECOMMENDATIONS

STA Funding Levels Should Reflect Legislative Policy

We recommend that Item 2640-101-046 be amended to delete the specific appropriation and accompanying language for State Transit Assistance and insert language appropriating to the program 60 percent of the sales tax revenues deposited in the Transportation Planning and Development Account, as required by existing law.

The Governor's Budget proposes an appropriation of $79,800,000 for the State Transit Assistance program for 1984–85. This is the first time that an appropriation for the program has been proposed in the Budget Bill. In the past, funds have been appropriated to the program either by transit-related statutes or by legislation implementing or modifying the Budget Act.

The budget proposes to allocate up to $107,000 to the Department of Transportation to pay its administrative expenses for the program and to fund the state's share of a transit management assistance program. The remaining STA funds will be allocated pursuant to existing law to regional transportation planning agencies on a population and local revenue basis. The regional agencies redistribute the funds to eligible transit operators for capital purposes and, under certain conditions, for operating assistance. In rural areas, the funds also can be spent for street and road purposes. In allocating the funds, regional agencies must give priority consideration to proposed uses which would (1) offset reductions in federal operating assistance, (2) pay the unanticipated increases in a transit operator's fuel costs, (3) enhance existing public transportation services, or (4) meet other high-priority transit needs.

Existing law directs the Legislature to appropriate to the STA program 60 percent of the sales tax funds deposited in the TP and D Account. The Governor's Budget projects that the amount deposited in the account during 1984–85 will total $133,000,000. Consistent with the 60 percent requirement, the budget proposes to appropriate $79,800,000 for the STA program during the budget year.

Full funding appears to be justified. We recommend approval of the budget's proposal to fund the STA program at the level authorized by law. Our analysis indicates that federal transit operating assistance received by California will be at least $28 million less than the amount provided in federal fiscal year 1981, when federal operating assistance levels began to decrease. To maintain the *purchasing power* of the 1981 operating assistance levels in 1984–85 would require about $92.5 million more than what will be provided by the federal government.

In addition, our analysis of the program indicates that it would take $47.5 million to maintain the historical level of STA funding spent on transit operations. Accordingly, if the Legislature were to appropriate sufficient

SPECIAL TRANSPORTATION PROGRAMS—Continued

STA funds to compensate for a portion of the inflation-adjusted decline in federal operating assistance and maintain the historical level of STA operating subsidies, it would need to provide up to $140 million, depending upon how much of the reduction in purchasing power the Legislature decided to offset. The funding level proposed by the budget would restore about 14 percent of the reduced purchasing power.

Fixed or open-ended appropriation. Existing law provides for the appropriation of 60 percent of the sales tax revenues transferred to the TP and D Account for the STA program. In contrast, the budget requests a fixed appropriation of $79,800,000. If the administration's estimate of sales tax revenues—$133,000,000—proves to be accurate, the appropriation would indeed amount to 60 percent of the total. To the extent, however, that revenues differ from the projected level, STA funding would either exceed or be less than the authorized level.

As our analysis of the Department of Transportation budget indicates, there is a great deal of uncertainty regarding the future price of gasoline and, therefore, the level of revenues which will be available to the TP and D Account next year. In fact, the Fund Estimate adopted by the California Transportation Commission identifies *two* alternative levels of funding for 1984–85—$137.6 million and $149.6 million—depending upon the price of gasoline in 1984. These estimates are $4.6 million and $16.6 million more than the level estimated in the budget, and, if accurate, would mean that STA funding in 1984–85 would have to be increased by either $2.8 million or $10 million.

The level of sales tax revenues actually deposited in the TP and D Account for 1984–85 will not be established until the completion of the 1984 calendar year—well after the Budget Act is enacted.

Given this uncertainty regarding the amount of sales tax revenues that will be available in 1984–85, we recommend that the fixed appropriation for STA proposed in the Budget Bill be deleted from Item 2640-101-046 and replaced with Budget Bill language appropriating to the STA program 60 percent of the sales tax revenues deposited into the TP and D Account. Linking the appropriation to the revenues in this manner, in lieu of a specific dollar appropriation, would be consistent with the legislative appropriation made when Ch 161/79 established the STA program. The addition of the following language to the Budget Bill also would conform the allocation of the funds to existing law:

"(a) There is hereby appropriated to the Secretary of the Business, Transportation and Housing Agency from the Transportation Planning and Development Account in the State Transportation Fund, 60 percent of the revenues transferred into the Transportation Planning and Development Account in the State Transportation Fund pursuant to paragraph (1) of subdivision (c) of Section 7102 of the Revenue and Taxation Code during the 1984–85 fiscal year for allocation in the 1984–85 fiscal year pursuant to subdivision (b).

(b) (1) 70 percent of the appropriation made in subdivision (a) pursuant to Section 99313 of the Public Utilities Code.

(2) 30 percent of the appropriation made in subdivision (a) pursuant to Section 99314 of the Public Utilities Code."

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY

Items 2660 and 2660-301 from various funds — Budget p. BTH 67

Requested 1984–85	1,114,672,000
Estimated 1983–84	1,024,951,000
Actual 1982–83	931,487,000
Requested increase (excluding amount for salary increases) $89,721,000 (+8.8 percent)	
Total recommended reduction	26,299,000

1984–85 FUNDING BY ITEM AND SOURCE

Item Description	Fund[a]	Amount
2660-001-041—Aeronautics—Support	Aeronautics Account	$1,813,000
2660-001-042—Highway—Support	State Highway Account	683,877,000
Mass Transportation—Support		109,000
2660-001-045—Highway—Support	Bicycle Lane Account	10,000
2660-001-046—Mass Transportation—Support	Transportation Planning and Development Account	22,654,000
Transportation Planning—Support		6,567,000
2660-001-047—Mass Transportation—Support	Abandoned Railroad Account	96,000
2660-101-041—Aeronautics—Local Assistance	Aeronautics Account	1,600,000
2660-101-042—Highway—Local Assistance		29,000,000
Mass Transportation—Local Assistance		70,400,000
2660-101-045—Highway—Local Assistance	Bicycle Lane Account	450,000
2660-101-046—Mass Transportation—Local Assistance	Transportation Planning and Development Account	39,900,000
Transportation Planning—Local Assistance		2,032,000
2660-301-042—Highway—Capital Outlay	State Highway Account	226,421,000
Total, Budget Act appropriations, State Funds		$1,084,929,000
Prior Appropriations		
Toll Bridge Funds—Highway—Support	Toll Bridge Funds	$30,831,000
Statutory—Aeronautics—Local Assistance	Aeronautics Account	3,800,000
Budget Act of 1977—Highway—Capital Outlay	State Highway Account	200,000
Budget Act of 1978—Highway—Capital Outlay	State Highway Account	200,000
Budget Act of 1979—Highway—Capital Outlay	State Highway Account	200,000
Budget Act of 1980—Highway—Capital Outlay	State Highway Account	500,000
Budget Act of 1981—Highway—Capital Outlay	State Highway Account	400,000
Budget Act of 1982—Highway—Capital Outlay	Transportation Planning and Development Account	82,668,000
Budget Act of 1983—Highway—Capital Outlay	State Highway Account	64,541,000
Budget Act of 1982—Mass Transportation—Capital Outlay	Transportation Planning and Development Account	2,500,000
Toll Bridge Funds—Highway—Capital Outlay	Toll Bridge Funds	25,326,000
Total, Prior appropriations, State Funds		$211,166,000
Minus, Balance Available in Subsequent Years		−99,414,000
Minus, Unexpended Balance		−82,009,000
Federal Funding		
2660-001-890—Support	Federal Funds	(122,125,000)
2660-101-890—Local Assistance	Federal Funds	(240,100,000)

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

2660-301-890—Capital Outlay	Federal Funds	(801,606,000)[b]
Total, All expenditures, State Funds		$1,114,672,000

[a] All accounts are with the State Transportation Fund.
[b] Net of prior appropriations, previous balances, and reversions.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. STIP Document. Recommend enactment of legislation directing the California Transportation Commission to adopt a State Transportation Improvement Program (STIP) which recognizes the level of federal funding that the state will be able to obligate during the STIP period. 404
2. Program Expansion Notification. Recommend adoption of Budget Bill language directing the department to notify the Legislature prior to expanding programs or implementing new program activities. 408
3. ***Benefits for Cash Overtime. Reduce Item 2660-001-042 by*** $2017000 ~~***$5,254,000.***~~ Recommend reduction to correct for overbudgeting of personal services. 410
4. Highway Capital Outlay. Recommend the fiscal subcommittees ask the California Transportation Commission to comment on the proposed level of highway capital outlay expenditures. 410
5. Capital Outlay Staffing Increase. Recommend the department report to the fiscal subcommittees by April 1, 1984, on (1) the types of efficiencies implemented for project development, and (2) the staffing needed to deliver projects at a funding level set by the federal obligational authority. 411
6. Lands and Building Improvements. Recommend (1) enactment of legislation making capital projects for the construction and improvement of office buildings, lands, and support facilities subject to legislative review; and (2) addition of a separate line item under Item 2660-301-042 to identify the amount approved for these purposes. 413
7. Leases for Commercial Development. Recommend enactment of legislation providing clear guidelines for the department and the California Transportation Commission to follow regarding the leasing of state-owned non highway properties for commercial development and uses. 414
8. ***Research Activities. Reduce Item 2660-001-042 by $297,000.*** Recommend reduction because amount requested is in excess of what it will cost to fund activities proposed in research agenda. 416
9. Property Management Costs. Recommend adoption of supplemental report language directing the department to submit a report to the Legislature by December 1, 1984, evaluating the feasibility of contracting for property management services. 417

10. Maintenance Budget. Recommend adoption of supplemental report language directing department to begin preparing total Maintenance program workload estimate as part of its budget. 420
11. ***Snow Removal Overtime. Reduce Item 2660-001-042 by*** $512,000 ~~***$626,000.***~~ Recommend reduction because overtime for snow removal activity is overbudgeted. 421
12. ***Utilities Cost. Reduce Item 2660-001-042 by $8,625,000.*** Recommend reduction because the cost of utilities is overestimated, given recent experience. 421
13. ***Contracted Maintenance Work. Reduce Item 2660-001-042 by $1,110,000.*** Recommend reduction because maintenance work should not be contracted for at a higher cost than what it costs to have this work performed by department staff. 422
14. withdraw recommend. ***Reimbursed Services. Reduce Item 2660-001-046 by $388,000 and increase reimbursements by a corresponding amount.*** Recommend reduction to correct for a technical budgeting error. 426
15. Abandoned Railroad Account. Recommend reverting $2,482,000 from Item 2660-301-047, Budget Act of 1983, and transferring $3,559,000 to the Transportation Planning and Development Account to prevent duplication of state programs. 426
16. Transit Capital Improvements. Recommend that the fiscal subcommittees ask the California Transportation Commission to comment on the level of funding recommended for transit capital improvements in 1984–85. 427
17. Interregional Transportation. Recommend that the fiscal subcommittees ask the California Transportation Commission to comment on level of funding recommended for bus and rail subsidies. Also recommend adoption of Budget Bill language specifying that the commission must allocate funds pursuant to existing law. 429
18. ***Commuter Rail Extension. Reduce Item 2660-001-046 by $187,000 and increase reimbursements by $187,000.*** Recommend reduction because department already has requested funds for this purpose from the California Transportation Commission. 432
19. ***Rail Capital Project Administration. Reduce Item 2660-001-046 by $67,000 and increase Item 2660-001-890 by $67,000.*** Recommend reduction because federal funds are available to pay part of project administration costs. 433
20. Rail Marketing. Recommend reduction of two personnel-years to reflect department proposal to contract for rail marketing service. 433
21. ***Station Rehabilitation. Reduce Item 2660-001-046 by $611,000.*** Recommend reduction in state rehabilitation engineering costs because amount requested exceeds legislative standards for such work. Also recommend adoption of Budget Bill language restricting expenditures for support activities unless capital funds are allocated by the California Transportation Commission. 434
22. ***Station Management. Reduce Item 2660-001-046 by $199,-*** 435

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

decrease

000 and increase reimbursements by $16,000. Recommend reduction because (1) the request is inconsistent with legislative policy, and (2) janitorial services are double-budgeted.

23. ***Station Studies. Reduce Item 2660-001-046 by $244,000 and increase reimbursements by $244,000.*** Recommend reduction in appropriation because studies should be financed either by local agencies or allocations from the California Transportation Commission. 436
24. Transit Research. Recommend adoption of Budget Bill language restricting expenditure of funds for transit research until 30 days after Director of Finance has submitted description of proposed studies to chairpersons of Joint Legislative Budget Committee and fiscal committees. 437
25. Light Rail Vehicles. Recommend reduction of $25 million in reimbursements to Item 2660-001-046 to correct technical error in budget. 438
26. Ridesharing Tax Credits. Recommend Item 2660-021-046 be added to transfer $1.5 million from the Transportation Planning and Development Account to the General Fund to reimburse the General Fund pursuant to existing law, for revenue losses from ridesharing tax credits. 438
27. ***Systems Planning. Reduce Item 2660-001-042 by $752,000 and increase Item 2660-001-046 by $752,000.*** Recommend that program be consolidated in the Transportation Planning program and funded from the appropriate source. 439
28. ***Integrated Design System. Reduce Item 2660-001-042 by $1,604,000.*** Recommend reduction because the amount requested is higher than what will be needed in 1984–85. Further recommend adoption of Budget Bill language providing that the approved amount can only be used on necessary equipment and related expenses after the State Office of Information Technology has approved the results of a pilot project and an amended feasibility study report for the new system. 442
29. ***Distributed Data Processing. Reduce Item 2660-001-042 by $2,700,000.*** Recommend reduction because proposal to buy computers for implementing a distributed data processing project is undefined and premature. 444
30. ***Information Center. Reduce Item 2660-001-042 by*** $50,000 ***~~$82,000~~.*** Recommend reduction because the cost of staffing an information center is overstated. 445
31. ***Consultant Contract. Reduce Item 2660-001-042 by $201,000.*** Recommend reduction to eliminate funds for a consulting contract that will expire in the current year. 446
32. ***Road Equipment. Reduce Item 2660-001-042 by*** $1,611,000 ***~~$2,211,000~~.*** Recommend reduction because the amount requested for road equipment is overstated, and supplemental report language 446
33. Other Equipment. Recommend adoption of supplemental report language directing the department to budget for equipment according to assessed needs, and to 447

identify the equipment for which funding is requested.

34. ***Equipment Service Personnel. Reduce Item 2660-001-042 by $395,000.*** Recommend reduction to correct for over-budgeting. 447
35. ***Interagency Agreements. Reduce Item 2660-001-042 by $277,000.*** Recommend reduction because the cost of interagency agreements are overstated. 448
36. ***Overbudgeted Expenditures. Reduce Item 2660-001-042 by $1,221,000.*** Recommend reduction because department double-budgeted bad debts and underbudgeted cost recoveries. 448
37. Use of Unanticipated Federal Funds. Recommend adoption of Budget Bill language reverting state funds if federal funds for the same activity become available. 449

GENERAL PROGRAM STATEMENT

The Department of Transportation is responsible for planning, coordinating and implementing the development and operation of the state's transportation system.

The department's responsibilities are divided among five programs. Three programs—*Highway Transportation, Mass Transportation* and *Aeronautics*—concentrate on specific transportation modes. *Transportation Planning* seeks to improve the planning for all travel modes in the state. The fifth program, *Administration,* encompasses management of the department. Expenditures for this program are prorated among the other four operating programs.

Starting in 1983–84, the department's Highway Transportation program was increased substantially, due to a significant infusion of new federal highway funding made available by the Surface Transportation Assistance Act of 1982.

The department has 15,345.9 authorized personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a total expenditure program in 1984–85 of $2,415, 647,000. This is an increase of $154,241,000, or 6.8 percent, over current-year *estimated* expenditures of $2,261,406,000. The expenditure program for the budget year will be financed with state and federal funds, as well as with reimbursements.

State funds. The budget proposes expenditures from state funds totaling $1,114,672,000 for Department of Transportation programs and activities in 1984–85. This is $89,721,000, or 8.8 percent, above estimated expenditures in the current year. This increase will grow by the cost of any salary or staff benefit increase that may be approved for the budget year. Of the total state funds proposed for expenditure, $1,084,929,000 would be appropriated in the 1984 Budget Bill, and $211,166,000 would be funded from prior appropriations.

Federal funds. In addition, the department proposes to spend $1,163,831,000 in federal funds, including $801,606,000 for capital outlay and $362,225,000 for support and local assistance. This amount is $115,563,-000, or 11 percent, above estimated expenditures from federal funds in the current year.

Reimbursements. The department's total expenditure program also includes $137,144,000 to be funded from reimbursements from other agencies or individuals.

Table 1
Department of Transportation
Proposed Budget Changes 1984–85
(dollars in thousands)

	Aeronautics Account	*State Highway Account*	*TP&D Account*	*Federal Funds*	*Reim-bursements*	*Other Funds*	*Total*
1983–84 Expenditures (Authorized)	$5,982	$886,105	$67,050	$1,035,546	$170,773	$52,950	$2,218,406
1. Cost Changes	295	53,076	1,261	110,196	10,444	3,290	178,562
2. Workload and Program Changes							
A. Aeronautics							
(1) State Operations	−39	—	—	—	—	—	−39
(2) Local Assistance	975	—	—	—	—	—	975
Subtotals	936	—	—	—	—	—	936
B. Highways							
(1) State Operations	—	30,721	—	1,323	—	473	32,517
(2) Local Assistance	—	—	—	—	—	—	—
(3) Capital Outlay	—	—	—	—	—	—	—
Subtotals	—	30,721	—	1,323	—	473	32,517
C. Mass Transportation							
(1) State Operations	—	—	2,124	2,266	−2,905	—	1,485
(2) Local Assistance	—	9,691	−242	—	—	—	9,449
(3) Capital Outlay	—	—	—	11,500	−41,113	—	−29,613
Subtotals	—	9,691	1,882	13,766	−44,018	—	−18,679
D. Transportation Planning							
(1) State Operations	—	—	960	—	−55	—	905
(2) Local Assistance	—	—	—	3,000	—	—	3,000
Subtotals	—	—	960	3,000	−55	—	3,905
Total Proposed Workload and Program Changes	936	40,412	2,842	18,089	−44,073	473	18,679
1984–85 Expenditures (Proposed)	$7,213	$979,593	$71,153	$1,163,831	$137,144	$56,713	$2,415,647
Change from 1983–84 Authorized Expenditures:							
Amount	$1,231	$93,488	$4,103	$128,285	−$33,629	$3,763	$197,241
Percent	20.6%	10.6%	6.1%	12.4%	−19.7%	7.1%	8.9%

In 1984–85, staffing is proposed to *decrease* from the current estimated level of 15,589.9 personnel-years to 15,179.0 personnel-years, a decrease of 410.9 personnel-years, or 2.6 percent.

Table 1 compares the department's proposed budget for 1984–85 to expenditures authorized in the current year.

Significant Program Changes

The 1984–85 budget proposes significant adjustments to the staffing levels currently authorized, for both the current- and budget-years. Most of these adjustments involve the Highway Transportation and the Mass Transportation programs. *First,* the department has administratively established an additional 244 personnel-years in the current year to supplement its highway design and engineering staff. These positions, which are in addition to those authorized by the Legislature in the 1983 Budget Act, were added so that the department could perform project development work for 124 additional projects programmed in the 1983 State Transportation Improvement Program (STIP). The increase raises the current-year staffing level from 15,345.9 to 15,589.9 personnel-years. *Second,* the department's baseline level of staffing in 1984–85 (15,345.9 personnel-years) has been reduced by 250 personnel-years, as part of the governor's proposal to reduce the number of state employees. *Third,* the budget proposes an augmentation of 83.1 personnel-years to increase service levels for various program activities in 1984–85.

In sum, the budget requests 15,179 personnel-years for 1984–85, or 2.6 percent less than the revised number of personnel-years in the current year. In contrast, expenditures for state operations will total $868,082,000, which is $55,651,000, or 6.8 percent, *above* current-year estimated expenditures.

Table 2

Reduction in 1984–85 Baseline Program (dollars in thousands)

	Staffing Reduction		
	Personnel Years	*Amount*	*Increase in Contracting Amount*
Aeronautics	−1.0	−$39	—
Highway Transportation			
Striping	−27.0	−1,005	—[a]
Archaeological studies	−3.0	−111	$127
Research	−5.0	−207	259
Maintenance			
Roadbed	−8.0	−239	299
Roadside	−122.0	−3,502	72
Auxiliary services and station maintenance	−20.0	−714	1,893
Others	−15.0	−488	610
Mass Transportation			
Sacramento light rail	−8.0	−346	—
Ridesharing	−7.0	−252	252
Planning	−5.0	−186	—
Administration	−29.0	−1,004	993[b]
Totals	−250.0	−$8,093	$4,505

[a] Work shifted to capital outlay.

[b] No additional contracting, but an increase in $993,000 for word processing equipment.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

The "three percent reduction." The budget proposes a reduction of 250 personnel-years in the department's 1984–85 baseline staffing level as part of the Governor's 3 percent personnel reduction. This represents a reduction of 1.6 percent from the *authorized* staff level in the current year. Eighty percent of the personnel-years to be eliminated (200 personnel-years) are in the Highway Transportation program. The budget proposes to achieve the proposed staffing reduction in a variety of ways, including contracting with the private sector, using alternative work methods, and substituting less costly labor for existing staff.

The savings in 1984–85 associated with the proposed staffing reduction is $3,588,000.

Table 2 details the proposed staff reductions and any corresponding increases in contracting work necessitated by the reduction. It shows, for example, that the budget proposes a reduction of 122 personnel-years in roadside maintenance, for a savings of $3.5 million. The loss of these personnel-years will be compensated for by (1) contracting out work equivalent to two personnel-years, at a cost of $72,000, (2) using probationers to obtain the equivalent of 50 personnel-years, (3) using WIN/COD participants for roadside maintenance equivalent to 50 personnel-years, and (4) reducing mowing and increasing herbicide spraying in order to save 20 personnel-years. The table also shows that the reduction of 20 personnel-years for station maintenance will be achieved through an increase of $1,893,000 in contracted work, including $1 million in services to be performed by the California Conservation Corps. In addition, the budget proposes a reduction of $696,000 and 20 personnel-years in clerical support for administrative activities, to be achieved through the increased use of word processing equipment. The budget includes $993,000 for purchase of this equipment.

In addition to the reduction proposed in the department's baseline program, the budget proposes various changes in the individual programs.

Highway Transportation. In support of the Highway Transportation program, the budget proposes to significantly increase the department's use of computers, particularly for engineering and design activities. Consequently, it is requesting an increase of over $18.5 million for (1) various computer equipment, including $15 million for statewide implementation of a computer-aided design (CAD) system, and (2) the installation of a computer information center.

The department also is proposing a $10 million increase in highway service levels, mainly in highway maintenance. This reflects (1) increases in the amount of contracted work totaling approximately $5.4 million, and (2) an additional 53.6 personnel-years, at a cost of approximately $4.5 million, for various program elements (including $3 million for additional cash overtime payments for snow removal work).

The budget does *not* request any additional staff for capital outlay support. It indicates, however, that an amendment to the Budget Bill will be proposed at a later date, detailing any increases needed, after the proposed 1984 State Transportation Improvement Program has been prepared and submitted to the California Transportation Commission (CTC) in March 1984.

Mass Transportation. The budget proposes a reduction of 54.8 personnel-years and $31,637,000 for the Mass Transportation program in 1984–85. This staffing reduction is due to a 64.8-personnel-year decrease in the amount of reimbursed work that the department will perform on behalf of local agencies, and a seven-personnel-year reduction in ridesharing staffing.

In addition, the department is proposing major increases in funding for the passenger rail service between San Francisco and San Jose. Total expenditures, including capital improvements, will increase by $19.7 million, to $60.7 million. This reflects (1) an increase of $2 million from the TP and D Account, (2) an increase of $6.9 million from the state's Transit Capital Improvement program, (3) an increase of $11.9 million from federal funds, and (4) a decrease of $1.1 million in local reimbursements. Commuter rail service staffing will increase by 12 personnel-years, and $2.7 million will be spent on consulting contracts.

Transportation Planning. The budget proposes an increase of $960,000 and 25.2 personnel-years for an expansion of its long-range state highway planning activity, a 262 percent increase over the current-year expenditure levels of $265,000 for that activity in the program.

Change in program definition and budget display. In the past, each functional program (that is, Highway Transportation, Mass Transportation, Aeronautics, and Planning) has included an element for administration. The 1984–85 budget, however, does not separately identify staffing for administrative support of each individual program, although total dollar expenditures for each program element include a prorated share of administrative costs. Consequently, program activity levels, as shown in the 1984–85 budget, are not directly comparable to displays in prior budgets.

ANALYSIS AND RECOMMENDATIONS

STATE TRANSPORTATION IMPROVEMENT PROGRAM

The State Transportation Improvement Program (STIP) is the basic plan for all state and federally funded transportation improvements in California. A STIP is required by Chapter 1106, Statutes of 1977, which specifies that the California Transportation Commission (CTC) shall adopt and submit a five-year plan to the Legislature and the Governor by July 1 of each year. The annual planning process actually begins eight months earlier, in November, when the CTC adopts estimates of revenues available to the department and regional agencies. Using these revenue estimates, the department then prepares a proposed STIP which is submitted to the CTC in December. Regional TIP's are also submitted to the CTC, which holds hearings on the plans beginning in April. These hearings continue until the STIP is adopted. Public hearings are held from July to mid-August, at which appeals may be raised regarding the adopted STIP.

Fund Allocation

The CTC allocates available state and federal funds only for those projects included in the adopted STIP. For each fiscal year, these allocations must be consistent with total program expenditures specified in the Budget Act.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Role of the Legislature

The Legislature establishes, through the Budget Act, maximum expenditure levels for the various program components. The Budget Act also permits the department to transfer funds between programs if the CTC and the Department of Finance approve, provided that any decrease in authorized expenditures within a program element (such as Rehabilitation or Maintenance) does not exceed 10 percent.

Chapter 1106 prohibits the Legislature from identifying in the Budget Act specific capital outlay projects to be funded.

STIP Implementation

After the STIP is adopted by the commission, the department is responsible for implementing the STIP, consistent with (1) allocations to projects made by the commission and (2) the Budget Act. Because many years are required to plan and carry out most capital outlay projects, program development and capital outlay support activities of the department during the budget year also include appropriate planning and design work for improvements scheduled for years in and beyond the five-year STIP.

The 1984 Fund Estimate

The California Transportation Commission adopted the 1984 Fund Estimate in November 1983 in order to provide funding targets for state and regional transportation agencies to use in preparing their transportation improvement programs for the five-year period 1984–85 through 1988–89. The Fund Estimate projects the condition of major funding sources for various transportation programs, assuming the continuation of existing law and/or current trends.

The 1984 Fund Estimate reflects (1) the projected federal highway fund apportionments provided by the Surface Transportation Assistance Act of 1982, (2) the anticipated level of state transportation revenues, (3) projected levels of support expenditures (including expenditures on capital outlay design, highway maintenance and operations, local assistance, and administration of state agencies), (4) commitments of capital outlay expenditures made in previous STIPs, and (5) any remaining resources available over the five-year STIP period for programming and funding of additional projects. The three largest fund sources are the State Highway Account, the Transportation Planning and Development (TP and D) Account, and federal highway funds.

Table 3 summarizes the resources and expenditures for these fund sources.

State Highway Account. Based on assumptions regarding those economic factors which affect state revenues and expenditures, the commission adopted an estimate of total State Highway Account resources of $4,856 million over the five-year period.

The primary source of revenues to the account is the motor vehicle fuel tax, which the commission estimates will yield $2,680 million for the five-year period. Other revenue sources include $1,489 million in truck weight fees and $687 million in transfers from the Motor Vehicle Account, interest and miscellaneous income, and unexpended resources carried over from past years.

Table 3
Adopted Fund Estimate for 1984 STIP
1984–85 through 1988–89
(in millions)

	Total Resources	*Support and Local Assistance Expenditures*	*Capital Outlay Expenditures*	*Total Expenditures*	*Balance*
State Highway Account	$4,856	$4,015	$1,287 [a]	$5,302 [a]	–$447 [b]
Federal highway funds	6,952	1,622	4,680	6,302	650
TP and D Account:					
Low estimate	638 [c]	554	165 [d]	719 [d]	–81
High estimate	890 [c]	705	165 [d]	870 [d]	20

[a] Includes $750 million to match federal funds.
[b] The adopted Fund Estimate shows a five-year deficit of $447 million. However, the commission anticipates that the potential shortfall will be only $361 million.
[c] Includes $75 million in federal transit funds.
[d] Includes capital improvements to local transit systems.

Table 3 also indicates that expenditures from the State Highway Account over the five-year period are projected to total $5,302 million, including $4,015 million in support and local assistance expenditures and $1,287 million in capital outlay expenditures. The estimate of capital outlay expenditures includes $750 million to match federal funds and $153 million reserved by the CTC for minor rehabilitation and safety projects. Most of the funds added to the reserves during the last three years of the STIP period will not be programmed for specific projects in the 1984 STIP.

The Fund Estimate adopted by the CTC indicates a potential *deficit* in the State Highway Account of $447 million by the end of the five-year period, with the deficit first emerging in 1986–87. According to the CTC, however, federal expenditure constraints have reduced the amount of federal apportionments that can be spent and, therefore, the need for state matching funds. Recognizing this, the commission anticipates that only $664 million in state matching funds will be needed (rather than $750 million), reducing the potential shortfall during the five-year period by $86 million, to $361 million.

In response to the projected deficit in state highway funds, the commission has directed that all new highway projects, other than rehabilitation and safety projects, be held in a "second tier" similar to that used in the preparation of the 1981 STIP, until such time as state and federal funds are sufficient to finance these projects. Projects in the "second tier" represent a commitment to perform project engineering, but do not represent actual programmed construction projects in the STIP. The commission has also adopted the policy that any new revenues *first* be directed to meet outstanding 1983 STIP obligations.

Transportation Planning and Development Account. The commission has adopted *two* estimates of revenue for the Transportation Planning and Development (TP and D) Account. It did so because it could not project the level of gasoline prices in the future. Even minor fluctuations in gas prices can have a major effect on TP and D Account revenues.

As indicated in Table 3, the commission's *low* estimate of revenues to the account, including federal funds allocated to the department, totals $638 million over the five-year period. Its *high* estimate, based on larger gasoline price increases in 1984 and 1985, is $890 million.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Under existing law, expenditures for assistance to local transit operators are based on the level of sales tax revenues deposited in the account. Consequently, the commission also estimated two levels of expenditures for such assistance, including the cost of transit capital outlay projects included in previous STIPs. The *low* estimate is $719 million, which would leave a *deficit* of $81 million in the account on June 30, 1989. The *high* estimate is $870 million, which would result in a *surplus* of $20 million.

Federal funds. The Fund Estimate projects that available federal funds will total $6,952 million over the five-year period, as indicated in Table 3. This amount includes $2,110 million for completion of the Interstate highway system, $1,592 million for Interstate rehabilitation, restoration, resurfacing, and reconstruction (4R), $908 million for the primary system, $131 million for the secondary system, $546 million for urban roads, and $721 million for bridge replacement and other categories of assistance. In addition, $943 million is included to bring the state's share of federal apportionments up to 85 percent of the state's percentage contribution to the Highway Trust Fund, the minimum provided in the Surface Transportation Assistance Act of 1982. This amount will be available for use in any federal-aid highway category.

After deducting $1,622 million in support and local assistance expenditures, the Fund Estimate projects that $5,330 million in federal funds will be available for state capital outlay purposes over the five-year period. Financing capital outlay projects already programmed in previous STIPs will leave a balance of $650 million over five years, which will be available for *additional* capital outlay projects to be programmed in the 1984 STIP. Most of this amount will be Interstate 4R funds and the 85 percent minimum allocation funds, which, according to the commission, will be spent on urban, primary, or secondary projects after the apportionments for these categories have been exhausted.

Issues raised by the Fund Estimate. The 1984 Fund Estimate, with its projected $447 million deficit in state highway funds and widely ranging estimates of state transit revenues, raises the following seven issues which we believe the Legislature should consider when making budget decisions.

- How reasonable are the state expenditure estimates?
- How reasonable are the state revenue estimates?
- What is the fiscal condition of the TP and D Account?
- Can the state achieve its priorities in its use of state highway funds?
- How reasonable are the federal revenue estimates?
- Are there other uncertainties affecting the Fund Estimate?
- Can the state spend all of its federal highway apportionments?

1. How reasonable are the state expenditure estimates?

Our review indicates that the level of expenditures for capital outlay engineering and design, which is projected to be approximately $589 million over the five-year period, is related to the number and the type of projects included in the STIP. At the time this *Analysis* was prepared, the department had not submitted to the Legislature a statistical analysis of its staffing needs to implement the 1984 STIP. Consequently, we have no analytical basis on which to judge the validity of the $589 million projection of capital outlay engineering and design costs.

Major State Highway Account expenditures include (a) expenditures for support activities, and (b) state funds to match federal monies for capital outlay projects. For the five-year period, over 98 percent of all available state funds will be needed for these expenditures, with support expenditures *alone* accounting for more than 82 percent of all available state resources. Because the level of support expenditures depends on budget decisions by the Legislature, *the availability of funds for additional projects will be affected by actions taken in the 1984 Budget Bill and future budgets.*

We have three concerns regarding the CTC's projection of State Highway Account expenditures in 1984–85.

a. ***Highway Transportation program support and local assistance expenditures for 1984–85 reflected in the Fund Estimate are less than the expenditures proposed in the Governor's Budget.*** The 1984 Fund Estimate indicates a 1984–85 expenditure level for state operations and local assistance of $686 million. This amount is $26 million below the $713 million support and local assistance spending level proposed from the State Highway Account in the Governor's Budget for 1984–85. (The difference is mainly due to when the estimates were prepared. The budget request was prepared at a much later date, and provided for increases in highway expenditures.) Using the higher level of expenditures proposed for 1984–85 as a base, our analysis indicates that total expenditures for support and local assistance (adjusted by the inflation factors adopted by the CTC) would rise $150 million over the five-year period.

b. ***The inflation factors used on projecting future expenses are uncertain, particularly in the later years of the STIP period.*** Our review indicates, however, that, despite the uncertainty surrounding future rates of inflation, the inflation factors used in the Fund Estimate do not appear to be unreasonable.

c. ***The reasonableness and reliability of the cost estimates for capital outlay projects are unknown.*** Normally, the current cost estimate for a project becomes more precise as the project proceeds through various phases of engineering. If it turns out that the cost estimates for most projects are too low initially, projects already included in the STIP will require more funding to complete, thereby either limiting the resources available for additional projects or increasing the projected deficit. Conversely, if costs are overestimated initially, more funds could become available for additional projects.

The reliability of the cost estimates, however, cannot be validated without a detailed review of a sample of projects. Such a detailed review is beyond the scope of this analysis. Consequently, we have no analytical basis at this time to evaluate the reasonableness of these cost estimates.

2. How reasonable are the state revenue estimates?

The state revenue assumptions underlying the Fund Estimate generally reflect the economic assumptions made by Chase Econometrics, a private economic forecasting firm. Our analysis indicates that, in those cases where alternative forecasts are available, such as the assumption regarding taxable sales, the commission's assumptions appear to be *reasonable,* although they tend to fall on the high end of the range of projections prepared by different economic forecasters.

In order to determine whether the commission's revenue *projections* are consistent with its economic *assumptions,* we duplicated the department's fuel consumption model and developed other forecasting models

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

into which we factored the commission's assumptions. Table 4 compares the projections in the Fund Estimate to our projections using the commission's assumptions about the economy over the next five years. Our analysis indicates that, given the commission's assumptions, the estimate of *state* funds available for transportation generally is *reasonable.*

Table 4
Comparison of Fund Estimate and Revenue Projections By the Legislative Analyst 1984–85 through 1988–89 (in millions)

	1984–85	*1985–86*	*1986–87*	*1987–88*	*1988–89*	*Total*[a]
State Highway Account[b]						
Fund Estimate	$864	$861	$842	$843	$852	$4,262
LAO Projection	852	849	831	835	844	4,211
Difference	12	12	11	8	8	51
TP and D Account (High)[c]						
Fund Estimate	150	151	146	146	146	737
LAO Projection	147	149	147	155	141	740
	3	2	(1)	(9)	(5)	(3)
TP and D Account (Low)[c]						
Fund Estimate	138	103	90	82	74	485
LAO Projection	141	96	94	97	79	507
Difference	(4)	6	(4)	(15)	(6)	(23)

[a] Details may not add to totals due to rounding.
[b] Includes revenue from fuel tax, sales tax, truck weight fees, and Motor Vehicle Account surplus.
[c] Sales tax revenues.

Although our analysis shows the state revenue estimate in the Fund Estimate to be reasonable, there is a high degree of uncertainty regarding the level of gasoline prices in the future. The commission's assumptions presume a significant increase in the "real" price of gasoline (that is, the price adjusted for inflation) in 1986–87 and 1987–88. This assumption reflects the projection by Chase Econometrics that the supply of oil in future years will be reduced below the level needed to satisfy demand. This is certainly a possibility. No one, however, can say with certainty what will happen to the supply and price of fuel over the next five years.

While the State Highway Account is relatively unaffected by changes in the real price of fuel, the TP and D Account would be affected by such changes in a *major* way. Table 5 shows our projections of account revenues, using the department's forecasting model, assuming that fuel prices will increase at the same rate as the projected increase in the Consumer Price Index (that is, the *real* price of fuel will remain unchanged), and compares these revenue projections to our projections using the commission's assumptions (the real price of fuel increases).

Our analysis indicates that State Highway Account revenues would *increase* by $58 million (1.2 percent) over the five-year period if real fuel prices remained constant. Revenues to the TP and D Account during the same period, however, would be $146 million (20 percent) *less* than the level projected using the commission's *higher* fuel price assumptions. (Revenues to the fund would be higher in 1984–85 if real prices remained constant because the commission assumes lower real prices in 1984.) In contrast, the assumption of a steady real price in gasoline results in revenues to the TP and D Account that, for the period as a whole, exceeds the CTC's lower estimate of TP and D Account revenues by $86 million (17 percent). This is because the commission's *lower* estimate of TP and D Account revenues assumes sharply lower real prices during the first two years of the 1984 STIP.

Table 5
Revenue Impact of Constant Real Price of Gasoline
1984–85 through 1988–89
(in millions)

	1984–85	*1985–86*	*1986–87*	*1987–88*	*1988–89*	*Total*[a]
State Highway Account[b]						
Commission Assumptions	$551	$548	$538	$528	$522	$2,686
No Real Growth	553	554	549	546	543	2,744
Difference	2	6	11	18	21	58
TP and D Account (High)[c]						
Commission Assumptions	147	149	147	155	141	740
No Real Growth	160	141	122	101	69	593
Difference	13	(8)	(15)	(44)	(72)	(146)
TP and D Account (Low)[c]						
Commission Assumptions	141	96	94	97	79	507
No Real Growth	160	141	122	101	69	593
Difference	19	44	29	4	(11)	86

[a] Details may not add to totals due to rounding.
[b] Fuel tax revenue.
[c] Sales tax revenue.

3. What is the fiscal condition of the TP and D Account?

The level of revenues to the TP and D Account is determined through a complicated formula that is based on the sales tax imposed on gasoline. Specifically, the Board of Equalization compares the level of sales tax collections produced by taxing the sale of goods at the 4¾ percent rate (current law) with the hypothetical collections that would result if the sales tax base were redefined to exclude gasoline and the sales tax rate were increased to 5 percent. Any excess funds collected as a result of including gasoline in the base become "spillover" revenues which are deposited into the TP and D Account, up to a specified authorized limit adjusted for increases in (a) population, and (b) either the Consumer Price Index or income. Any spillover revenues above the limit is deposited into the General Fund.

Because the level of spillover revenues depends on the level of gasoline sales relative to the level of other taxable sales, the mechanism used to fund the TP and D Account is potentially unstable. The TP and D Account has not suffered as a result of the formula used to determine account revenues; it is the General Fund that has borne the brunt of the instability. This is because, historically, gasoline sales have generated spillover revenues in excess of the amount that may be deposited in the account. Consequently, any reduction in the spillover has reduced revenues to the General Fund rather than to the TP and D Account.

In recent years, however, the rate of increase in gasoline sales relative to the rate for other taxable sales has tapered off, while the *authorized*

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limit for revenue deposits into the TP and D Account has continued to increase. Consequently, the level of spillover revenues now is at or below the authorized limit. Thus, little or no revenue will be deposited in the General Fund, and any changes in spillover revenues will directly affect the TP and D Account.

Because the level of spillover revenues going to the TP and D Account is unpredictable and unstable, the CTC has adopted *two* fund estimates for the TP and D Account, using different assumptions for gasoline price increases. The estimates of total sales tax revenues transferred to the TP and D Account range from $485 million to $737 million.

The Legislature is facing problems with the account. The CTC's adoption of a range of revenues to the account highlights two significant problems facing the Legislature in making decisions about financing state transit programs.

First, the Legislature does not know with any degree of certainty how much money will be available to the account over the next five years. Table 6 compares the projected sales tax revenues in the two TP and D Account fund estimates. Although the range of sales tax revenues in the first year of the 1984 STIP is relatively small—$138 million to $150 million—the difference escalates significantly thereafter. In the fifth year, the revenue estimates range from about $74 million to $146 million.

Table 6
Sales Tax Revenue Projections in TP and D Account Fund Estimates 1984–85 through 1988–89 (in millions)

	1984–85	*1985–86*	*1986–87*	*1987–88*	*1988–89*
High Estimate	$150	$151	$146	$146	$146
Low Estimate	138	103	90	82	74
Difference	12	48	56	64	72

Second, current expenditure levels for existing transit programs may not be sustainable. The level of sales tax revenues transferred to the account under both assumptions is declining. The cost of maintaining current service levels under existing transit programs, however, will increase with the general increase in prices. Consequently, the Legislature might not be able to maintain the current levels of these programs, relying only on money in the TP and D Account.

In the event reductions in the levels of service are necessary to keep the TP and D Account solvent, existing law specified how these reductions, in part, are supposed to be made. Under existing law, funding for the State Transit Assistance (STA) program is tied directly to the level of sales tax revenues transferred to the account. Consequently, if account revenues decline, the law intends for STA expenditures to decline as well. While this reduction would help keep the account solvent, it would present problems for those local transit operators that use STA money to finance their system's current operating expenses.

Despite the reduction in STA expenditures called for by current law whenever TP and D Account revenues decline, a deficit could still occur in the account in 1985–86 if the low estimate of revenues to the account reflected in the Fund Estimate turns out to be the more accurate one, and if currently programmed projects continue to receive funding.

Legislative action could be needed. The Legislature may wish to reconsider the funding mechanism for the TP and D Account, in order to either reduce the instability in account revenues or prevent a deficit from occurring. In reevaluating the funding mechanism, the Legislature should first determine whether it wants to continue financing transit programs from special funds, or finance them instead through the General Fund. If the Legislature elects to continue funding transit through a special fund, it should then consider whether it wants to continue the current policy of tying transit expenditure levels to the level of transportation-related revenues, or adopt a new policy that provides for the use of revenues which are unrelated to transportation.

A decision to continue using transportation-related revenues to finance transit would leave the Legislature with a limited number of options for increasing the amounts available for this purpose. Under the California Constitution, excise taxes on fuel and registration fees imposed on vehicles can be spent only for highway purposes or for specified mass transit guideway construction and maintenance. Consequently, almost none of the operating assistance and only some of the capital assistance currently funded from the TP and D Account could be financed from these fuel and vehicle taxes.

There are, however, at least two transportation-related revenue sources that could be tapped to fund the TP and D Account. They are the *gasoline sales tax* and the *vehicle license fee.* Revenues from either source can be spent to support any activity, including mass transportation.

Use of funds raised by a *surcharge on gasoline sales* would provide a larger and *somewhat* more stable revenue base for financing transit programs than that offered by spillover revenues. This is because the level of spillover revenues depends on the relationship between gasoline sales *and* the sale of other goods, rather than on the level of gasoline sales alone. Although revenues from the surcharge would fluctuate as gasoline sales increased and decreased, they *probably* would be more stable than the spillover revenues because the latter fluctuate with changes in the sale of gasoline *and* other goods. Thus, even if gasoline sales are stable, spillover revenues to the TP and D Account can decline if sales of other goods increase.

Gasoline sales in the budget year are estimated to total $12.4 billion. Consequently, a 1 percent surcharge on sales would generate $124 million in 1984–85.

Currently, a 2 percent *vehicle license fee* is imposed on the estimated depreciated value of vehicles registered in California. In the budget year, the total depreciated value of such vehicles is estimated to be about $61 billion, resulting in fee revenues of $1,224 million. Consequently, each ¼ percent increase in the tax would generate $153 million in additional revenues.

If a deficit in the TP and D Account materializes and additional revenues are not provided to eliminate it, it will be necessary for the Legislature to *reduce the levels of expenditures* from the account. Given the CTC's projections of a possible deficit in the account, the Legislature may wish to reevaluate the programs funded from the account to determine if the current level of state funding for each is still warranted. The three largest of these programs are (a) the STA program ($79.8 million in the budget year), (b) capital improvements to state and local transit services ($39.9 million) and (c) the state bus and rail program ($18.3 million).

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4. Can the state achieve its highest priorities in the use of state highway funds?

Under existing law, the commission, when estimating the amount of State Highway Account funds available for mass transit guideways, must set aside sufficient *state* funds to (a) operate, maintain and rehabilitate the state highway system and (b) match available federal highway funds. In view of this provision, it can be assumed that operating, maintaining and rehabilitating the highway system and matching federal highway funds are the *highest priority* uses of state highway funds, and that building (a) highway projects which use only state funds and (b) mass transit projects, have a lower priority.

Our analysis indicates that there would be sufficient state funds available to meet the *highest* legislative priorities if all the commission's estimates are borne out—but just barely. After operating, maintaining, and rehabilitating the highway system and matching federal highway funds, there will be $44 million remaining to finance mass transit guideways and state-only highway projects during the entire five-year period. The cost of existing commitments and reserves for unspecified future minor highway capital outlay projects, however, total $491 million. Consequently, meeting all existing commitments will result in a shortfall of $447 million over the five-year period.

5. How reasonable are the federal revenue estimates?

The amount of federal highway funds available to California depends upon (a) the level of *apportionments* to the state, and (b) the state's *obligational authority* to spend the apportionments.

A state's *apportionment* is determined by a formula established by Congress for each major highway-aid category, which is applied against a national funding authorization for that category. The formulas differ significantly from category to category. For example, California's apportionment for Interstate construction is based on the relative cost to complete California's portion of the Interstate highway system. Primary fund apportionments, however, depend upon such factors as population and the number of specified highway miles in the state.

On the other hand, the state's *obligational authority* is based on the amount of federal funds made available by the Congress for commitment nationwide, and the state's relative share of highway funds apportioned nationwide. If the state's obligational authority is less than its total apportionments, the state *cannot* spend all of the money apportioned to it for that year. Any unspent apportionment, however, can be spent the following year, within the limits of the following year's obligational authority.

Our analysis indicates that the estimates in the Fund Estimate for the *total level of apportionments* from the major federal highway categories appears to be reasonable, *assuming the nationwide level of federal funding projected by the commission is made available by the Congress.*

It appears, however, that the *distribution* of funds among federal-aid categories in the Fund Estimate is incorrect. The estimate for Interstate highway funding—$299 million per year—appears to be low. This is because it is based on existing apportionment factors which are being revised by the Congress. On the basis of estimates presented to a congressional conference committee considering Interstate highway funding, we conclude that $333 million is a more realistic estimate. It is our understanding that this higher estimate will be included in a revised Fund Estimate submitted by the department to the commission.

A higher level of Interstate highway funding, however, would result in a dollar-for-dollar *decrease* in the amount of funding received by the state pursuant to the 85 percent minimum allocation. To the extent that funding for another federal-aid category increases, the amount needed to bring apportionments up to 85 percent of the state's relative contribution of highway funds to the federal Highway Trust Fund is less. Consequently, the $34 million increase in Interstate funding would result in a $34 million decrease in minimum allocation funding. Moreover, because the use of Interstate funding is more restricted than the use of minimum allocation funding, the state's flexibility in meeting its own highway funding priorities will be reduced if the Congress acts to provide more Interstate money —an ironic twist.

6. Are there other uncertainties relating to the amount of federal revenues available for California?

Although the estimated level of federal apportionments generally appears to be reasonable, our review indicates that the amount of *federal* highway funds which the state will receive during the next five years is still uncertain. There are several reasons for this.

a. ***The future of federal highway apportionments is uncertain.*** The Surface Transportation Assistance Act of 1982 reauthorized the federal program through FFY 1986. Beyond FFY 1986, however, the nature and magnitude of the federal program is not known. The Fund Estimate assumes that the federal program will remain essentially unchanged throughout the five-year period, and projects the level of federal funding for 1986–87, 1987–88 and 1988–89 based on past trends. In the absence of better information, this approach does not appear to be unreasonable.

b. ***The availability of Highway Trust Fund resources is uncertain.*** A recent estimate by the federal Office of Management and Budget indicates that by 1986, federal highway revenues could be *$9.6 billion less* than anticipated when the 1982 reauthorization act was passed. This shortfall is primarily due to a change in the schedule for implementing certain fee increases, the impact of which was not taken into account when the program was enacted. If this funding shortfall were to continue, with no changes in federal highway authorization and obligation levels, the Highway Trust Fund itself, would experience a deficit by FFY 1988 or 1989. At the current time, it is not known what actions might be taken by the federal authorities to deal with such a deficit, or what the impact of such actions would be on California.

c. ***The future of the federal fuel tax is uncertain.*** The current 9-cent-per-gallon federal excise tax on gasoline and diesel fuel will expire on October 1, 1988. After that date, the excise tax will be reduced to 1½ cents per gallon, unless further action is taken by Congress. Although we do not anticipate a return to the 1½-cent-per-gallon tax rate, we cannot predict what tax rate the federal government ultimately will establish.

7. Can the state spend all the federal highway funds apportioned to it?

As discussed earlier, the Fund Estimate projects federal transportation resources to the state based on total *apportionments* to California authorized in the Surface Transportation Assistance Act. There is no guarantee,

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however, that this amount will be received. In recent years, the state's *obligational authority* to spend funds apportioned to it has been set at approximately 97 percent of total apportionments, excluding certain federal assistance categories, such as federal funds for demonstration projects and 85 percent minimum allocation funds, which carry their own obligational authority.

Consequently, since the STIP is based on California's *apportionments* of federal funds, rather than on the state's obligational authority, the STIP probably is *over-programmed.* In other words, *even if the state were able to build all of the projects included in the STIP, it would be impossible to finance them according to the STIP schedule without a substantial increase in state funding.* The department might still be able to do all the necessary project development work, such as design and engineering, for projects programmed in the STIP, but there would not be sufficient funds within any five-year STIP period to construct all of the projects programmed for that period.

In view of the potential shortage of $9.6 billion in federal revenue discussed earlier, the Federal Highway Administration (FHWA) has lowered the obligational authority for FFY 1984 to approximately 93 percent of apportionments. If this limit on obligational authority were to continue for the entire 1984 STIP period, we estimate that California would be permitted to obligate approximately $5.8 billion in federal funds. *This amount is $1.1 billion (or 16 percent) less than the $6.9 billion in total federal resources reflected in the STIP Fund Estimate.* Consequently, it would take about six years of the state's obligational authority to spend all the federal funds which the Fund Estimate projects will be available over the next five years. If obligational authority was set at 97 percent of apportionments, the state's spending authority would be about $900 million less than what the 1984 STIP assumes.

The overestimate of what the state can expect to spend from federal funds on highway transportation has implications for both state funding needs and the deliverability of projects. Some projects which will be programmed in the 1984 STIP probably will not receive the necessary federal funding, thus reducing below $750 million the total amount of state funds needed to match federal funds. We estimate that the need for state matching funds over the five-year STIP period could be about *$150 million less.*

To the extent that the department is staffed to perform project development work on such unfunded or underfunded projects, there should be an accumulation of "shelf" projects at the end of the five-year period equivalent to approximately 16 percent of the total capital project expenditures in the 1984 STIP.

STIP Document Should be Changed

We recommend that legislation be enacted directing the CTC to adopt a STIP which recognizes the level of federal funding which the state will be able to obligate during the STIP period.

As discussed above, the current STIP practice of using federal apportionments to California, rather than the state's obligational authority, results in an inherent "overprogramming" of highway capital projects during the five-year period. As a result, there probably will *not* be sufficient money to fund all capital projects programmed in the 1984 (or any other) STIP. Based on discussions with the department and the commission staff, we see both advantages and disadvantages to the current approach.

Advantages of overprogramming. The current approach provides the department and the commission with a certain amount of flexibility.

1. ***The Department is able to work on projects which cannot be delivered within the STIP period.*** Under existing commission policy, with some exceptions, the department can proceed with project engineering only on those projects included in the STIP. Some major projects, however, may take more than the five-year STIP period to prepare for advertising and construction. Consequently, overprogramming the STIP with about one year's worth of projects allows the department to begin engineering work on projects which require up to six years' engineering effort.

2. ***It creates a "shelf" of projects which would be available if additional construction opportunities arise.*** Currently, the department can request additional obligational authority (which was allocated to, but not used by, another state) if, by August, California has spent all of its own obligational authority. The availability of "shelf" projects which are ready to be advertised enables the department to spend more money within any one year and construct more projects if additional resources become available. In addition, when the delivery of certain projects is delayed, the department can substitute "shelf" projects to avoid losing any of its obligational authority.

Disadvantages of overprogramming. There are, however, significant disadvantages to the current approach.

1. ***The STIP generates unrealistic expectations.*** The adopted STIP document frequently is viewed as a commitment on the state's part to deliver projects agreed upon by the CTC, local agencies and the department, according to a fixed schedule. Whenever obligational limits on federal revenues make the schedule infeasible, the *state* may be held accountable.

2. ***The current method of programming projects may allow projects of lower priority to be funded before higher priority projects.*** Projects in the STIP are not ranked in relative priority. Instead, funds are allocated to projects as they become ready to be advertised. In addition, the department isn't directed to allocate its staff and resources to projects according to their relative importance. Project readiness, therefore, does not necessarily reflect the project's relative priority and importance.

3. ***The current practice tends to inflate the size of any potential shortfall in state funds.*** In the past, the Legislature has been concerned about potential shortages in state funds and the state's ability to match federal highway funds. In some instances, this concern may not be warranted because the state will receive less federal funding than the amount programmed in the STIP. For example, many of the projects programmed in the 1984 STIP will not be built, and the state will spend about $150 million less over five years in order to match federal funds. Consequently, the projected deficit in state funds will be smaller and occur later than indicated by the Fund Estimate.

Analyst's recommendation. In order to recognize the constraint imposed on the use of federal revenues by limits on obligational authority, and to provide a more realistic capital program in the STIP, we recommend that legislation be enacted directing the CTC to adopt a STIP document which programs projects grouped into two categories. *Group I* would consist of higher priority projects whose total costs could be

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financed within the limits of *obligational authority* (as estimates based on recent trends). *Group II* projects would be the effective "shelf", and could be funded by the CTC only if the commission makes a finding that funds are available because (1) the state has more funds available for construction, or (2) a specific Group I project is not proceeding as scheduled. The volume of this group of projects could be set such that, together with the Group I projects, they add up to the total amount of funding anticipated if California receives its full apportionment. Differentiating projects in this way would establish some project priorities. It would also produce a STIP which states more realistically the magnitude of capital projects that can be constructed during the five-year STIP period. In addition, when the department requests capital outlay support staff to deliver STIP projects, the Legislature could better evaluate what is needed to deliver those projects which can be financed within the obligational authority, and what amount of staff is needed to produce the "shelf" projects.

Department Requests Lump Sum Appropriations

The Legislature has delegated to the CTC the authority to allocate funds to specific highway and transit capital outlay projects and transit services. Consequently, the department's budget requests lump-sum amounts within specific categories, such as New Facilities, Transit Capital Assistance and Bus and Rail Services, and the Legislature appropriates funds within these categories. The CTC then allocates the lump-sum amount to specific eligible projects. Table 7 indicates the lump-sum amounts from state sources proposed by the department for 1984–85.

Table 7
Proposed State Funding to be Allocated by the CTC 1984–85 (in thousands)

Highway Transportation (Capital Outlay)	
Rehabilitation	$75,501
Operational improvements	39,336
New facilities	106,496
Mass Transportation	
Transit capital assistance	110,300
Bus and rail services	12,828

In the case of most other state programs, we make recommendations to the Legislature regarding the specific capital outlay projects that are proposed for funding, based on the merits of each project. This is because in these program areas, the Legislature decides which projects to fund or not to fund. In transportation, however, the decision to fund specific projects and services is made by the CTC, not by the Legislature. Consequently, we make no recommendation to the Legislature on funding levels for the highway and transit capital programs and bus and rail services. Recommendations to the Legislature on funding levels for these programs will be made by the CTC, based on the funding requirements of specific projects. These recommendations will be included as part of the CTC's statutorily required review of the department's budget. In each program, however, we will recommend that the fiscal subcommittees ask the CTC to comment on its recommended funding levels. In addition, we will provide information and comments on the requested funding level so that the Legislature will have a better basis on which to consider the transportation program proposed by the administration.

AERONAUTICS

We recommend approval.

The Aeronautics program contains three elements, which are designed to improve the safety and efficiency of the California aviation system: (1) *Safety and Local Assistance,* (2) *Planning and Noise,* and (3) *Reimbursed Work for Others.*

The budget proposes an appropriation of $7,213,000 from the Aeronautics Account in the State Transportation Fund to support the program's activities in 1984–85. This is an increase of $979,000, or 16 percent, above estimated current-year expenditures. State operations expenditures are budgeted to increase by less than one percent (to $1,813,000), and local assistance is proposed to increase by 22 percent (to $5,400,000) over current-year levels. The increase in local assistance expenditures of $975,000 consists of (1) $600,000 for loans to local governments for airport improvements, (2) $15,000 for grants to small airports, and (3) $360,000 for additional airport acquisition and development projects which will be proposed in the 1984 State Transportation Improvement Program.

The department also proposes an expenditure of $25,000 in federal reimbursements for airport inspections, for a total proposed expenditure program of $7,238,000. This is an increase of $980,000, or 16 percent, over estimated current-year expenditures.

For 1984–85, the budget proposes a staffing level of 30.7 personnel-years for the Aeronautics program, which is one personnel-year less than the current-year level. This reduction reflects the elimination of one personnel-year for administration of the department's airport noise monitoring programs.

HIGHWAY TRANSPORTATION

The Highway Transportation program consists of seven elements: (1) *Rehabilitation,* (2) *Operational Improvements,* (3) *Local Assistance,* (4) *Program Development,* (5) *New Facilities,* (6) *Operations,* and (7) *Maintenance.* Each element, in turn, is subdivided into several components.

The department proposes expenditures of $2,169,927,000, all funds, for the Highway Transportation program in 1984–85. This is an increase of $183,449,000, or 9 percent, above estimated expenditures in the current year. As mentioned earlier, the proposed expenditure level does not include funds for any staffing increases which might be needed to implement the capital program proposed in the 1984 State Transportation Improvement Program.

Table 8 shows proposed expenditures and funding sources for the Highway Transportation program in 1984–85. Proposed staffing for the program totals 12,033.2 personnel-years. Expenditures for state operations are proposed to increase by $50.8 million (6.6 percent) in 1984–85. This reflects (1) an increase of 53.6 personnel-years and $10.6 million for added service levels, including $5.4 million for work to be performed under contract, and (2) a reduction of 200 personnel-years and $3 million to be offset by increases in efficiency and an increase in external contracting.

The department proposes a reduction of $47.5 million (15 percent) in

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local assistance and an increase of $180.2 million (20 percent) in capital outlay expenditures in 1984–85.

Table 8
Highway Transportation
Proposed Program Changes and Fund Sources
1984–85
(dollars in thousands)

		Expenditures			
	Personnel-Years	*State Operations*	*Local Assistance*	*Capital Outlay*	*Total*
1983–84 Expenditures (Estimated[a])	12,423.6	$770,124	$309,892	$906,462	$1,986,478
1984–85 Expenditures (Baseline)	12,179.6	813,361	309,892	906,462	2,029,715
Administrative Reduction[b]	−200.0	−3,006	—	—	−3,006
Workload and Program Changes					
Rehabilitation	—	—	—	−70,842	−70,842
Operational improvements	—	—	—	33,980	33,980
Local assistance	—	—	−47,542	—	−47,542
Program development	2.0	85	—	—	85
New facilities	—	—	—	217,039	217,039
Operations	7.0	473	—	—	473
Maintenance	44.6	10,025	—	—	10,025
Total program changes	53.6	$10,583	−$47,542	$180,177	$143,218
1984–85 Expenditures (Proposed)	12,033.2	$820,938	$262,350	$1,086,639	$2,169,927
1984–85 Fund Sources					
State Highway Account		$683,877	$29,000	$196,207	$909,084
Bicycle Lane Account		10	450	—	460
Federal Funds		97,133	232,900	790,106	1,120,139
Toll Bridge Funds		30,831	—	25,326	56,157
Reimbursements		9,087	—	75,000	84,087
Total Funds		$820,938	$262,350	$1,086,639	$2,169,927

[a] Includes 244 personnel-years that were administratively established for the current year for additional capital outlay support, at a cost of $9,802,000.

[b] Referred to as the "3 percent" reduction. For the department, as a whole, the proposed reduction is 250 personnel-years and $3,588,000.

The State Highway Account will finance $909.1 million (42 percent) of the proposed expenditures under the Highway Transportation program in 1984–85. An additional $1,120.1 million (52 percent) will be financed from federal funds. The remaining $140.7 million (7 percent) will be paid from other state funds and reimbursements.

Program Expansion Should Require Notification

We recommend that the Legislature adopt Budget Bill language requiring the department to notify the fiscal committees and the Joint Legislative Budget Committee at least thirty days prior to implementing any expansion of existing program activities or any new program activities (including those to be funded through a transfer of money from other expenditure categories or programs), except for emergency storm damage and snow removal work, in order to enhance legislative control of expenditures.

The department has the authority to transfer appropriated funds among the various program categories. This authority stems from two sources:

1. ***The Budget Act.*** The department is authorized by the 1983 Budget Act to reallocate up to 10 percent of its appropriation for capital outlay, state support and local assistance among these categories, upon approval by the California Transportation Commission (CTC) and the Department of Finance.

2. ***Chapter 1106, Statutes of 1977.*** The department is authorized by Chapter 1106 to transfer among elements up to 10 percent of its appropriation for any individual program element, such as rehabilitation and maintenance. Such transfers also must be approved by the CTC and the Department of Finance. In addition, the department is required to submit to the fiscal committees and the Joint Legislative Budget Committee a notification of intent to transfer funds five days prior to the transfer.

In prior years, the department has exercised these transfer authorities and changed the staffing and expenditure levels in various program elements. The Legislature has not always been notified promptly of such transfers, as required by law. In most cases, notices of the transfers were not submitted to the Legislature until after the close of the fiscal year.

Current-year activities. In 1983–84, the department is undertaking various new or expanded activities that have resulted in significant changes to the budgeted program for Highway Transportation. For example, it has administratively added 244 personnel-years for capital outlay support staff. This increase is being funded through a transfer of $9.8 million from the current-year capital outlay appropriation. It has also implemented a computer-aided design pilot project that is being funded through similar transfers and other redirections. The department has indicated that these fund transfers would be subject to the five-day notification requirement.

The department maintains, however, that the notification requirement pertains to the actual transfer of funds and not to a change in the intended *use* of funds. Under these circumstances, the notification requirement is meaningless. The department advises that all program expenses are paid from revolving funds, into which appropriated funds are deposited. Frequently, funds appropriated for one program element are spent for another element, but the actual transfer of money from one element to another often occurs at a later date—usually after the close of the fiscal year.

We recognize that the department requires some flexibility to adjust budgeted expenditures among program elements and expense categories. At the same time, however, the Legislature should have an opportunity to monitor and comment on the use of this flexibility, so that the actions it takes on the budget are not made meaningless by subsequent adjustments to funding allocations. This can only happen if it is notified of the proposed adjustment *before* the funds are spent. Notification after the fact—often, long after—provides no opportunity for legislative review and comment.

In order to enhance legislative oversight of the department's activities and its use of funds, we recommend that the Legislature adopt the following Budget Bill language in Item 2660-001-042:

> "The department shall notify the chairmen of the fiscal committees and of the Joint Legislative Budget Committee at least 30 days prior to spending funds to expand activities above budgeted levels or to implement a new activity not identified in the budget, including any such

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expenditures to be funded through a transfer of money from other expenditure categories or programs, except in the case of emergency snow or storm damage work increases."

Excessive Allowance for Benefits Paid on Overtime $2,017,000

We recommend a reduction of ~~$5,254,000~~ from the State Highway Account (Item 2660-001-042) to correct for overbudgeting of personal services.

The department relies heavily on overtime, particularly in highway maintenance activities where, because of traffic congestion, work often has to be performed at night or on weekends. Overtime work is also authorized for snow removal and storm damage activities, and for construction activities where engineers must remain at construction sites after regular working hours. For 1982–83, the actual amount paid for overtime was $17,837,000. For 1984–85, the department's budget proposes $21,159,000 for this purpose, which is equivalent to 686.2 personnel-years in cash overtime. This amount includes funds for a proposed increase in payments for emergency snow removal activities.

Our analysis indicates that in determining the amount budgeted for total staff benefits, the department included cash overtime payments in total personal service expenditures before making the required calculation. This practice is improper. The only benefits that increase as a result of overtime are social security payments. As a result, staff benefits are overbudgeted by $5,254,000. Consequently, we recommend a deletion of $5,254,000.

Highway Capital Outlay Expenditures

We recommend that the fiscal subcommittees ask the California Transportation Commission to comment during budget hearings on the level of highway capital outlay expenditures proposed for 1984–85.

The budget proposes to spend $1,031.5 million from various funding sources for the construction of highway projects in 1984–85. This amount is $200.1 million, or 24 percent, higher than the estimated expenditure level of $851.4 million in the current year. Of the $1,031.5 million, $196 million (19 percent) would be funded from the State Highway Account, and $790.1 million (77 percent) would be financed with federal funds. The remaining $45.4 million (4 percent) would be financed by the toll birdge funds and by reimbursements.

This proposal is based on the cost and schedule of projects included in the 1983 STIP. The proposal is subject to change, however, because the department will be submitting a proposed 1984 STIP to the California Transportation Commission (CTC) which may propose a different capital outlay schedule than the one adopted in the 1983 STIP.

As we indicated earlier, we have no analytical basis for making a recommendation to the Legislature on the proposed funding levels for highway capital outlay because the Legislature does not fund, and we do not review, specific projects. We recommend, however, that the subcommittees ask the CTC to comment during budget hearings on the adequacy of the proposed funding level, relative to the funding needs of specific highway projects.

Capital Outlay Support Increase in Current Year

We recommend that the department submit by April 1, 1984 a report to the fiscal subcommittees on (1) the progress and types of efficiencies implemented for project development, and (2) the staffing needed to deliver projects at a funding level set by the federal obligational authority.

The department currently is authorized 5,579 personnel-years to perform project development work on highway projects. Capital outlay support personnel are distributed among the Rehabilitation, Operational Improvements and New Facilities elements of the Highway Transportation program. The current authorized level represents a significant increase over the 1982–83 level, and is justified by the increased workload resulting from the additional federal highway funds made available to the state. At the time the department made its staffing request for 1983–84, it indicated that it intended to achieve various efficiencies so as to hold down the size of the increase below what otherwise would be needed according to the department's automated personnel-year, project scheduling and cost-analysis system (PYPSCAN). The department maintained that these efficiencies would be achieved primarily through changes in the project development and review processes.

In the course of reviewing the department's budget request for 1983–84, the Legislature expressed its concern that the department might not be able to successfully deliver projects programmed in the 1983 STIP. Consequently, the Legislature adopted language in the *Supplemental Report to the 1983 Budget Act* directing the department to report, by December 31, 1983, on its progress in achieving efficiencies and in project delivery.

Extent of efficiencies are unknown. At the time this *Analysis* was prepared, the department had not submitted the required report to the Legislature. Although discussions with district as well as headquarters staff indicate that the project development process has been streamlined, and monthly advertising of construction contracts has increased, the extent of the efficiencies actually achieved to date is unknown.

Is the number of support staff adequate? The budget indicates that notwithstanding the efficiencies to be achieved in the current year, the Department of Finance will administratively establish an additional 244 personnel-years (at a cost of $9.8 million) for engineering activities above the level authorized by the Legislature. According to the department, the authorized level of 5,579 personnel-years was estimated based upon projects included in the 1983 *proposed* STIP. The additional staffing is needed to deliver an additional 124 projects which were included by the CTC in the 1983 STIP, as *finally adopted* by the commission in July 1983.

Our review of the current-year increase in staffing indicates that:

1. ***The staff increase will allow work on more "shelf" projects.*** The addition of 124 projects to the 1983 STIP was made possible by three factors: (a) a reduction of $464 million in the state's Interstate highway apportionment, (b) an equivalent increase in federal minimum allocation funds, and (c) an assumption that California can spend its Interstate highway apportionment quickly enough to receive up to $400 million in discretionary federal funds during the next five years—an amount which represents the bulk of all discretionary funds available nationwide. Discussions with commission staff indicate that this assumption is highly optimistic.

As we noted earlier in discussing the spending limitations imposed on the department by the federal government, the department is already staffed at a level that allows for the engineering and design of a certain level of "shelf" projects. Further staff increases based on an optimistic projection of additional funds coming into California during the five-year period will result in a more rapid accumulation of "shelf" projects.

2. ***Not all increased staff will be for project-related activities.*** Of the 244 personnel-year increase during the current year, 50.3 personnel-years will be for engineering and design activities. These activities are directly related to projects. An additional 139.3 personnel-years, however, will be for activities which are not directly related to projects, including laboratory activities and staff supervision, and another 50 personnel-years will be for headquarters functional support, most of which is not project-related.

We have no analytical basis to determine what level of "shelf" projects is appropriate. At the same time, we believe our analysis brings into question the need for 244 additional personnel-years in the current year and for any further increase in the budget year. This is particularly true, given that not all of the staff increase will be needed for project-related work.

In order that the Legislature is kept well informed on (1) the department's progress in implementing efficiencies, and (2) the staffing needed to (a) deliver projects according to the more realistic obligational authority level, and (b) develop "shelf" projects, we recommend that the department submit a report to the fiscal subcommittees by April 1, 1984, on its project development efforts.

REHABILITATION

The Rehabilitation element includes those activities which extend the service life of the highway system through the restoration and reconstruction of facilities which have deteriorated due to age, use or disasters. In some instances, improvements, or protective betterments, are made to existing structures to reduce the likelihood of serious damage at a later date. This element also contains resources for the construction and improvement of district buildings and related facilities.

The department proposes total expenditures of $336.7 million for highway rehabilitation in 1984–85, of which $252.4 million is for *capital outlay* and $84.3 million is for *support*. The total amount requested is $57.8 million, or 15 percent, below current-year estimated expenditures of $394.5 million. The decrease reflects a reduction in capital outlay expenditures proposed in the budget year. Compared to actual capital outlay expenditures in *1982–83*, however, the amount proposed for 1984–85 is $140.9 million or 126 percent, higher.

The decline from current-year capital outlay expenditure levels ($323.2 million) reflects the department's attempts to accelerate the design and engineering of certain projects—particularly rehabilitation projects, which in general require less time for an environmental impact review—in order to take advantage of the increase in federal highway funds first made available in 1983–84. As the number of projects which can be accelerated for advertising and construction decreases, the rehabilitation capital outlay program will stabilize.

The department is requesting a total of 1,295.1 personnel-years to support the rehabilitation element in 1984–85.

Lands and Building Improvements Deserve Legislative Review

We recommend the enactment of legislation requiring that all capital outlay projects and expenditures proposed by the department and involving the construction and improvement of office buildings, lands, and support facilities be subject to legislative review and approval. We further recommend that the Legislature add a separate line item under Item 2660-301-042 identifying the capital expenditures for these purposes approved by the Legislature.

As indicated above, Chapter 1106/77 requires that Budget Act appropriations from the State Highway Account be made on a program basis without identifying specific capital outlay projects. Pursuant to this statute, the California Transportation Commission (CTC) is responsible for allocating appropriated funds to specific projects within the budget's program categories. This is intended to insure that the commission, as an independent entity, can determine transportation project allocations on the basis of statewide importance and need.

The capital outlay projects funded by the State Highway Account, however, include not only highway and other transportation projects, but also construction and improvement of department buildings, improvements to existing support facilities (such as maintenance buildings or district headquarters) and non-highway land purchases.

Prior to 1979–80, the department was unique among state agencies in that its "nontransportation" projects were not subject to legislative appropriation, or review by the State Public Works Board. The 1979 Budget Act, however, amended this exemption and made nontransportation projects subject to the Public Works Board review process.

Current requirements. Chapter 323, Statutes of 1983, amended the requirement to exempt once again all nontransportation projects from the review by the Public Works Board. Consequently, all "nontransportation" projects are treated as part of the overall transportation capital outlay program, which receives an annual lump sum appropriation from the Legislature and is allocated by the CTC.

Analyst's recommendation. Our review indicates that, while some "lands and building" projects, such as the construction of maintenance stations, are related to transportation, others are not. These include site acquisition and development, and the construction and improvement of district headquarters and similar support facilities. Similar types of projects undertaken by other state departments *are* subject to legislative review during the budget process. We cannot determine any basis for exempting the Department of Transportation from the kind of reviews that nearly all other state departments must undergo.

In addition, our analysis indicates that legislative review of the projects planned by the department would enable the Legislature to coordinate more effectively decisions on how the state's overall office and space needs can best be met. The CTC, which now has the responsibility for reviewing these capital projects, lacks an understanding of overall state needs for office building space and sites. Consequently, it may give its approval to proposed projects which are beneficial to the department but are *not* cost-effective from the standpoint of the state as a whole.

In order to improve the Legislature's ability to coordinate the acquisition and management of state-owned property, we recommend that legislation be enacted to require legislative review and approval of all capital improvements to the department's property which is *not* used for transportation purposes or for highway maintenance. Once legislative approval

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is granted, funding for individual projects can be allocated by the CTC, rather than the Public Works Board, as they become ready. In addition, we recommend that the Legislature amend the Budget Bill to include a separate line item under the capital outlay appropriation item (Item 2660-301-042) that identifies the approved funding level for these nontransportation projects.

Guidelines Needed for Leases for Commercial Development

We recommend the enactment of legislation providing clear guidelines for the department and the California Transportation Commission to follow in leasing state-owned non-highway properties for commercial development and uses.

Current law allows the department to lease to public or private entities the use of areas above or below highways, if the department can ensure adequate protection of the highway facility and adjacent land. Accordingly, the department has for several years leased highway "air space" for various purposes, in accordance with local ordinances and requirements. Lease procedures are set by the CTC, and leases must obtain the commission's unanimous approval when they are not let through the competitive bidding process. Air space leases are a significant source of revenue to the State Highway Account. In addition, the department is also authorized to lease any land not currently needed for highway purposes.

The department owns other properties besides highway rights-of-way. Specifically, it owns properties which are used for departmental support purposes, such as office buildings, employee parking lots, and maintenance stations. These properties are not within the highway rights-of-way, and, with the exception of maintenance stations, are not owned strictly for transportation purposes.

Recent developments in the use of department land. The department currently is considering leasing property it owns outside the highway rights-of-way. For example, the department plans to lease a 2.5 acre parcel in downtown Los Angeles to a private developer on a long term basis. This property, which currently is used for employee parking, could be developed into a commercial building having space dedicated to parking facilities for use by, among others, department personnel, as well as space for private offices. During the period of the lease, the department would receive rental payments from the lessee which would be deposited in the State Highway Account. Upon expiration of the lease, the improved property would revert to state ownership.

Because this state-owned property is not within the highway rights-of-way or is used strictly for highway transportation purposes, it is not clear whether the current statutory authority provided to the department regarding leases applies in this case. In addition, our review shows that in considering leases for commercial development of its properties, the department may not take into consideration alternative uses of these properties that would satisfy other state needs. For instance, the state may require additional office facilities and space in Los Angeles for which department-owned property could be utilized. Currently, there is no procedure to ensure that the state's overall needs are considered by the department and the CTC in deciding how department-owned property is to be used.

In summary, current law does not explicitly address (1) whether the department and the CTC are authorized to lease for commercial development property that is not within the highway rights-of-way, (2) how overall state needs are to be taken into consideration in leasing state property for commercial development and use, or (3) when it is appropriate for the department to enter into commercial ventures involving nonhighway properties.

Because this type of lease arrangement may become more attractive and more prevalent as the department identifies properties which could generate more revenue to the State Highway Account, we recommend that the Legislature consider the overall policy issue of department involvement in commercial development of state lands, and enact legislation to clarify existing law and provide clear guidelines to the department and the CTC that they can follow in making decisions regarding specific properties.

OPERATIONAL IMPROVEMENTS

The Operational Improvements element encompasses activities and structural improvements designed to increase the capacity and efficiency of the existing highway system. The components of this element include (1) *safety improvements*—signals, median barriers, warning signs and crash barriers; (2) *compatibility improvements*—sound walls, roadside rests, vista points, highway planting and fish and wildlife preservation, and (3) *system operation improvements*—high-occupancy vehicle lanes, passing and climbing lanes, and lane delineation and channelization.

The budget proposes an expenditure of $268.1 million in 1984–85 for the Operational Improvements element, including $172.9 million for capital outlay purposes, and $95.2 million for 1,790.6 personnel-years of support activities. The total amount requested is $40.2 million, or 18 percent above current-year estimated expenditures of $227.9 million. The 1984–85 request includes a proposed augmentation of approximately $40 million for capital outlay.

LOCAL ASSISTANCE

We recommend approval.

The department's local assistance activities fall into two general areas. *First,* the department acts as a coordinating agency for state and federal funds which are subvened to local agencies, and attempts to insure that these funds are expended according to established guidelines. *Second,* the department undertakes highways and road work on behalf of local agencies, for which it is fully reimbursed.

Proposed expenditures in this element total $334.5 million in 1984–85, including $317.3 million for capital outlay and subventions and $17.2 million for 233.6 personnel-years of staff support. This represents a decrease of $46.9 million, or 12 percent, from current-year expenditures. The decrease reflects a reduction in federal funds for local assistance, including (1) a decrease of $16 million in federal funds for grade crossing separation and protection purposes (the Legislature appropriated these federal funds in the current year to substitute for state funds, whenever possible), (2) a decrease in highway safety local assistance of $3.4 million, and (3) a reduction in natural disaster assistance, bridge replacement assistance, and miscellaneous one-time assistance for specified local projects totalling $27.5 million.

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PROGRAM DEVELOPMENT

The Program Development element encompasses three component activities, including (1) *research*—theoretical, applied, and environmental studies designed to improve the construction, maintenance, and safety of highways; (2) *system management*—road mapping, monitoring construction progress and the 55 miles per hour speed limit, and preparation of the STIP and other reports, and (3) *highway programming*—scheduling of capital investments and determination of the distribution of resources.

Expenditures for this element are budgeted at $19.1 million in 1984–85, which is $2.7 million (16 percent) above the estimated expenditure of $16.4 million during the current year. Staffing is proposed to total 315.6 personnel-years.

The proposed 1984–85 activity level reflects (1) a reduction of five personnel-years for highway research by department staff, (2) an increase of $659,000 for contracted research, (3) an increase of $85,000 and two personnel-years for long-range programming to develop the State Transportation Improvement Program, and (4) an increase of $1.5 million to contract for various surveys and studies for system management.

Research Activities Overbudgeted

We recommend a reduction of $297,000 from the State Highway Account (Item 2660-001-042) because the amount requested for research exceeds the amount identified in the department's 1984–85 research agenda.

The department's research activities encompass a wide range of theoretical and applied research, testing and evaluations, and demonstration projects. Research activities include (1) facilities research, which promotes the design of efficient highways, (2) environmental research, which explores the impact of highway facilities on the environment; and (3) resource conservation, which explores means to conserve fuel and other resources.

Research is conducted by departmental staff, as well as by outside contractors, such as the University of California. The department estimates that current-year research expenditures will total $4,112,000, of which $438,000 is being used to support 19 projects through contract. For 1984–85, it is requesting $4,739,000, an increase of $627,000, or 15 percent, over the current-year estimated expenditure level. This amount includes approximately $1,060,000 to contract for research work, an increase of $659,000 over the current-year amount available for research performed under contract.

Our review of the department's three-year research plan, extending from 1983–84 through 1985–86, indicates that $3,223,000 and 37.4 personnel-years will be needed to support all continuing research projects—contracted or conducted by staff, and all other research-related activities in 1984–85. In addition, the plan identifies new projects to be started in 1984–85 totalling $1,219,000 including 10.7 personnel-years of staff work plus some contracted studies. Our review, therefore, shows that the 1984–85 cost of the department's research activity will total $4,442,000, which is $297,000 less than the amount requested in the budget. Accordingly, we recommend the requested amount for research be reduced by $297,000.

NEW FACILITIES

The New Facilities element is the largest—in dollar terms—of the seven Highway Transportation program elements, and has two components: (1) *new highway construction*—new development along with additions to or the upgrading of existing facilities; and (2) *new toll bridge construction*—additions to existing toll bridges or the construction of new and replacement facilities.

The budget proposes $739.2 million for this element in 1984–85, an increase of $221.5 million, or 43 percent, over the estimated current-year expenditure level. Of the requested amount, approximately $606.3 million will be spent on capital outlay projects, and the remaining $132.9 million will be spend on state operations. New highway construction will receive nearly all of the funds proposed for this element—a total of $732.7 million, with the remaining $6.5 million budgeted for toll bridge construction expenditures.

The budget requests a staffing level of 2,109 personnel-years for 1984–85.

OPERATIONS

Activities within the Operations element are designed to maintain roads, bridges, tunnels and associated facilities, and to improve the manner in which they are operated. Although these activities are related to those in the Operational Improvements element, the latter is directed toward providing structural improvements, while the Operations element is oriented toward orderly traffic flow. The four components of this element are (1) *traffic operations*—message signs, ramp metering, road surveillance, emergency road service, and special transportation permits; (2) *toll collection*—collection of tolls on state bridges; (3) *real property services*—airspace and property leases, sale of surplus property and management of state-owned housing units; and (4) *permits*—the issuance of special transportation and encroachment permits.

Expenditures in this element are proposed to total $63.5 million in the budget year, up $2.5 million, or 4.1 percent, from the current-year level. This increase includes the proposed augmentation of $473,000 for the replacement of manual toll collection machines with automatic collecting machines.

The budget requests a staffing level of 1,119 personnel-years for the operations element in 1984–85.

Cost to Manage Properties Is High

Revised language for study to be done by independent consultant

We recommend that the Legislature adopt supplemental report language directing the department to submit to the Legislature by December 1, 1984, a feasibility study of contracting with the private sector for property management services.

The department manages and maintains all property acquired for intended highway rights-of-way until it is needed for construction of highway facilities. Because the acquisition of some property is less complicated than the department originally anticipated, the department often acquires property far in advance of construction. In general, the department does not remove structures from the property until construction is ready to begin. Current law requires the department to maintain any structures on its property in conformance with local standards.

As of November 1983, the department was managing approximately

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4,230 units of property, consisting of about 2,850 residential units and 1,380 nonresidential units. The majority of these units are located in the Los Angeles and San Francisco areas.

The department leases or rents those properties which it anticipates holding for an extended period of time. To the extent possible, the department attempts to charge fair market rental rates for residential units. However, to protect existing tenants from significant rent adjustment that would be necessary if the department charged fair market rates, the Legislature established in the 1982 Budget Act limits on rents to low and moderate income families. These limits are based on family income. Consequently, approximately 67 percent of all residential units are *not* charged fair market rates.

Property management is a money-losing activity. Most rental income is deposited into the State Highway Account. Total rental income was approximately $14.6 million in 1982–83, and is estimated to be about the same in 1983–84. Current law, however, requires that 24 percent of the rental income be allocated to the respective counties in which these rental properties are located. Table 9 shows the net rental income to the State Highway Account.

Table 9
Revenue and Expenditures of Rental Property Management
1980–81 through 1983–84
(in thousands)

	Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*
Revenue [a]	$15,850	$14,529	$14,579	$14,625
Rent Payments to Counties	2,612	2,947	3,255	3,900
Net Revenue	$13,238	$11,582	$11,324	$10,725
Expenditures	14,008	17,559	12,886	13,874
Net Cost to Manage Properties	$770	$5,977	$1,562	$3,149

[a] Includes rentals from property acquired for routes which were subsequently rescinded. Rentals from such property are not shared with counties.

Although Table 9 indicates that rental revenues are significant, the expenditures incurred in managing all rental properties are higher than the state's share of these revenues. Consequently, property management is a money loser from the standpoint of the State Highway Account. The high cost of managing properties is, in part, due to the relatively high cost of advertising, locating potential tenants, reviewing tenant applications, collecting rents, inspecting properties, contracting for and performing necessary repairs, rehabilitating properties, evicting tenants when necessary, and tracing and collecting delinquent rents. The department mostly uses right-of-way agents to conduct these activities. To the extent they are used for this purpose, however, the agents are not able to carry out their primary responsibility which is to appraise and acquire property for highway construction.

We question whether the department has the necessary expertise to manage property as effectively and as efficiently as it should. Furthermore, because the number of rental properties fluctuates with the construction schedule, we are concerned that the department's staffing needs for this activity may from time to time come at the expense of those duties for which department staff are uniquely qualified.

For these two reasons—the lack of expertise and the fluctuating workload—we believe the department should consider contracting with the private sector for property management services, particularly in those department districts which have a large number of properties to be managed, such as San Francisco and Los Angeles. We have not evaluated, however, the feasibility of this alternative. In order that the Legislature may have a better understanding of the feasibility of contracting for property management services, we recommend that the Legislature adopt the following supplemental report language:

"The Department of Transportation shall conduct a feasibility study of contracting with the private sector to provide property management services for its residential properties, and report its findings to the Legislature by December 1, 1984. The study shall examine (1) the availability of private firms which would provide such service, particularly in areas where the department's residential rental units are concentrated, and (2) the cost of contracting."

MAINTENANCE

The Maintenance element, which the department has designated as its highest priority, includes five components: (1) *roadbed*—resurfacing and repair of flexible and rigid pavements; (2) *roadside*—litter removal, landscaping, vegetation control, roadside rests and minor damage repair; (3) *structures*—bridges, pumps, tunnels, tubes and vista points; (4) *traffic control and service facilities*—snow removal, pavement markings, and electrical equipment; and (5) *auxiliary services*—administration, training, maintenance stations and employee relations.

The budget proposes maintenance expenditures of $408.8 million in 1984–85, which is an increase of $21.3 million, or 5.5 percent, over the current-year estimated expenditure level of $387.5 million. The proposed amount will support 5,170.3 personnel-years.

The Highway Maintenance element is the largest element in terms of support expenditures and staffing in the Highway Transportation program. Maintenance accounts for approximately 43 percent of all personnel-years and 50 percent of Highway Transportation program support expenditures in 1984–85. Maintenance activities receive *no* federal support. The budget projects that 98 percent of the total maintenance support will come from the State Highway Account, with the balance coming from Toll Bridge Funds.

Table 10
Staffing and Expenditures for Highway Maintenance
1982–83 through 1984–85
(dollars in millions)

	Personnel-Years			Expenditures		
Component	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Roadbed	606.5	658.7	651.7	$66.7	$68.6	$72.6
Roadside	2,311.8	2,476.6	2,385.9	140.7	135.2	137.9
Structures	303.1	436.3	431.3	20.6	24.2	25.2
Traffic controls and service facilities	1,314.7	870.1	872.4	97.6	94.0	104.0
Maintenance auxiliary	828.5	849.0	829.0	55.7	65.5	69.2
Totals	5,364.6	5,290.7	5,170.3	$381.3	$387.5	$408.9

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Table 10 shows the expenditures and staffing level for the five maintenance components from 1982–83 through 1984–85.

As Table 10 shows, the budget proposes a net reduction in maintenance staffing of 120.4 personnel-years, from 5,290.7 in 1983–84 to 5,170.3 personnel-years in 1984–85. This reduction reflects (1) a decrease of 165 personnel-years in the existing program, and (2) an increase of 44.6 personnel-years to increase service levels in various activity areas and to accommodate inventory increases. The budget also includes approximately $2.8 million for contracted work to substitute for the staff reduction in the existing program.

Total Maintenance Workload Should Be Estimated for Budget Justification

We recommend that the Legislature adopt supplemental report language directing the department to begin preparing a total maintenance program workload estimate to support its annual budget request for maintenance.

For the past few years, the Legislature has been concerned about the appropriate expenditure level for highway maintenance which generally is designated as the highest priority for highway expenditures. This concern was in part due to inconsistencies in the department's expenditure requests from year to year. For example, in 1981–82, the department indicated that significant efficiencies in maintenance were anticipated, allowing major reductions in the maintenance budget. In the following year, however, the department requested major increases to eliminate an accumulated backlog of maintenance.

In order to evaluate the department's maintenance operations, the Legislature adopted language in the 1982 Budget Act requiring an independent study of the department's maintenance management system by a consultant. This study was completed in August 1983.

Weaknesses identified in the study. The consultant found various weaknesses in the maintenance management system which affect adversely the Legislature's ability to effectively budget for, and exercise control over, the maintenance program. These include:

- A lack of defined service level standards for maintenance activities.
- No regular review of the amount of work needed to achieve specific service levels.
- A failure to systematically use productivity standards to estimate workload.
- The lack of a procedure to evaluate and update performance standards to reflect new technology and work methods.
- A general lack of planning to prepare meaningful and timely workload estimates.

The study concluded that, because of these weaknesses, the department's budget is neither a program budget nor a performance budget, and provides no indication of either the total amount of work that *needs* to be done, or the output resulting from any proposed expenditure level.

Department's action. The department recognizes some of these weaknesses, and has initiated steps to improve its maintenance budgeting system. It has retained a consultant to assist it in designing a new system.

The department indicates that the new system will be tested when it prepares its 1985–86 roadside maintenance budget.

Our analysis indicates that, unless the department (1) establishes work performance standards, (2) defines the quantity of work needed to achieve a particular level of service, and (3) identifies a proposed level of service, the Legislature will not have an adequate picture of the total maintenance program and its accomplishments and failures. Instead, it will have information (and not very good information) only on the marginal changes to the established expenditure base proposed by the department. With better information, the Legislature would be in a position to determine the level of service it deems appropriate statewide, and appropriate the funds needed to achieve this level.

We believe that legislative action is needed to ensure that the department continues to improve its maintenance management and budgeting system. Consequently, we recommend that the Legislature adopt the following supplemental report language:

> "It is the Legislature's intent that the Department of Transportation establish service levels and work standards, and begin preparing a total workload estimate for the Maintenance program in order to justify future expenditure requests for the Maintenance program element."

Overtime for Snow Removal

We recommend a reduction of ~~$626,000~~ $512,000 from the State Highway Account (Item 2660-001-042), because the overtime compensation for additional snow removal efforts is overbudgeted.

One of the department's highway maintenance activities is snow removal and ice control. The variability in weather conditions makes it particularly difficult to choose the right staffing level for these activities in any given fiscal year. This has been particularly evident in the past five years, as the department overspent its staffing allocation for snow removal activities in four of these years by an average of 83.7 personnel-years per year. The additional workload was accommodated through a redirection of resources from other activities. To budget more accurately for this activity, the department is requesting $3,191,000 for 1984–85, including $3,030,000 for personal services in the form of cash overtime and $161,000 for operating expenses.

Our analysis indicates that the resources allocated for snow removal activities should be increased. Consequently, we recommend approval of the proposed 83.7 personnel-year increase in cash overtime. The department's request of $3,030,000, however, implies an average *salary* cost of $36,244 per personnel-year of overtime payment. Our review of current-year overtime salary expenditures, however, indicates that the average cost for highway maintenance is $28,714 per personnel-year, taking into account the average salary adjustment effective January 1984. Based on this average cost, 83.7 personnel-years would cost $2,403,656, instead of $3,030,000 as proposed by the department.

Accordingly, we recommend that the budget be reduced by $626,000.

Utilities Cost Overestimated

We recommend a reduction of $8,625,000 from the State Highway Account (Item 2660-001-042) to correct for overbudgeted highway energy costs and utilities cost.

The department pays for lighting the various components of the high-

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way system. The cost of energy for this purpose (mostly electricity) represents a significant percentage of highway maintenance and operation expenses. The department also pays for utilities associated with building operations.

Table 11
Department of Transportation
Utilities Cost
1980–81 through 1984–85
(in thousands)

			1983–84		1984–85	
Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Allocated*	*Estimated by Legislative Analyst*[a]	*Requested*	*Estimated by Legislative Analyst*
$23,856	$27,105	$26,922	$35,873	$27,500	$38,025	$29,400

[a] Estimate based on (1) actual expenditures for first five months of 1983–84 and (2) comparison with past trends.

Table 11 shows the actual utilities costs for 1980–81, 1981–82 and 1982–83. For the current year, the department has allocated $35,873,000 for utilities expenses. Based on actual expenditures for the first five months of the current year, however, we estimate that total utility expenditures will be $27.5 million for 1983–84. The department is requesting $38,025,000 for these expenditures in 1984–85, which is 6 percent higher than the current-year allocation.

Our analysis indicates that, based on past experience, the department's request for utilities is overstated. Applying the Department of Finance's guideline for increasing electricity costs (6.9 percent) to our estimated current-year expenditure, we estimate that utilities expenditures in 1984–85 will total $29.4 million, which is $8,625,000 less than the amount budgeted. Accordingly, we recommend that this amount be deleted from the department's budget.

Contracted Maintenance Work Should Not Be More Costly

We recommend a reduction of $1,110,000 from the State Highway Account (Item 2660-001-042), because the department should not contract for maintenance work at a cost that is higher than the cost of using department staff.

In the past, most highway maintenance has been performed by department staff. According to the department, it contracts with the private sector when work is not of a routine and recurring nature, or when the work location is such that it is uneconomical to station or transport staff for just that particular activity.

The department's current-year expenditure allocation includes $20,393,000 for contracted maintenance work. The distribution of contracted work is shown in Table 12. The majority of contracted work is for roadbed (pavement) maintenance, including approximately $7.4 million for low volume road maintenance.

Table 12
Increases in Contracted Highway Maintenance
1983–84 through 1984–85
(dollars in thousands)

Maintenance Component	*Estimated 1983–84*	*Projected 1984–85*	*Change* Amount	*Change* Personnel-Year Equivalent
Roadbed	$15,703	$16,988	$1,285	34.4
Roadside	106	2,111	1,005	52.0
Structures	3,346	3,558	212	5.0
Traffic control	70	1,117	1,047	26.3
Auxiliary services	1,168	3,061	1,893	20.0
Totals	$20,393	$26,835	$6,442	137.7

Budget-year request. For 1984–85, the department proposes to increase maintenance service levels in several areas through a combination of increased staff and increased contracted work. As Table 12 shows, contracting for maintenance work in various program components is proposed to increase by $6,442,000 in 1984–85. This amount will provide an equivalent of 137.7 personnel-years of maintenance work, and includes (1) $2,874,000 for various contracted work to substitute for work by department staff, in order to reduce the baseline program, and (2) $3,568,000 to increase various services levels. Additional services include (1) $986,000 for crack sealing, (2) $649,000 for loop detector repairs and guardrail alignment, (3) $1,753,000 for replacement of raised pavement markers, and (4) $180,000 for roadside rest maintenance work.

According to the department, the amount requested for contracted work is calculated first by estimating the personnel-year equivalent of the work if it were performed by department staff. The department then applies a 125 percent factor to the personnel-year cost for the activity in order to estimate the total cost of contracting for the work. This factor increases the cost of contracting the maintenance work by $1,110,000 in 1984–85.

We recognize the department's need to perform some work through contracting. However, contracting should be considered for projects only if it is the more economical and cost-effective alternative, or if there are special circumstances that preclude the use of department staff, such as a lack of expertise in the department to handle the particular task or significant fluctuations in workload from year to year. Our analysis indicates that:

- The nature of the maintenance work to be contracted in 1984–85 is not beyond the department's ability to perform with its own staff.
- The work to be contracted is not temporary. Instead, the demand for the service appears to be stable and will extend for several years. For example, we estimate that it would take over 10 years to replace all raised pavement markers at the proposed level of staffing and contracting.
- The department has not done a survey of the cost of contracting maintenance work. The 125 percent cost factor is established arbitrarily and rather uniformly for all activities proposed to be contracted. It is not certain that it would cost more to contract for this work.

In our judgment, activities should not be performed under contract if the cost of doing so consistently exceeds that of performing the work using department staff, unless extraordinary circumstances exist. To achieve the projected level of work effort at the least cost, we recommend that fund-

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ing be provided equal to the cost of having department staff perform the work. Accordingly, we recommend that the department's budget for contracted maintenance work be reduced by $1,110,000.

MASS TRANSPORTATION

The Mass Transportation program contains several elements: (1) *Full Mobility Transportation,* (2) *Transit Operator Assistance,* (3) *Interregional and Intercity Public Transportation (bus and rail transportation),* (4) *Transfer Facilities and Services,* (5) *Transportation Demonstration Projects,* (6) *Work for Others,* and (7) *Ridesharing.*

Significant Program Changes

As Table 13 indicates, the budget proposes total program expenditures for mass transportation of $220,877,000 in 1984–85, a reduction of $31,637,000, or 13 percent, from current-year expenditures of $252,514,000. Personnel levels are proposed to decline by 54.8 personnel-years, or 19 percent, to 231.3 personnel-years.

State operations. The budget requests $92,140,000 for mass transportation support activities, an increase of $2,053,000, or 2.3 percent, above the current-year level. Of this, $22.9 million will be paid from state funds, $25 million will come from federal funds, and $44.3 million will come from reimbursements.

The major changes proposed in the budget include (1) a reduction of $1.2 million in payments to Southern Pacific for commuter rail service between San Francisco and San Jose, as the state purchases and begins operating its own rail cars, (2) an increase of four personnel-years and $1.9 million to operate and rehabilitate the service's rail stations, and (3) a reduction of 59.8 personnel-years and $2.7 million in reimbursed services resulting from a decrease in the department's involvement in local guideway projects.

Table 13
Mass Transportation
Proposed Budget Changes
1984–85
(in thousands)

	TP&D Account	*State Highway Account*	*Federal Funds*	*Reimbursements*	*Abandoned Railroad Account*	*Total*
1983–84 Expenditures as approved by the Legislature....	$60,095	$60,812	$23,739	$102,468	$5,296	$252,410
Changes Proposed for 1984–85						
1. Cost Changes	577	6	662	2,401	11	3,657
2. Workload and Program Changes						
a. Full Mobility	42	—	63	—	—	105
b. Operator Assistance	−242	9,691	76	—	−5,211	4,314
c. Interregional Trans.	−43	—	4,047	−932	—	3,072
d. Transfer Facilities	2,155	—	8,000	3,063	—	7,092
e. Demonstration Projects	20	—	80	—	—	100
f. Reimbursed Work	—	—	—	−50,760	—	−50,760
g. Ridesharing	−50	—	—	937	—	887
Total Proposed Workload and Program Changes	$1,882	$9,691	$12,266	−$53,818	−$5,211	−$35,190
1984–85 Proposed Expend.	$62,554	$70,509	$36,667	$51,051	$96	$220,877

Local assistance. The budget proposes to subvene $110,500,000 in local assistance funds in 1984–85, an increase of $9,434,000, or 9 percent, from current-year levels. All but $200,000 of this request is from state funds; the balance represents federal funds. This increase reflects the levels of local assistance adopted for 1984–85 in the 1983 STIP. Transit Capital Improvement funds from the TP and D Account will decrease by $242,000 to $39.9 million, while funds from the State Highway Account for the mass transit guideway program will increase by $9.7 million to $70.4 million.

Capital outlay. The department's mass transportation capital outlay expenditures will decline by $43,124,000, or 70 percent, to a proposed level of $18,237,000 in the budget year. All capital outlay expenditures will be funded either from reimbursements, including allocations of Transit Capital Improvement funds from the CTC, or federal funds. The decrease reflects (1) the lack of funding to acquire abandoned railroad rights-of-way, for a reduction of $5.2 million from current-year levels, (2) an absence of reimbursed capital outlay expenditures for the Sacramento light rail project, for a reduction of $47.9 million, and (3) an increase of $9.9 million in capital improvements to the commuter rail service and facilities between San Francisco and San Jose.

Budget-Year Funding Deficit

The budget proposes total appropriations from the TP and D Account of $154,195,000, excluding expenditures for any salary and benefit increase approved for the budget year. Account resources, however, total only $149,225,000, resulting in a net deficiency of $4,970,000 *plus* the cost of salary and benefit increases. The budget indicates that $5,500,000 in savings will be made in the proposed expenditures in 1984–85 to offset the deficit and leave a balance of $530,000. The specific savings, however, are not identified in the budget.

The deficit arose because of a late decision by the administration to propose a change in existing law affecting account resources. Chapter 1321, Statutes of 1983, extended the partial exemption of gasohol sales from the sales and use tax through 1986. This exemption will reduce the revenues to the TP and D Account by $13 million in 1984–85. Chapter 1321 requires, however, that the TP and D Account be reimbursed for such revenue losses from an unspecified source. If the account is not held harmless, then the exemption is repealed.

When the budget was prepared, the department assumed that the account would be reimbursed or otherwise held harmless. Since that time, however, the administration has decided *not* to reimburse the account for the revenue loss. In order to continue the sales tax exemption for gasohol, the administration is proposing in companion legislation to the Budget Bill (AB 2314 and SB 1379) to repeal the provision of Chapter 1321 that would otherwise terminate the exemption.

The condition of the account is further complicated by the instability of account revenues. As we discussed earlier in our analysis of the Fund Estimate, sales tax revenues to the TP and D Account are very volatile. If sales tax revenues into the account should be higher than projected by the Department of Finance, the projected deficit could be eliminated. The Department of Finance indicates that it will update its projection of

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account revenues in the May revision and, if necessary, propose amendments to the Budget Bill to eliminate the deficit.

FULL MOBILITY TRANSPORTATION

We recommend approval.

Activities in the Full Mobility Transportation element are intended to *improve the accessibility* and *service levels of transportation systems* used by the low mobility population (the elderly and the disabled). The budget proposes expenditures of $1,051,000 for this purpose in 1984–85. This is an increase of $124,000, or 13 percent, above estimated expenditures of $927,000 in 1983–84. This increase reflects a workload increase of $105,000 and three personnel-years to administer a federal program to acquire transit vehicles for use by the elderly and handicapped.

TRANSIT OPERATOR ASSISTANCE

Both financial and technical assistance are provided to operators under the Transit Operator Assistance element. Major assistance programs include (1) the *abandoned railroad rights-of-way program*, and (2) *capital assistance provided to transit services* pursuant to Chapter 262/82 and Chapter 322/82. Transit development programs and administration of federal and state assistance functions are among the other assistance activities provided by the department under this element.

The department proposes expenditures of $112,888,000 for this element in 1984–85. This represents an increase of $4,364,000, or 4 percent, over estimated current-year expenditures of $108,524,000.

Technical Error in the Budget Request Withdraw recommendation

We recommend a reduction of $388,000 in the Transportation Planning and Development Account (Item 2660-001-046) and a corresponding increase in reimbursements to correct a technical error in the development of the budget.

During the process of developing its budget, a state agency makes adjustments to current expenditure levels to reflect increases in the cost of providing current services. In preparing its budget, the department inadvertently shifted the source of funding $388,000 in increased costs for reimbursed activities to the TP and D Account. Consequently, the need for TP and D Account funds is overstated by $388,000 and reimbursements are understated by $388,000. We therefore recommend a reduction of $388,000 in the TP and D Account and a corresponding increase in reimbursements.

Transfer Account Resources to TP and D Account

We recommend that $2,482,000 appropriated in Item 2660-301-047 of the Budget Act of 1983 (Abandoned Railroad Account) be reverted on June 30, 1984, and that $3,559,000 be transferred from this account to the unencumbered balance of the Transportation Planning and Development Account to prevent duplication of state programs.

The Abandoned Railroad Account was established by Chapter 1130/75 and funded by a $3.5 million transfer from what is now the TP and D Account. An additional $3 million was transferred to the account from the TP and D Account in Chapter 1098/77. These funds have been used to acquire abandoned railroad lines when the right-of-way could be used for public transportation uses, including highways, busways, guideways, and for bicycles and pedestrians.

Table 14 indicates the estimated status of the account at the end of the current year. As the table indicates, after the seven remaining projects are completed, a balance of $4,059,000 will be available for additional projects. The department is soliciting applications to spend the remaining funds.

The program funded from the Abandoned Railroad Account differs from most capital outlay programs. Whereas most state capital outlay programs acquire a variety of property to develop a specific type of project, this program acquires a specific type of property which can then be used for many different purposes. Such uses have included highway widenings, equestrian trails, bicycle and pedestrian paths, and guideway projects.

Table 14
The Abandoned Railroad Account
Resources and Expenditures
As of June 30, 1984
(in thousands)

Transfers and accrued interest	$10,141
Expenditures to date (16 projects)	4,196
Balance	$5,945
Funds needed to complete approved projects (7 projects)	1,887
Balance available for new projects	$4,059
Balance from Budget Act of 1983	(2,982)
Unencumbered balance	(1,077)

Because this program is not focused on the ultimate uses of the property, there is a high probability that the program will duplicate efforts of other state programs. In fact, most of the projects supported from the account can be funded from other existing state programs. Transit Capital Improvement funds from the TP and D Account can be spent to acquire abandoned railroad rights-of-way for busway and guideway purposes. The Bicycle Lane Account funds the acquisition of property for bicycle paths. Finally, park development funds can be spent to acquire property for recreational purposes. Thus, it appears that this program duplicates the objectives of other state programs.

To avoid this duplication, we recommend that only sufficient funds be left in the account to complete the remaining projects, plus $500,000 to pay any unanticipated costs, and that the $3,559,000 balance be transferred to the TP and D Account, where the funds originated.

As Table 14 indicates, $2,982,000 of the balance in the account was appropriated for a three-year period in the Budget Act of 1983. To leave $500,000 for the program, and transfer the balance to the TP and D Account, therefore, $2,482,000 of the appropriation would have to be reverted on June 30, 1984. Accordingly, we recommend that the Budget Bill be amended to revert the $2,482,000, and transfer a total of $3,559,000 to the Transportation Planning and Development Account.

Transit Capital Project Funding Proposed

We recommend that the fiscal subcommittees ask the California Transportation Commission to comment during the budget hearings on the level of transit capital assistance that the commission recommends be funded.

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The budget proposes to spend a total of $110,300,000 from the State Highway Account and the TP and D Account for capital assistance grants to transit systems and the department. This is a net increase of $9,449,000 (9.4 percent) from estimated current-year expenditures of $100,851,000, and is equal to the level adopted by the California Transportation Commission (CTC) in the 1983 STIP for 1984–85.

Under existing law, the Budget Act appropriates transit capital assistance funds as a lump sum from each of the two accounts. The funds are allocated by the CTC to projects identified in the STIP and in funding priority lists adopted by the commission. Applications submitted to the commission by the department and local agencies for project funding in 1984–85 totalled almost $172 million.

As we discussed earlier, we have no analytical basis for making a recommendation to the Legislature on the level of funding for those programs, such as transit capital assistance, for which the Legislature appropriates a lump-sum for allocation by the CTC to specific projects. The recommendations of the CTC on program funding, however, would be important to the Legislature in determining the appropriate funding level for this program. Consequently, we recommend that the fiscal subcommittees ask the CTC to comment during budget hearings on the level of transit capital assistance funding recommended by the commission.

INTERREGIONAL PUBLIC TRANSPORTATION

Activities in the Interregional Public Transportation element include (1) *the support and improvement of intercity and commuter rail and bus passenger service,* (2) *the implementation of the State Bus Plan,* and (3) *the update and implementation of the State Rail Plan for freight service.*

This element proposes expenditures of $51,658,000 in 1984–85, an increase of $5,952,000, or 13 percent, over estimated expenditures of $45,706,000 in 1983–84. Major proposed changes include (1) a $5 million capital improvement project for the San Francisco-San Jose commuter rail service, and (2) a $1.2 million reduction in payments to Southern Pacific as a result of the department purchasing its own rail cars for the service.

Table 15
San Francisco-San Jose Rail Service
Proposed State Expenditures
1984–85
(dollars in thousands)

	State Operations	*Personnel Years*	*Local Assistance* [a]	*Total*
Service operations	$8,784[b]	12.4	—	$8,784
Service improvements	498[c]	3.3	$5,300	5,798
Service management	227	7.6	—	227
Station acquisition and improvements	1,953	10.0	5,237	7,190
Station management	356	6.4	—	356
Station studies	244	2.0	—	244
	$12,062	41.7	$10,537	$22,599

[a] Capital outlay projects financed by CTC allocation of Transit Capital Improvement funds.
[b] $8,170,000 funded by CTC allocation of bus and rail service funds.
[c] $228,000 funded by CTC allocation of Transit Capital Improvement funds.

Summary of Commuter Rail Expenditures

The budget distributes proposed expenditures for the San Francisco-San Jose commuter rail service among different elements (interregional transportation and transfer facilities and services) and expenditure categories (state operations and local assistance). Consequently, it is difficult to determine the total state expenditures proposed for this service by reading the budget. Table 15 combines proposed expenditures for the service to provide a complete picture of what the department plans to spend.

As Table 15 indicates, the department proposes state expenditures of $22.6 million for the San Francisco-San Jose service in 1984–85. Of this amount, the Legislature has direct control over the $3.7 million which will be appropriated in the Budget Act. Of the remaining $18.9 million, $8.2 million would be allocated by the CTC from funds appropriated for bus and rail service generally, and $10.8 million would be allocated by the CTC from funds appropriated for capital assistance to state and local transit services. In addition, department staffing for the service will total 41.7 personnel-years. The department however, also will spend the equivalent of 60 personnel-years in consultant efforts related to the service, for a total effective staffing level of 101.7 personnel-years.

Rail Services Could Get Sidetracked

We recommend that the fiscal subcommittees ask the California Transportation Commission to comment during budget hearings on the level of bus and passenger rail subsidies it recommends. We further recommend that Budget Bill language be adopted specifying that funds appropriated to subsidize such services be allocated by the commission to specific services pursuant to existing law.

Chapter 322, Statutes of 1982, requires the California Transportation Commission (CTC) to allocate to specific bus and passenger rail services any lump-sum appropriations made by the Legislature for such services. The budget proposes to spend $12,828,000 from the TP and D Account to subsidize these services in 1984–85, and to spend $2,675,000 in state funds and 39.4 personnel-years for marketing and related staff support. The budget also proposes expenditures for bus and passenger rail services amounting to $35,457,000 in federal funds and reimbursements, for a total expenditure of $50,960,000. This is an increase of $5,937,000, or 13 percent, from 1983–84 expenditures of $45,023,000 from all sources. Additional funds and personnel for rail station activities are budgeted in the Transfer Facilities and Services element of the Mass Transportation program.

The department currently plans to propose to the CTC that the requested amount subsidize existing passenger rail services between (1) San Francisco and San Jose, (2) Oakland and Bakersfield, and (3) Los Angeles and San Diego. The cost of the first service is shared with the three counties served by the railroad. The cost of the two latter services is shared with Amtrak. No new rail services or any intercity bus services would be funded under the department's proposal. Nonetheless, the budget includes funding for department staff to continue intercity bus planning efforts and to monitor and evaluate services funded in prior years.

As we discussed earlier, we have no analytical basis for making a recommendation to the Legislature on the level of funding for those programs, such as rail and bus subsidies, for which the Legislature appropriates a

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lump sum for allocation by the CTC to specific projects. We recommend, however, that the fiscal subcommittees ask the CTC to comment during budget hearings on the adequacy of the funding level contained in the budget.

To facilitate legislative review of this issue, we offer the following comments on the department's proposal.

1. ***Some services may not meet existing financial performance requirements.*** Under existing law, a passenger rail service can continue to receive state funds, beginning in its fourth year of operation or 1984–85, whichever comes later, only if it maintained a specified ratio of fare revenues to operating costs in the previous year. For commuter rail services, the required ratio is 40 percent, while for intercity services, it is 55 percent. The CTC, however, may grant a waiver from the requirement for up to three years.

Each of the three existing services must meet the financial performance requirement in 1983–84.

As Table 16 indicates, however, it is questionable whether two of the services will be eligible for funding in 1984–85 without obtaining a waiver from the CTC. The table displays the department's estimate of each service's farebox ratio for 1983–84, as of November 1, 1983. As the table indicates, the San Francisco-San Jose and the Oakland-Bakersfield services are achieving only 87 and 90 percent of their required farebox ratios, respectively. If these estimates hold for the current year, either (a) the CTC will have to grant these services a *waiver* from the existing performance requirements, or (b) the services will be *ineligible* for state funds in 1984–85.

In contrast, the Los Angeles-San Diego service is exceeding its required ratio by almost 39 percent.

Table 16
Financial Performance of Rail Services [a]
1983–84

	Estimated Farebox Ratio	*Estimated Percent of Required Farebox Ratio*
San Francisco-San Jose	34.6%	86.5%
Oakland-Bakersfield	49.3	89.6
Los Angeles-San Diego	76.3	138.7

[a] Based on department estimates as of November 1, 1983.

2. ***Farebox ratios could be lower than anticipated by the department.*** The ratios estimated by the department and shown in Table 16 may prove to be too high. These estimates only reflect the costs paid to the railroad for its services. Under existing law, however, the costs attributable to a service which otherwise would not be incurred are also considered as operating costs for purposes of the farebox ratio requirement. Consequently, it appears that the marketing expenses for the services, some station operating expenses related to the San Francisco-San Jose service, and certain other staff costs should be reflected in the farebox ratio. Doing so would reduce each service's farebox ratio even further below the threshhold for state funding. At this time, however, we are unable to estimate the magnitude of the reduction in farebox ratios that would result

from recognition of other service-related costs.

3. ***The department proposes measures to improve financial performance.*** Any request to waive the farebox ratio requirements must be accompanied by a program to increase the ratio. The department submitted a request to waive the farebox ratio requirement for the San Francisco-San Jose service in January 1984. The department will delay a decision on a waiver request for the Oakland-Bakersfield service until March 1984, so that the department can evaluate the impact of recent changes in billing practices and ridership on the service's financial performance. Nonetheless, we have some indication of the strategies under consideration by the department.

a. ***San Francisco-San Jose.*** The department anticipates that the purchase of new cars and locomotives will improve ridership when the cars are placed into service during the budget year. In addition, the department is expanding its marketing efforts and hiring a consultant to manage its marketing program.

The department also is trying to address the problem of transporting riders between the existing San Francisco station at Fourth and Townsend and the central business district. It is negotiating with local transit operators to improve bus service between the station and the business district. Ultimately, the department would like to extend the rail line to the business district, at a cost of $300 million.

b. ***Oakland-Bakersfield.*** The department is taking two approaches to improve the farebox ratio for this service. *First,* it intends to improve ridership by increasing its marketing efforts and by adding and improving specific stations along the route. It also recommends that costs be reduced by amending existing state law to eliminate the need for a second brakeman when four or five cars are operated. Having only one brakeman under such a configuration would be consistent with existing labor agreements covering railroad employees.

The *second,* longer-term approach, is to change the method of accounting for service costs and revenues. The largest single change would credit the service for the revenues Amtrak earns on intercity services, such as the Seattle-Los Angeles route, which receives significant revenue from passengers who connect to or from the Oakland-Bakersfield service. Department staff estimate that, if the Oakland-Bakersfield service did not exist, Amtrak would earn more than $1 million less per year on the Seattle-Los Angeles route. Consequently, the department asserts, the Oakland-Bakersfield service should get credit for that revenue.

In addition, the department supports (1) excluding expenses for activities such as accounting and the reservation system from the cost of the service because they are fixed costs rather than short-term avoidable costs, which are the cost factors to be used according to federal law, and (2) a change in the definition of associated capital costs of the service to exclude depreciation and interest on Amtrak equipment, because Amtrak received such equipment through congressional grants and does not pay interest on the equipment.

While these latter changes would not improve the performance of the service, *per se,* they would improve the likelihood that the service will meet the minimum financial performance required by existing state law. Such changes may require changes in federal law.

4. ***The Budget Bill should be amended.*** In order to ensure that funds are spent pursuant to existing law, we recommend that the Legislature add language to Item 2660-001-046 of the Budget Bill which identifies

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the subsidy level appropriated for bus and rail services and specifies that the funds must be allocated by the CTC as required by existing law. The Budget Bill already includes language which specifies that, pursuant to existing law, the CTC must allocate funds appropriated for highway and transit capital outlay projects. The language we recommend would be consistent with that policy.

Accordingly, assuming the Legislature appropriates the amount budgeted for subsidies, we recommend that it adopt the following language:

"$12,828,000 of the funds appropriated in this item for Program 30—Mass Transportation shall be allocated by the California Transportation Commission, pursuant to Section 99316 of the Public Utilities Code, to subsidize bus and/or passenger rail services."

Service Extension Project is Improperly Funded

We recommend a reduction of $187,000 from the Transportation Planning and Development Account (Item 2660-001-046) and an equal increase in reimbursements for a commuter rail extension because the department already has applied for funding for this activity through the California Transportation Commission.

The department is proposing to begin development of an extension of the existing commuter rail service from the San Francisco station at Fourth and Townsend to a new station in the central business district. The department anticipates that such an extension would substantially increase ridership for the service by making the service more attractive to users.

The current cost estimate of construction and right-of-way acquisition for this project totals $300 million. The department projects that the federal government would pay 80 percent of these costs.

The department is requesting $187,000 and one personnel-year for 1984–85 to begin the federal fund application process. We have two concerns with this request.

1. ***The department has requested funding twice.*** The department has requested that the $187,000 be appropriated to it in the Budget Bill. At the same time, however, the department has applied to the CTC for state Transit Capital Improvement (TCI) funds for precisely the same activity in the budget year.

2. ***The CTC should coordinate the decision-making process.*** We agree that leaving passengers at the existing station, with relatively poor transit access to downtown, may adversely affect ridership on the system. The department's proposal, however, is not the only possible solution to the problem. The department, for example, currently is negotiating an arrangement with local transit operators to increase bus service to the existing station. Alternatively, the San Francisco Municipal Railway (Muni) has proposed to extend its Muni Metro service to the station, at a cost that is significantly less than the cost of the department's proposal. Muni has applied to the CTC for 1984–85 TCI funds to develop its own proposal.

Under existing law, the decision on how much state money, if any, should be spent for capital projects to improve transit service on the San Francisco peninsula will be made by the CTC, using transit capital assistance funds. Consequently, the CTC should decide whether the department should proceed with its efforts to extend the rail service. Accordingly, we recommend that the $187,000 in the budget for this project be deleted. We further recommend that reimbursements be increased by an equal amount in order to provide the department with the authority needed to spend any allocation made by the commission to the department for the proposed project.

Capital Improvement Administration is Federally Reimbursable

We recommend a reduction of $67,000 from the Transportation Planning and Development Account (Item 2660-001-046) and an increase of $67,000 in federal funds (Item 2660-001-890) for managing commuter rail capital improvement projects because such expenditures can be financed with federal funds.

The department is undertaking a substantial capital improvement program on the commuter rail service between San Francisco and San Jose. It has entered into a $38 million contract to purchase new rail cars and proposes to (1) buy new locomotives, (2) improve station platforms, and (3) build a new maintenance facility.

The budget includes $83,000 and 2.3 personnel-years from the TP and D Account to manage the ongoing rail car procurement project.

Our analysis indicates that because the federal government is paying 80 percent of the cost of the project, including project administrative costs, federal funds will be available to support $67,000 of the $83,000 in management costs. Accordingly, we recommend a reduction of $67,000 in state funds and a corresponding increase in federal fund expenditures for managing the rail car procurement.

Rail Marketing Will Be Under Contract

We recommend a reduction of two personnel-years from the Transportation Planning and Development Account (Item 2600-001-046) for rail marketing services, because these services will be provided by consultants.

The department proposes to spend $1,329,000 to advertise the three passenger rail services it will subsidize in the budget year. In order to improve the department's efforts in this area, the department plans to hire consultants to coordinate the department's advertising in 1984–85, rather than use department staff. These consultants will be responsible for the research and creative development of the department's rail marketing efforts, as well as for the purchase of advertisements.

We recommend that the Legislature approve the department's plan. The department has relatively little experience in advertising a transportation service and could benefit significantly from the help of outside experts.

Our analysis of the department's budget indicates, however, that authorization for 2.5 personnel-years in department staff is proposed to coordinate the department's marketing efforts in the budget year. If the department hires a consultant, this staff will not be needed. Instead, only one-half personnel-year will be needed to manage the contract. Consequently, we recommend a reduction of two personnel-years in the department's authorized staffing levels. *Funding* for these two personnel-years would remain in the budget to hire the marketing consultant.

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TRANSFER FACILITIES AND SERVICES

The department is authorized by law to construct, purchase or lease, improve and operate rail passenger facilities which provide intermodal passenger services. The department also is required to evaluate proposed transfer facilities.

The budget proposes expenditures of $16,977,000 for transfer facilities and services in 1984–85, which is $7,130,000, or 72 percent, more than estimated current-year expenditures of $9,847,000. The major changes proposed for the budget year include an increase of $6.9 million to rehabilitate the commuter rail stations between San Francisco and San Jose.

Station Rehab Costs Are Too High

We recommend a reduction of $611,000 from the Transportation Planning and Development Account (Item 2660-001-046) for commuter station rehabilitation because the budgeted costs are too high. We further recommend that the Legislature adopt Budget Bill language restricting support expenditures for the station rehabilitation until capital funds are allocated by the California Transportation Commission.

During the budget year, the department proposes to rehabilitate 16 of the commuter rail stations between San Francisco and San Jose that it is purchasing from Southern Pacific. The department has applied to the California Transportation Commission (CTC) for $5,237,000 in Transit Capital Improvement funds, pursuant to existing law, to pay the capital costs of the rehabilitation. The budget for 1984–85 includes seven personnel-years and $1,866,000 for related staff costs, including $1,849,000 for project reports and engineering.

We have two concerns with the department's proposal.

1. *Engineering costs are overstated.* The level of engineering effort required for the rehabilitation actually totals 32.5 personnel-years in the budget year. The department proposes to use staff from the Office of the State Architect (OSA) in the Department of General Services to provide engineering design and construction contract administration, at a cost of $1,625,000, for the projects. Our analysis indicates that this is $504,000 more than it would cost the department to perform this work using its own staff.

The amount proposed in the budget for engineering support is estimated using the department's model which projects personnel needs for the highway capital outlay program. Although about 50 percent of the personnel effort will be spent on station parking improvements, which are similar to some highway construction activities, the balance of the effort will be spent on platform construction or relocation, which is different from highway construction. Consequently, the validity of the staffing estimation methodology is questionable.

In addition, the OSA has not provided the department with its own cost estimate for the engineering service. The amount requested by the department for OSA work, however, is well above what generally is provided to OSA for architectural projects of this size. Considering that the Legislature generally provides funds for design engineering, contract administration and contingency costs in an amount equal to 20 percent of the total capital cost of state building projects, the amount needed for these services in connection with a capital project of $5,207,000 (excluding the $28,000 budgeted for contingencies in the application to the CTC) should be $1,042,000—$583,000 lower than what the department requests. Furthermore, since $28,000 for contingencies is already included in the application to the CTC, the department's request exceeds the standard by a total of $611,000. The department could provide no justification for exceeding the guideline for OSA costs. Consequently, we recommend a reduction of $611,000 from the department's budget.

2. ***Funding should be tied to CTC allocation.*** Funding for project reports and engineering will be needed only if the CTC allocates the funds which the department has requested. Consequently, we recommend that the Legislature adopt the following language in Item 2660-001-046 of the Budget Bill to prohibit the expenditure of funds for rehabilitation project reports and engineering until the CTC allocates the funds:

> "No funds appropriated to prepare project reports or perform engineering work to rehabilitate commuter rail stations between San Francisco and San Jose shall be spent until the California Transportation Commission allocates capital funds for such rehabilitation. If the CTC allocation is not made, the project report and engineering funds shall not be spent for any other purpose and shall revert to the unappopriated surplus in the Transportation Planning and Development Account in the State Transportation Fund."

Station Management Costs Overbudgeted

decrease

We recommend a reduction of $199,000 from the Transportation Planning and Development Account (Item 2660-001-046) and an ~~increase~~ of $16,000 in reimbursements for station management, because (1) the funding arrangement is inconsistent with legislative policy, and (2) the janitorial service request is double-budgeted.

The department is requesting $527,000 in state funds to manage and operate commuter rail stations it will own between San Francisco and San Jose. The department will use part of these funds to hire state employees to perform the work currently provided by Southern Pacific (SP).

We have two concerns with this request.

1. ***The operating costs are improperly financed.*** Under the cooperative agreement with the transit agencies in the three affected counties, the department pays one-half of the deficit resulting from the SP service and the three local agencies pay the other half. This deficit includes the railroad's current costs to manage the stations. The budget proposes to have the state assume *68 percent* of the costs, at a cost of $356,000, to manage and operate the stations, including those costs that currently are paid by the local operators. This is inconsistent with legislative policy, which divides the responsibility for station operating costs equally between state and local agencies. Consequently, we recommend a reduction of $92,000 in state funds and a corresponding increase in reimbursements.

2. ***The janitorial service is double-budgeted.*** The cost of janitorial and groundskeeping service currently represents a direct cost to SP, which is specifically billed to the department. Consequently, once the department assumes responsibility for these activities, the cost to SP and, therefore, the cost billed to the department, will decrease. The budget, however, does not reflect this reduced billing. We estimate that the 1984–85 SP budget includes $215,000 for janitorial services to state-owned stations, which is half financed with state funds and half financed with local

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

reimbursements. Accordingly, we recommend a reduction of $107,000 in state funds and $108,000 in reimbursements.

In summary, we recommend a total reduction of $199,000 in state funds and an increase of $16,000 in reimbursements for management and operation of commuter rail stations.

Commute Rail Station Studies Should Be Reimbursed.

We recommend a reduction of $244,000 from the Transportation Planning and Development Account (Item 2660-001-046) and an equal increase in reimbursements for commuter terminal studies because these studies should be funded with local funds and/or funds allocated by the CTC for transit capital improvements projects.

The budget proposes to spend $244,000 and two personnel-years to study six separate rail stations along the Southern Pacific commuter rail line for possible construction or relocation. These studies would be funded by a Budget Bill appropriation to the department.

We have identified alternative means for funding these studies.

1. ***Funding through local reimbursements.*** Information from the department indicates that three studies have been requested by local jurisdictions and local business interests. In fact, a proposed study of a Redwood City station received initial funding in the current year from Redwood City itself. The department indicates that state funding of that study now is warranted because "local funding is not now available." In our judgment, if the proposed terminal is of sufficient potential importance to the local community to be worth suggesting, the local jurisdiction should be willing to provide funds to finance a study of the proposal.

2. ***Funding through a CTC allocation.*** Under existing law, the California Transportation Commission (CTC) allocates state funds to specific commuter rail improvements and intermodal facilities. Consequently, any state funding for stations recommended for construction as a result of these studies would have to be allocated by the CTC. In the past, CTC allocations of this type have included funds for planning studies, such as the six proposed by the department. In the current year, for example, the CTC allocated $80,000 to the department from Transit Capital Improvement funds to study and perform engineering work on a rail terminal in San Jose. This allocation was matched with $80,000 in local funds. We find no reason to discontinue the practice of providing state funds for such studies through the CTC allocation, with the usual restrictions imposed by the commission regarding local contributions.

If either the local agencies or the CTC finance the proposed studies, the funds will be obtained by the department in the form of a reimbursement. Consequently, we recommend that Item 2660-001-046 be reduced by $244,000 and that reimbursements be increased by an equal amount.

TRANSPORTATION DEMONSTRATION PROJECTS

The Transportation Demonstration Projects element includes technical studies and demonstration projects undertaken by the department to improve transit equipment and services. The budget proposes to spend $396,000 for these projects in 1984–85, an increase of $109,000, or 38 percent, over estimated current-year expenditures of $287,000. State funds will pay for $189,000 (48 percent) of proposed budget-year expenses, and federal funds and reimbursements will pay the balance.

The proposed increase primarily reflects a $100,000 increase in state and federal fund expenditures for additional transit technical studies.

Transit Research Plans Should Be Clarified

We recommend that the Legislature adopt Budget Bill language (Items 2660-001-046 and 2660-001-890) restricting expenditure of funds for transit technical studies until 30 days after the Director of Finance submits a description of proposed studies to the fiscal committees and the Joint Legislative Budget Committee.

The federal Urban Mass Transportation Administration (UMTA) sponsors technical studies which are intended to improve public transit management and planning techniques. In the past, these studies have sought to (1) develop guidelines for regional transportation system management, (2) create a guidebook which establishes a uniform methodology for monitoring transit performance, and (3) compile detailed information on public transit and paratransit operators in the state.

The department indicates that UMTA has offered to increase federal funding from the current-year level of $70,000 to $150,000 in 1984–85. Under federal law, the state must pay 20 percent of the total cost of the studies. Consequently, the state will have to increase the amount allocated for matching funds by $20,000 above the current-year level, bringing the total to $37,500.

Our analysis indicates that the state can realize significant benefits from technical studies of transit systems at relatively little cost to the state. The department, however, has not yet developed proposals for the specific studies it will undertake in the budget year. Department staff indicate that final proposals may not be ready until the beginning of the budget year. Consequently, the Legislature has no basis to determine whether $37,500 in state funds should be spent for the studies in 1984–85.

To enable the Legislature to review decisions on how the funds should be spent, we recommend that it adopt the following language in Items 2660-001-046 and 2660-001-890 of the Budget Bill, which would prohibit the expenditure of funds on transit technical studies until 30 days after the Director of Finance has submitted to the fiscal committees and the Joint Legislative Budget Committee a description of the specific studies:

> "No funds shall be spent from this item to undertake transit technical studies until 30 days after the Director of Finance has submitted to the fiscal committees and the Joint Legislative Budget Committee a description of each transit technical study proposed for funding."

WORK FOR OTHERS

The Work for Others element includes work the department performs at the request of local public agencies. The cost of this work, which is totally reimbursed by those requesting it, will amount to an estimated $28,203,000 in 1984–85. This is a decrease of $50,549,000, or 64 percent, from estimated expenditures of $78,752,000 for reimbursed work in the current year. This decrease reflects two factors. *First,* current-year expenditures are unusually high because they include $47.9 million in reimbursed capital outlay expenditures for the Sacramento light rail project. *Second,* the department proposes to reduce its involvement in local guideway development projects on a reimbursed basis, for a savings of $2,717,000.

Local project staff indicate that the proposal to reduce the department's involvement in local guideway projects will not affect the implementation of their projects.

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Light Rail Vehicles Mistakenly Budgeted for Next Year

We recommend a reduction of $25 million in reimbursements to the Transportation Planning and Development Account (Item 2660-001-046) budgeted for the purchase of light rail vehicles, because the vehicles will be purchased during the current year.

The department has been providing engineering services to the Sacramento Transit Development Agency (STDA) during the development of a light rail system in Sacramento. As part of its involvement in the project, the department purchases all the materials and manages the construction of the project, and is fully reimbursed for its costs.

In January 1984, the STDA awarded a contract for the purchase of vehicles for the light rail system during the current year, and the budget correctly reflects that expense. The budget, however, also includes $25 million to buy the vehicles next year. The department explains that this was a technical error.

Consequently, we recommend that reimbursements in 1984–85 be reduced by $25 million.

RIDESHARING

The Ridesharing element provides funds to increase the number of people who ride together in vehicles when commuting to work or taking recreational trips. Funds are used primarily to (1) match people traveling by motor vehicle to and from nearby locations, and (2) encourage employers to establish ridesharing programs. The budget proposes to spend $9,704,000 in 1984–85 for activities to promote ridesharing, an increase of $1,233,000, or 15 percent, over estimated current-year expenditures of $8,471,000. This increase primarily reflects a $937,000 increase in reimbursed ridesharing services that the department expects to provide to local areas.

Transfer Item for Ridesharing Tax Credit Omitted

We recommend that the Legislature add Item 2660-021-046 to the Budget Bill transferring $1.5 million from the Transportation Planning and Development Account to the General Fund in order to compensate the General Fund for revenue losses resulting from ridesharing tax credits.

Chapter 844, Statutes of 1981 (SB 321), authorizes businesses to claim tax credits and deduct as business expenses those expenditures related to the purchase of vans for ridesharing purposes. Chapter 844 also requires the Budget Act to transfer funds from the TP and D Account to the General Fund to compensate the General Fund for revenue losses resulting from the measure.

The budget estimates that Chapter 844 will reduce General Fund revenues by $500,000 during the 1984 tax year. The estimated reduction in revenues is $200,000, or 67 percent, more than the reduction funded in the current year. The Budget Bill, however, does not include any provision to transfer the TP and D Account funds to the General Fund to compensate the General Fund for revenue losses incurred in the 1984 tax year.

Furthermore, discussions with Franchise Tax Board staff indicate that the $500,000 estimate of revenue losses probably is low. In the 1981 tax year, the first year in which the credits were available, the revenue loss attributable to Chapter 844 totalled $113,000. This loss increased to $981,000 in 1982. Based on discussions with the board staff, we conclude that the revenue loss in the 1984 tax year will be closer to $1.5 million.

Consequently, we recommend that in accordance with current law, Item 2660-021-046 be added to the Budget Bill to transfer $1.5 million from the TP and D Account to the General Fund.

TRANSPORTATION PLANNING

The Transportation Planning program is responsible for coordinating and improving the quality of statewide transportation planning in the state. The Transportation Planning program contains three elements: (1) *Statewide Planning,* (2) *Regional Planning,* and (3) *Work for Others.*

The budget proposes an appropriation of $8,599,000 from the TP and D Account for support of the planning program in 1984–85.

State operations are budgeted to increase by $1,118,000, or 20 percent (to $6,567,000), over estimated current-year expenditures of $5,449,000. Local assistance expenditures are budgeted at the current-year level of $2,032,000. The budget also proposes to subvene $7 million in federal funds to metropolitan planning organizations, and will spend $2,006,000 from reimbursements for planning assistance to regional planning agencies. Accordingly, the total proposed expenditure in 1984–85 for the Transportation Planning program is $17,605,000, which is $1,449,000, or 9 percent, greater than estimated current-year expenditures of $16,156,000.

Program staff are budgeted at 118 personnel-years, which is 24.2 personnel-years, or 26 percent, greater than the current-year levels of 93.8. This staffing increase reflects:

- An increase of $960,000 and 25.2 personnel-years for an expansion of system planning activity.
- An increase of $164,000 and four personnel-years for environmental review of a rapid rail transit project, which is fully reimbursable.
- A decrease of five personnel-years and $219,000 in reimbursements attributable to work for others.

Expansion of Systems Planning Activity

We recommend a reduction of 20.6 personnel-years and $752,000 from the State Highway Account (Item 2660-001-042) and corresponding increases in the Transportation Planning and Development Account (Item 2660-001-046) to consolidate the department's highway systems planning activity's budget into the Transportation Planning program.

During the current year, the department began an effort to improve its long-range planning of highway projects. As part of this effort, the department plans to develop route concept reports and route development plans for 25 percent of the highway system by 1985, and prepare reports and plans for the rest of the system by 1986.

For each route, these reports and plans will describe (1) the characteristics of the existing highway with respect to safety and traffic levels, (2) the impact of economic growth on highway service levels, and (3) the estimated cost of selected highway improvements.

The department has allocated 27.8 personnel-years to this effort in the current year. Of this, 20.6 personnel-years have been budgeted arbitrarily in the Highway Transportation program. The remaining 7.2 personnel-years are in the Transportation Planning program. The staff supported by

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the Highway Transportation program perform the same duties as staff assigned to the Transportation Planning program.

The department proposes to continue supporting (1) the 20.6 personnel-years from the Highway Transportation program, at a cost of $752,000 and (2) the 7.2 personnel-years and $265,000 from the Transportation Planning program, in 1984–85. In addition the department requests an increase of 25.2 personnel years and $960,000 in the Transportation Planning program for development of reports and plans in 1984–85. Thus, the department is proposing a total staffing level of 53 personnel-years for these activities, a 91 percent increase from the current-year staffing levels. The department estimates that it can complete approximately 200 route concept reports and 250 route development plans during the budget year with these resources.

We recommend approval of the department's request to increase its staffing for the systems planning activity. Our analysis indicates, however, that the 20.6 personnel-years budgeted for systems planning from the Highway Transportation program instead should be budgeted in the Transportation Planning program, for three reasons.

First, the department's efforts, although related to highway development, clearly constitute a planning activity and, therefore, properly should be funded through the Transportation Planning program. *Second,* due to the way the department accounts for its expenditures for individual activities, budgeting the activity in two programs needlessly complicates the department's accounting. *Finally*, budgeting the planning activity in one program makes it easier for the Legislature to identify the actual cost of the activity. For these reasons, we recommend that $752,000 and 20.6 personnel-years budgeted for systems planning in the Highway Transportation program instead be funded in the Transportation Planning program, and that, consistent with existing policy, the source of funding be shifted from the State Highway Account (Item 2660-001-042) to the TP and D Account (Item 2660-001-046).

Possible Federal Funding for Systems Planning

The department annually receives Highway Planning and Research funds from the Federal Highway Administration (FHWA) for various planning and research projects. California receives these funds after the FHWA approves a list of projects proposed by the department for federal fund participation. For the current year, the department has requested that FHWA finance only a portion of the highway systems planning activity that it proposes to conduct.

If the entire program for 1984–85 were submitted to the FHWA for funding, a larger portion of the program might be supported with federal funds, and thereby reducing the need for state support. We intend to review the list of projects proposed by the department for federal funding next year and will advise the fiscal committees prior to budget hearings on the feasibility of securing additional federal funding for the systems planning activity.

Rapid Rail Transit Project

A private corporation has proposed to build a high-speed passenger railroad between Los Angeles and San Diego. The corporation has requested that the department serve as lead agency during the state environmental review process. The department will be fully reimbursed by the private corporation for its efforts, pursuant to existing law.

The budget proposes to spend $164,000 and four personnel-years from the Transportation Planning program for the department's activities as lead agency in the rapid rail transit project. The department indicates that its personnel needs may change as the budget year progresses, depending upon the status of this project and similar projects which other companies may propose. Should reimbursements and/or staff in excess of the $164,000 and four personnel-years proposed in the budget be required, we expect that the department would inform the Legislature pursuant to Section 28 of the Budget Act.

ADMINISTRATION

The Administration program contains the business, legal, management and other technical services necessary to support the department. This program has four elements: (1) *Program Administration*—budgeting, business and fiscal management, training and data processing; (2) *General Administration*—personnel, program evaluation, employee relations, public information and financial control; (3) *Professional and Technical Services*—legal services, transportation laboratory and other technical services; and (4) *External Costs*—tort liability payments, pro rata charges and Board of Control claims.

The budget proposes an expenditure level of $299.4 million for this element in 1984–85. This is an increase of $36.6 million, or approximately 14 percent, over estimated current-year expenditures of $262.8 million. The increase includes (1) $18.5 million for computer equipment purchases, increased services from the Teale Data Center, and start-up costs associated with a data processing information center, (2) $2.2 million for additional equipment services and repairs, (3) $3.0 million for additional maintenance materials, (4) $1.6 million for miscellaneous service level increases, and (5) cost increases.

The department requests an increase in staffing from the current-year level of 2,754.7 personnel-years to 2,765.8 personnel-years in 1984–85. The increase of 11.1 personnel-years is the net result of (1) an increase of 40.1 personnel-years for additional staff for equipment services and other technical support, and (2) a reduction of 29 personnel-years due to office automation, consolidation of administrative functions, and minor service reductions.

Significant Increase in Computer Applications Initiated

For 1984–85, the department is proposing a substantial change in its operations by increasing significantly its use of computer applications. This change has been evolving during the past few years with the implementation of various financial, accounting, and management information systems. The department's reliance on automated data processing also is indicated by the fact that over 25 percent of the Teale Data Center (TDC) expenditures represent services to the department, making the department by far the largest user of the data center. For the current year, TDC services will cost the department approximately $10.5 million.

With the expansion of the highway capital outlay program made possi-

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ble by the increase in federal highway funds, the department has been expanding its capital outlay support staff, particularly in the areas of design and engineering. To assist the additional staff, and as a possible means to increase the total production of project plans and designs, the department is (1) exploring the feasibility of increasing the use of computers for design and engineering work, and (2) proposing a significant increase in computer applications for engineering activities in 1984–85. Consequently, the budget is requesting $17.7 million for the procurement of computer equipment and software in 1984–85.

Review of the department's various feasibility study reports for additional data processing applications, and discussions with staff indicate that the department has decided on a multiphase process to increase accessibility. Therefore, the use of computer facilities for capital outlay project support activities will be implemented over several years.

Current year expansion. In 1983–84, the department is upgrading its use of timesharing services provided through the Teale Data Center by (1) increasing the number of available terminals and printers in the department, (2) acquiring upgraded terminals which perform at significantly greater speed, and (3) improving communication lines with the data center. This effort is intended to reduce turnaround time for engineering work. The increased services are scheduled to be in place by the beginning of 1984, providing approximately 168 terminals for engineering use (compared to the previous number of 80), and another 100 terminals for other departmental functions. To accommodate the expanded service, the department is also leasing two timesharing central processing units at TDC, which essentially are fully dedicated to the department's use.

Request for Integrated Design System Overstated

We recommend a reduction of $1,604,000 from the State Highway Account (Item 2660-001-042), because the amount requested for the statewide implementation of a computer-aided design system is overstated. We further recommend that Budget Bill language be adopted providing that the approved amount can only be expended on necessary computer equipment and related expenses deemed appropriate by the State Office of Information Technology (SOIT) after SOIT has reviewed and approved the results of a pilot project and the department's amended feasibility study report.

Beyond increasing the accessibility of computer terminals to its staff, the department is examining the possibility of changing the department's basic method of designing highways. Specifically, the department is proposing to use the latest computer technology by implementing computer-aided design (CAD) systems to facilitate project development work.

Current-year pilot project. After reviewing various CAD systems available for highway engineering and design, the department has chosen to adopt a software system, Roadway Design System/Interactive Graphics Roadway Design System (RDS/IGRDS), which has been developed by the Texas Department of Highway and Public Transportation, under a grant from the Federal Highway Administration. The RDS is being used by 16 different state transportation departments. The IGRDS is relatively new, and enhancements to the system are still being developed by the

Texas department. According to the department, RDS corresponds well with the existing design system used in California. In addition, because RDS/IGRDS is in the public domain, the state only will have to pay the cost for annual software system maintenance.

To implement the chosen CAD system, the department is proposing to use a computer equipment configuration similar to what Texas uses. The Texas integrated design system, which was established in 1982, has been implemented in six regional centers, each having its own independent computer equipment.

Because the use of CAD in highway engineering and design is still relatively recent, the configuration of equipment, the capacity required to satisfy the department's need, and the effectiveness of any such system in enhancing productivity and efficiency are relatively untested. Consequently, the department is proposing to initiate in April 1984 a *pilot project* to test the appropriateness of the RDS/IGRDS system in two district locations—San Francisco and Los Angeles. The feasibility study report (FSR) for this pilot project has been approved by the State Office of Information Technology (SOIT) in the Department of Finance.

The length of the pilot project is six months—from April to October 1984, after which time, the department proposes to proceed with statewide implementation of the system. The SOIT, however, indicates that, depending on the implementation of the pilot project, it might be necessary to extend the testing period to nine months. In addition, SOIT has indicated that, in order to proceed with statewide implementation of the system, the department will need to submit and obtain SOIT approval of an amended FSR supported by a post-implementation evaluation report of the pilot project.

Budget-year funding is requested. In anticipation that the CAD system will be implemented statewide in 1984–85, the department is requesting $15 million to buy the necessary equipment, as envisioned in its feasibility study report for the pilot project. Discussions with department and SOIT staff, as well as our own review of the FSR, indicate that:

1. ***The project appears to be cost-effective.*** Total cost savings and cost avoidance over a five-year period as a result of statewide implementation is projected at over $88 million. Compared to the estimated total project cost of about $25 million over five years, the project appears to be highly cost-effective.

2. ***The system configuration in the FSR is uncertain.*** The final equipment needed for statewide implementation still is unknown, and will depend upon the findings and results of the pilot project. For this reason, SOIT is requiring an amended FSR to be submitted after the pilot project results have been evaluated. Based on the amended FSR, there might be changes to the amount and capacity of equipment to be acquired.

3. ***The budget-year request is too high.*** Even if the final system configuration remains the same as detailed in the FSR, the total equipment cost is less than requested in the budget. The FSR projects 1984–85 statewide implementation costs of $13,934,000, including (a) $13,396,000 for equipment, site preparation, software maintenance and staff training, and (b) $538,000 for additional staff. Discussions with the department indicate that it probably will not require the additional staff for the first year of implementation, and, therefore, is not requesting the personnel-year increase. Any staff needed in 1984–85 will be redirected from existing staff. Consequently, the budget request of $15 million is $1,604,000 higher

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than what will be needed.

Accordingly, we recommend that funding to implement the CAD system statewide be reduced by $1,604,000. In order to restrict the use of funds requested for implementation of the CAD system, we further recommend that the following Budget Bill language be adopted:

"Up to $13,396,000 appropriated in this item can be expended for the necessary equipment and other related expenses of a computer-aided design and drafting system only after the State Office of Information Technology (SOIT) has reviewed and approved an amended feasibility study report for the statewide implementation of an integrated design system, supported by a post implementation evaluation report on the corresponding pilot project. The amount spent shall not exceed that amount approved by SOIT in its review of the amended feasibility study report."

Request for Distributed Data Processing Equipment Premature

We recommend a reduction of $2,700,000 from the State Highway Account (Item 2660-001-042), because the proposal to procure computers for implementation of the distributed data processing project is undefined and premature.

The department has submitted a feasibility study report (FSR) for the installation of a computer in its Office of Structural Design in Sacramento. This computer would be dedicated for engineering work. This FSR is currently being reviewed by SOIT. If approved, the equipment will be bought and installed during the current year. The Sacramento project is estimated to cost $4.1 million over four years, with anticipated cumulative benefits of $5.8 million, a net savings of $1.7 million. The department considers this project to be a first step towards a statewide distributed data processing (DDP) system, in which district offices would have independent minicomputers for data processing purposes.

The department is requesting $2.7 million in 1984–85 to purchase four computers to be located in Sacramento and three district offices as part of the statewide implementation of the DDP project. Our review finds three problems with the department's request.

1. ***Justification for the additional equipment is lacking.*** There is little or no relationship between the current FSR under review and the requested $2.7 million. Although the department considers this project to be a distributed data processing project, discussions with SOIT indicate that the FSR addresses an independent project and will be reviewed as such, rather than as a proposal for statewide implementation of a distributed data processing project. Another FSR, therefore, would be required for statewide implementation of a DDP project. In addition, the department has not been able to provide any detailed justification for the request beyond the FSR currently under review. Consequently, there is no basis for us to evaluate the need for any equipment for other locations.

2. ***Any proposal for statewide implementation should consider (a) the needs for all districts as a whole instead of the needs of each district independently, and (b) the impact of the project on the Teale Data Center.*** The department accounts for a major portion of the timesharing services provided by the Teale Data Center. Consequently, departmentwide distributed data processing, with districts having their own

computer equipment, might have a significant impact on TDC's operations and finances. Because Teale's rates to users are set at a level to recover the data center's fixed overhead, any reduction in the department's use of the data center undoubtedly would reduce revenues more than costs. Consequently, the data center's rates for its remaining customers would have to increase. Unless the potential impact of the statewide implementation proposal on TDC and, therefore, on other state agencies is considered, the true impact of this proposal on the state may be ignored.

In addition, by treating districts separately and independently, the department may fail to examine (a) the overall level of personnel needed to support the statewide system, and (b) the statewide configuration of equipment, including the potential for efficiency and cost savings which might be achieved through the sharing of higher-capacity equipment by districts. This is particularly important, given that the manufacturer of the equipment which the department intends to purchase does not anticipate any improvement or upgrades to the product. Consequently, the capacity of the equipment could not be expanded beyond what is currently available.

3. ***The proposal should be integrated with the statewide implementation of the computer-aided design (CAD) system in order to establish a coherent network of equipment without duplication.*** Under the current CAD system's statewide implementation proposal, there could be six regional centers (including the Sacramento design unit), each with its independent computer equipment for engineering design. At the same time, according to the department, the statewide DDP project will result in similar computer equipment being installed in all 11 districts. Although the department recognizes potential redundancy in its equipment request, it has not been able to identify the areas of duplication in any detail. In fact, it might not be able to do so until the CAD system is in place and the department has had an opportunity to evaluate the additional computer capacity needed. Consequently, in our judgement, the statewide DDP should not proceed independently, apart from the CAD system implementation.

For these reasons, we conclude that the department's request for $2.7 million for computer equipment is not justified at this time. Accordingly, we recommend that this amount be deleted from the department's budget.

Cost for Information Center Overstated $50,000

We recommend a reduction of ~~$82,000~~ from the State Highway Account, (Item 2660-001-042) because the cost of staffing an information center for computer users is overstated.

As part of the department's efforts to increase the use of computers, the department is proposing to establish a data processing information center to (1) consult with computer users to identify needs and appropriate tools, (2) procure and install equipment and software, (3) train staff without computer experience in the use of automated systems, (4) provided technical assistance to users, and (5) identify processes which could be performed more efficiently through automation.

Our review indicates that an information center is useful when it acts to coordinate the procurement of equipment so that unnecessary duplication can be avoided. Also, information centers can prevent fragmented approaches to solving problems with computer equipment. Finally, an information center can help users and reduce the demand on programming staff.

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The department is requesting $250,000 to start an information center in 1984–85. It intends to use these funds to redirect the equivalent of five personnel-years in existing staff to the center and contract for a certain amount of the work that these positions otherwise would perform. The department, however, has not identified either the type or the actual amount of work to be contracted.

Our analysis shows that, if the department were to hire new staff for the center, which will be operated on a permanent basis, or use its own staff to perform the work that would be contracted out, the cost in 1984–85 would be $168,000—$82,000 less than the amount budgeted. We see no reason why the department should spend more money under a contract than it would have to spend to perform the work itself. Accordingly, we recommend that the department's budget be reduced by $82,000.

TRAMS Contract Will Expire

We recommend a reduction of $201,000 requested from the State Highway Account (Item 2660-001-042) for a consulting contract to implement a financial and accounting system because the system will be implemented in the current year.

During the current year, the department has implemented a new financial and accounting system known as the Transportation Accounting and Management System (TRAMS). The new system has been installed by a private consulting firm under contract to the department.

The department indicates that the system is now in operation. Although post-implementation evaluation of the project was to begin in January, 1984, it should be completed by the end of the current year. Accordingly the consulting contract will not be needed in 1984–85. The budget, however, includes $201,000 for the TRAMS contract for 1984–85. We recommend that the amount be deleted from the department's budget.

Road Equipment Request Too High $1,611,000

We recommend a reduction of ~~$2,211,000~~ from the State Highway Account (Item 2660-001-042), because the amount requested for vehicles and road equipment has been overstated. Plus supplemental report language to document past emergency equipment expenses.

The department has a current road equipment inventory of over 12,300 vehicles, consisting of approximately 3,000 passenger vehicles, 5,200 trucks, and 4,100 construction and maintenance equipment items. Of the total inventory, approximately 11,300 vehicles and pieces of road equipment are currently in the work inventory. The remaining items either are being modified to fit the department's needs, or are scheduled to be sold.

A portion of the total equipment in use is replaced annually. In addition, the department adds to the existing inventory of equipment when workload warrants such increases. For 1984–85, the budget indicates that $31,338,000 will be spent for various equipment, including road equipment, telecommunications and word processing equipment.

Our analysis indicates the requested amount is excessive for three reasons.

1. ***Total identified equipment needs are less than the budgeted amount.*** The 1984–85 budgeted amount includes a net expenditure of $26,179,000 for road equipment. The department's road equipment budget detail,

however, shows a total of $25,091,000, which is $1,088,000 less than the budgeted amount.

2. ***The road equipment request includes funds for unplanned, unidentified purchases.*** The budget includes $1 million for unplanned and unidentified purchases. In our judgment, it is not appropriate to include funds for unspecified equipment since the Legislature has no workload or other indicators of need with which to evaluate the department's request. Accordingly, we recommend the request be reduced by $1 million.

3. ***The cost of replacement equipment is overestimated.*** The department proposes to acquire a total of 1,008 items of equipment, including 841 items for replacement purposes. Our review indicates that, although the number of items for which funding is requested appears to be reasonable, the projected costs of these items are too high. Using prices projected by the Department of General Services, which purchases all of the department's vehicles, we estimate that the cost of replacement equipment will be $123,000 lower than the requested amount.

For the above reasons, we recommend that the department's budget for equipment replacement be reduced by $2,211,000.

Department Should Identify All Equipment Needs

We recommend that the Legislature adopt supplemental report language directing the department to budget for equipment according to assessed needs, and to identify the equipment requested for any budget year.

In addition to the request for road and vehicular equipment, for which the department provides a listing of the items to be acquired, the department's budget also includes an amount for miscellaneous equipment, based on past expenditures. For 1984–85, the budget includes $2.7 million for various equipment for the Highway Transportation program.

This budgeting practice is not consistent with guidelines and instructions contained in the State Administrative Manual, which directs agencies to budget for equipment according to identified needs. In addition, the department has no justification for the requested amount in the form of a listing of equipment to be acquired based on assessed needs and priorities. Thus, for any one year, the budgeted amount could be either in excess of, or less than actual needs. Moreover, the Legislature has no way of determining whether the requested amount is appropriate.

The department recognizes the shortcomings of the current budgeting practice, and has initiated changes in the current year designed to produce an equipment budget that is based on assessed needs. To ensure that the department implements the needed changes, we recommend that the Legislature adopt the following supplemental report language:

> "The Department of Transportation shall budget for equipment in a manner consistent with State Administrative Manual guidelines. In addition, the department shall identify the equipment needed for any budget year in justification of the requested amount."

Additional Equipment Service Personnel Overbudgeted

We recommend a reduction of $395,000 from the State Highway Account (Item 2660-001-042), because additional personnel-years requested for equipment services have been overbudgeted.

The Division of Equipment is responsible for maintaining and performing routine repairs of the vehicular equipment of the department. For the

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

current year, 647.4 personnel-years are being spent on equipment service activities, at a cost of $20,634,000. The department is proposing to increase staff services by 10 personnel-years in 1984–85 in order to accommodate the increased workload resulting from additional equipment in its inventory. The additional staff also will be needed to convert, maintain and repair certain obsolete vehicles to be used as barrier vehicles to ensure employee safety at roadway and roadside worksites.

Our analysis indicates that the additional personnel-years are warranted. The department, however, is requesting $73,100 per personnel-year, for a total of $731,000. This is significantly higher than the $33,640 per personnel-year cost used to budget for existing staff in 1984–85. We can find no reason to budget for new employees at the higher rate. Accordingly, we recommend that the department's budget be reduced by $395,000 to correct for overbudgeting.

Interagency Agreements Overbudgeted

We recommend a reduction of $277,000 from the State Highway Account (Item 2660-001-042), because the amount requested for interagency agreements is overstated.

The department contracts with other state agencies for various services. Our review indicates that the department's 1984–85 request for interagency agreement payments is overstated for two reasons:

1. ***Services from the Department of Housing and Community Development (HCD) (Item 2240), will be lower than estimated.*** For the past several years, the department has contracted with HCD to assist it in the disposal of surplus residential properties along a route in Los Angeles which has been rescinded. These properties are being offered for sale to low- and moderate-income families, according to guidelines set in current law. As the number of surplus units still to be disposed of declines, HCD anticipates its workload will decline accordingly. Thus, HCD projects that it will require $112,000 from the Department of Transportation in 1984–85. The department's budget request, however, includes $374,000 for HCD services along this route, which is $262,000 too high.

2. ***Services from the Native American Heritage Commission (Item 8280), are projected to be less.*** Our analysis of the Native American Heritage Commission's budget indicates that the commission has overestimated the amount of reimbursed services to be performed for the department. Consequently, we have recommended that reimbursements to Item 8280-001-001 be reduced by $15,000. Accordingly, the department's budget request should be adjusted by the same amount.

Cost Recoveries are Too Low

We recommend a reduction of $1,221,000 in the State Highway Account (Item 2660-001-042) to reflect a higher level of cost recoveries than budgeted.

The department's operating expenses reflect the total anticipated cost of activities other than for personnel, and includes expenditures on items such as vehicles, highway maintenance and construction materials. The department, however, is able to recover part of these costs, and thereby reduce the net cost to the state, through (1) payments for damages caused by others to the department's property, such as road signs, and (2) recoveries for the sale of items such as excess material, salvaged items and equipment. These cost recoveries are treated as reimbursements, and reduce the need for appropriated funds.

Our review shows that while the department budgets for cost recoveries, it also budgets for any uncollectible claims for damages as "bad debts". For 1984–85, the budget includes $5,037,000 for cost recoveries and $988,000 for "bad debts". Our analysis indicates that the current budgeting practice results in overbudgeting for two reasons.

1. ***Cost recoveries are too low, based on past actual experience.*** In our *Analysis of the 1983–84 Budget Bill,* we showed that the amount budgeted for cost recoveries was significantly lower than past actual abatements. Subsequently, the Legislature approved an increase in the amount budgeted for cost recoveries, bringing it to $5 million. We recognize that cost recoveries are somewhat unpredictable. Nevertheless, given that actual recoveries for 1982–83 were $6.2 million, the $5 million estimated for the current year is not unreasonable. If the Department of Finance's standard inflation adjustment is applied equally to all operating costs, and, therefore, to cost recoveries, the budgeted amount for 1984–85 should be $5,300,000, or $233,000 more than the $5,067,000 that the budget reflects for recoveries.

2. ***"Bad debts" should not be budgeted as an expenditure if cost recoveries are budgeted based on past actual receipts.*** The department explains that "bad debts" are identified separately from "cost recoveries" mostly for accounting purposes. "Bad debts" in effect, would be that portion of *anticipated potential* cost recoveries (that is, the total cost of damages) which eventually cannot be collected. Because, however, the department budgets cost recoveries on the basis of actual revenues (that is, net of "bad debts"), budgeting bad debts separately constitutes *double-budgeting.* Consequently, the $988,000 allowed for "bad debts" should be deleted from the budget .

For these reasons, we recommend the department's budget be reduced by $1,221,000.

Revert Unnecessary Appropriation

We recommend that the Legislature adopt Budget Bill language (Item 2660-001-890) requiring that, when state funds are budgeted for a purpose for which federal funds subsequently become available, the state funds be reverted to the appropriate fund.

During the budget year, the department anticipates receiving federal funds as reimbursements for costs incurred by the department. For example, the budget proposes an appropriation of $191,000 in federal funds to reimburse the department for the costs of administering an Urban Mass Transportation Administration program which finances specialized transit vehicle purchases by nonprofit agencies.

In addition, the budget also proposes using state funds for certain activities that could be eligible for federal reimbursement, but for which federal funds are not yet available. The budget, for example, proposes to spend $97,000 in state funds to pay administrative costs related to the acquisition of stations along the San Francisco-San Jose rail passenger service. The department indicates, however, that federal funds may become available during the budget year to pay a portion of these costs. If this occurs, the state money which would have been spent on these activities would become available for other department activities without prior legislative review.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

We recommend that, if federal funds subsequently become available for purposes for which state funds are budgeted, the state funds revert to the account from which they were appropriated. Otherwise the department may find itself able to initiate or expand activities during the year, using funds appropriated by the Legislature for other purposes, without prior legislative review.

To prevent this from happening, we recommend that the Legislature adopt the following Budget Bill language:

"Any state funds appropriated for any activity which are no longer needed because of the receipt of federal funds in excess of the amount appropriated by this act for such an activity, shall not be encumbered for any purpose and shall revert to the unappropriated surplus of the fund from which the appropriation was made."

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATIONS

Items 2660-490, 2660-491, and 2660-492 from various funds — Budget p. BTH 67

ANALYSIS AND RECOMMENDATIONS

We recommend that Item 2660-490 be amended to reappropriate the unliquidated balances of the specified appropriations, rather than the unencumbered balances, to permit the projects to proceed.

The budget proposes the reappropriation of transportation funds in three Budget Bill items. Two of the items (2660-491 and 2660-492) reappropriate funds from the State Highway Account for purposes previously approved by the Legislature or the California Transportation Commission. We recommend approval of these two reappropriations.

The third item, 2660-490, proposes to reappropriate the unencumbered and unobligated balances of three appropriations from the Transportation Planning and Development Account. Each of the projects funded with these appropriations has been delayed for various reasons. The budget requests that the funds be reappropriated in case outstanding bills cannot be paid by June 30, 1984, the last day that the funds would be available under existing law.

Our analysis indicates, however, that reappropriating the *unencumbered* balance, as the budget proposes, will not allow the department to pay any of its outstanding obligations, because the funds in question have already been encumbered. Instead, the *unliquidated* balance should be reappropriated and made available for liquidation until June 30, 1985. This would permit the projects to be completed as proposed. Consequently, we recommend that Item 2660-490 be amended to read:

"2660-490—Reappropriation, Department of Transportation.

Notwithstanding any other provisions of law, the unliquidated balances, or the portion thereof as specified in this item, on the effective date of this act, of the appropriation provided in the following citations, are reappropriated for the purposes provided for in such appropriations and shall be available for liquidation until June 30, 1985.

Transportation Planning and Development Account, State Transportation Fund:

(1) Section 71 (c) (2) (A), Chapter 161, Statutes of 1979—Chico and Marysville Station Improvements.
(2) Section 71 (c) (2) (C), Chapter 161, Statutes of 1979.
(3) Item 266-101-046, Budget Act of 1981—BART Vehicle Firehardening Project."

Business, Transportation and Housing Agency

OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds — Budget p. BTH 87

Requested 1984–85	$489,000
Estimated 1983–84	322,000
Actual 1982–83	128,000
Requested increase (excluding amount for salary increases) $167,000 (+51.9 percent)	
Total recommended reduction	35,000
Recommendation pending	250,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2700-001-044	Support	State Transportation, Motor Vehicle Account	$239,000
2700-001-464	Support	First Offender Program Evaluation	250,000
2700-001-890	Support and State Grants	Federal Trust	(5,100,000)
2700-101-890	Local Assistance	Federal Trust	(3,400,000)
Total			$489,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Director's Position. Reduce amount budgeted by $79,000 and transfer $58,000 of that amount to the grant program. Reduce Item 2700-001-044 by $21,000.*** Recommend reduction because (1) director's salary should be paid directly by OTS, for a savings in staff benefits of $2,000, and (2) the assistant secretary's position in OTS can be deleted, for a savings of $77,000. — 453
2. First Offender Evaluation. Withhold recommendation on request for evaluation of DUI programs, pending receipt of an evaluation project design. — 454
3. ***Consultant Services. Reduce amount budgeted by $50,000 and transfer $36,000 of that amount to grant program. Reduce Motor Vehicle Account appropriation by $14,000.*** Recommend reduction because (1) a less expensive alternative can be pursued to satisfy accounting needs, and (2) federal audit requirements can be met through existing pro rata services. — 455

OFFICE OF TRAFFIC SAFETY—Continued

GENERAL PROGRAM STATEMENT

The Office of Traffic Safety (OTS) is responsible for evaluating and approving all state and local highway safety projects supported by federal funds. In order to qualify for federal funding, these projects must (1) comply with uniform safety standards established by the federal Department of Transportation and (2) address highway safety problem areas identified by OTS. In addition, OTS is responsible for (1) updating the California Highway Safety Plan, (2) providing technical assistance to state and local agencies in the development of traffic safety plans, and (3) coordinating ongoing traffic safety programs.

The office is authorized 27.8 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $9,043,000 (all funds) to support state and local traffic safety activities and the administrative expenses of OTS in 1984–85. The proposed expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year. This amount budgeted consists of $8,500,000 in federal funds, $239,000 from the Motor Vehicle Account (MVA) in the State Transportation Fund, $250,000 from the First Offender Program Evaluation Fund, and $54,000 in reimbursements.

The amount proposed to be appropriated from the MVA is $27,000, or about 13 percent, above the estimated level of expenditures in the current year. In addition, the $250,000 requested from the First Offender Program Evaluation Fund is $140,000, or 127 percent, over current-year expenditures. The combined amount requested from these two sources—$489,000—is $167,000, or 52 percent, more than OTS is expected to spend in state funds during 1983–84.

The federal government currently provides 100 percent of the funds used for grants to state and local agencies, and approximately 67 percent ($1,109,000) of the funds needed to support OTS's administrative duties. The remaining 33 percent is financed from the Motor Vehicle Account ($239,000), First Offender Program Evaluation Fund ($250,000), and reimbursements ($54,000).

Administrative Support. In the budget year, OTS proposes total expenditures of $1,652,000 for program administration. This amount represents an increase of $204,000, or 14 percent, above estimated current-year expenses. The largest part of this increase—$140,000—is attributable to increased evaluation costs associated with the Driving Under the Influence (DUI) first offender programs operated in 56 of the state's 58 counties. Pursuant to Ch 1339/82, these costs are supported by a $5 fee assessed against participants in such programs.

Grants to State Agencies. Allocations to state agencies for traffic safety projects are proposed at $3,991,000 in 1984–85. This is an increase of $366,000, or 10 percent, over allocations in the current year. Projects funded in the current year include (1) specialized highway speed enforcement by the California Highway Patrol (CHP), (2) a review by the Department of Motor Vehicles of California's approach to the problem of DUI offenses, and (3) the Department of Justice's study on the effects of marijuana on a person's ability to drive. Grants allocated to state projects in 1984–85 represent 47 percent of available federal funds.

Local Assistance. Local agencies are scheduled to receive $3,-

400,000, or 40 percent of available federal funds, for traffic safety activities in 1984–85. Approximately 90 local agencies receive OTS grants each year for a variety of traffic safety purposes, ranging from alcohol and drug enforcement to emergency medical services. Federal regulations require that at least 40 percent of the funds provided to California be allocated to local agencies. The amount requested to fund local projects in 1984–85 represents a reduction of $1.3 million from 1983–84 levels.

Summary of Expenditures. Table 1 displays a summary of OTS expenditures for the prior, current, and budget years.

Table 1
Office of Traffic Safety
Summary of Expenditures
(1982–83 through 1984–85)
(in thousands)

Funding Source	*Purpose*	*Actual 1982–83*[a]	*Estimated 1983–84*[b]	*Percent Change*	*Projected 1984–85*	*Percent Change*
Federal Trust Fund	Administration	902	1,075	19.2%	1,109	3.2%
	Grants to state agencies	4,763	3,625	−23.9	3,991	9.2
Federal Trust Fund	Grants to local agencies	4,699	4,700	0.0	3,400	−27.7
Motor Vehicle Account[c]	Administration	128	212	65.6	239	12.7
First Offender Program Evaluation Fund	DUI Evaluation	-	110	NA	250	127.3
Totals[c]		$10,492	$9,722	−7.3%	$8,989	−7.5%

[a] Expenditures and encumbrances.
[b] Total amount available for expenditure.
[c] Excludes reimbursements.
Source: Office of Traffic Safety

ANALYSIS AND RECOMMENDATIONS

Overbudgeting of Management Positions

We recommend that the executive director of the Office of Traffic Safety be employed directly by OTS, rather than work under an interagency contract, thereby permitting a reduction of $2,000 in OTS staff benefits and the redirection of a similar amount to the grant program. We further recommend that the deputy secretary's position within OTS be eliminated, for a total reduction of $77,000 (consisting of Motor Vehicle Account savings of $21,000, and a redirection of $56,000 in federal funds).

In our *Analysis of the 1983–84 Budget Bill,* we reported to the Legislature that the Office of Traffic Safety carried out its duties and responsibilities in 1982–83 without the services of a *full-time* executive director. We also pointed out that (1) the part-time director of OTS, in addition to carrying out his OTS responsibilities, was also serving as a deputy secretary in the Business, Transportation, and Housing Agency, and (2) the federal government had informed OTS that it would no longer continue to fund the executive position which was shared by OTS and the agency. Because it appeared that the mission of OTS could be carried out effectively without the executive director position, we recommended that the position be eliminated altogether, for a savings of $66,000.

The Legislature approved funding for the executive director position

OFFICE OF TRAFFIC SAFETY—Continued

with the understanding that a full-time director would be appointed in the current year. That appointment occurred in August of 1983.

Our analysis indicates that the newly appointed director's position is not part of the OTS's 1984–85 personnel schedule. Instead, the director, who is currently a captain in the California Highway Patrol, will be supported by OTS on a reimbursement basis, using funds requested for consulting services, pursuant to an interagency agreement with the Business, Transportation and Housing Agency. Apparently, this circuitous method for funding the position was adopted so that the incumbent can continue to accumulate CHP retirement and disability benefits, even though the position he holds does not qualify for CHP benefits.

In addition, the budget provides funds so that OTS can *continue* to pay the salary of the deputy secretary in the Business, Transportation and Housing Agency. The deputy secretary's position, however, is also funded in the *agency's* budget, where it should be, given that only a small portion of the deputy secretary's duties relate to OTS. During the current year, the OTS is paying the deputy secretary's salary, although *no* interagency agreement is in effect which requires the agency to reimburse OTS.

In our judgment, neither of these arrangements is consistent with conventional administrative practices, and both are improper from a budgetary standpoint. In effect, the OTS is overpaying for its director position, since the costs of CHP officer retirement and disability benefits are not warranted by the job duties associated with the position. If, instead, the director were employed *directly* by OTS, as is the case for all other agencies of state government, $2,000 would be saved. It also would be consistent with the long-standing legislative policy that all personnel employed by CHP be utilized to fulfill that department's mission of enforcing the Vehicle Code.

In addition, double-budgeting for the deputy secretary's position not only adds unnecessarily to the state's budget, it could jeopardize the receipt of federal funds in the future.

Accordingly, we recommend that (1) the executive director of OTS be employed directly by the office, and the resulting savings of $2,000 in federal funds transferred to the grant program, and (2) the deputy secretary's position within the OTS budget be eliminated, for a total reduction of $77,000 (a *savings* of $21,000 in MVA funds, and a redirection of $56,000 in federal funds from administrative support to the grant program). Approval of this recommendation will in no way reduce the office's ability to administer its statutory duties.

First Offender Evaluation

We withhold recommendation on $250,000 requested to evaluate first offender programs for persons convicted of driving under the influence of alcohol or drugs, pending receipt of an evaluation project design in April 1984.

The Office of Traffic Safety is proposing an expenditure of $250,000 in 1984 to begin evaluating first offender programs serving persons convicted of driving under the influence of alcohol or drugs. The office expects to award a contract for the evaluation sometime in the budget year. In the current year, OTS is authorized to spend $110,000 for (1) a $95,000 contract with a consulting firm to research and develop a design for the evaluation project, and (2) administrative costs ($15,000).

Our analysis indicates that the amount requested for 1984–85 is not based on any quantifiable workload data. Rather, the amount appears to coincide with the amount of funds which the office expects to be available in 1984–85 for support of the evaluation project. In fact, *all* anticipated expenditures for the project through 1986–87 appear to be based solely on the amount of revenue generated by a $5 assessment on program participants.

This approach to budgeting is not acceptable. Expenditures should be based on needs, not on the amount of resources available. Moreover, this approach weakens the incentive to establish cost controls given that revenues have significantly exceeded original budget estimates.

According to OTS, the design for the project evaluation will be completed in April 1984. Accordingly, we withhold recommendation on the funding request for the initial year of the evaluation project until we have had an opportunity to review the research information, the project design, and the office's cost estimates.

Consultant Services

We recommend a reduction of $50,000 ($14,000 savings from MVA and redirection of $36,000 in federal funds to the grant program) in OTS consultant services because (1) there is a less expensive alternative for satisfying the office's accounting needs, and (2) federal audit requirements can be met by services provided through pro rata assessment.

Consulting and professional services to be utilized by the Office of Traffic Safety are budgeted at $325,000 in 1984–85. These services consist of (1) $250,000 anticipated for the first offender program evaluation project, (2) $25,000 for a microcomputer to handle accounting needs, (3) $30,000 for interagency auditing services, and (4) $20,000 for various public relations expenditures.

Our review indicates that the projected expenditures for the microcomputer and interagency auditing services are unnecessary.

Microcomputer. According to OTS staff, the purchase of a microcomputer, at a cost of $25,000, will permit the office to track the accounts of state and local agencies which have received federal highway traffic safety grants. The microcomputer would catalog and provide accounting information on approximately 100 agencies in any given year.

Our analysis indicates that the office's information processing needs could be met by one of the state's centralized data processing centers, at a cost of approximately $5,000 in 1984–85 and lesser amounts annually thereafter. Furthermore, the use of funds appropriated for consultant services to purchase a computer is inappropriate.

For these reasons, we recommend that the $25,000 budgeted for a microcomputer be reduced by $20,000. The remaining $5,000 should be adequate to purchase information processing services from a centralized data processing center. The $20,000 savings would then permit a reduction of $6,000 in the Motor Vehicle Account appropriation and redirection of $14,000 in federal funds to the grant program.

Auditing Services. The office proposes to contract in 1984–85 for auditing services to permit the OTS to comply with federal audit requirements. The office indicates that the Department of Finance and the State Controller will provide the needed services, at a total cost of about $30,000 in the budget year.

Our analysis indicates, however, that these auditing services are *already* scheduled as part of the office's pro rata expenses, thereby eliminating the

OFFICE OF TRAFFIC SAFETY—Continued

need for separate funding for this purpose. Therefore, we recommend a reduction of $30,000 in the OTS budget. This savings would permit a reduction of $8,000 in the MVA appropriation and a redirection of $22,000 in federal funds to the grant program.

In sum, we recommend a reduction of $50,000 in OTS's operating budget. This would permit a Motor Vehicle Account reduction of $14,000 and a redirection of $36,000 in federal funds to the grant program.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from the State Transportation Fund — Budget p. BTH 89

Requested 1984–85	$381,637,000
Estimated 1983–84	344,115,000
Actual 1982–83	305,682,000
Requested increase (excluding amount for salary increases) $37,522,000 (+10.9 percent)	
Total recommended reduction	9,655,000
Recommendation pending	186,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2720-001-044—Support		State Transportation, Motor Vehicle Account	$350,845,000
2720-001-050—Support		State Transportation, CHP Law Enforcement Account	30,792,000
2720-001-890—Support		Federal Trust	(180,000)
Total			$381,637,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Cost-Effectiveness of AB 202 Program. Recommend the adoption of supplemental report language directing the CHP to report to the Legislature, by December 1, 1984, on the cost-effectiveness of the AB 202 Program. 458
2. ***Overtime. Reduce Item 2720-001-050 by $102,000.*** Recommend reduction because overtime for AB 202 traffic officers has been overestimated. 460
3. ***Staff Benefits. Reduce (1) Item 2720-001-050 by $96,000 and (2) Item 2720-001-044 by $21,000.*** Recommend reduction because the rate of workers' compensation benefits should not vary for uniformed personnel. 460
4. ***Telecommunications Expenses. Reduce (1) Item 2720-001-050 by ~~$199,000~~ and (2) Item 2720-001-044 by $4,546,000.*** Recommend reduction because (1) funds for certain projects will not be needed in 1984–85 and (2) savings resulting from the purchase of telephone systems have not been reflected in the budget. 463

*197,000

5. ***Gasoline Expenses. Reduce Item 2720-001-044 by $1,917,000.*** Recommend reduction because (1) the price per 465

gallon of fuel is overstated and (2) gasoline expenses for AB 202 officers are double-budgeted. $121,000

6. ***Reimbursements.* *Reduce Item 2720-001-044 by ~~$735,000~~.*** Recommend reduction because the budget understates reimbursements by $735,000. 466 DEFER REMAINING AMT. TO FINANCE LETTER
7. Communication Terminals. Recommend adoption of Budget Bill language allowing purchase of communication terminals only after the State Office of Information Technology has reviewed and approved a feasibility study report and bid specifications. 466
8. ***Office Building Reroofing.* *Reduce Item 2720-001-044 by*** $790000 ***~~$108,000.~~*** Recommend reduction because amount budgeted for reroofing exceeds what comparable agencies are paying. Further, recommend adoption of Budget Bill language to prohibit the expenditure of funds until a moisture contour map has been produced. 467 $161,000
9. ***Helicopter Expenses.* *Reduce Item 2720-001-044 by ~~$180,000.~~*** Recommend reduction because expenses for helicopter maintenance and insurance are overbudgeted. 469
10. ***Aircraft Replacement.* *Reduce Item 2720-001-044 by $21,000.*** Recommend reduction because the purchase price for two fixed-wing aircraft is overstated. 470 WITHDREW RECOMM.
11. ***Operating Expenses.* *Reduce Item 2720-001-044 by ~~$907,000.~~*** Recommend reduction because various operating expense items are incorrectly budgeted or unjustified. 471 $870,000
12. ***Vehicle Purchase.* *Reduce Item 2720-001-044 by $247,000.*** Recommend reduction because the price of motorcycles is overstated and cost abatements have not been properly applied to the purchase price. 473 AMOUNT SUBJECT TO FINANCE LETTER
13. Clerical Positions. Withhold recommendation on $186,000 for 10 additional clerical positions, pending completion of a study on CHP's clerical staffing formula. 475 $456,000
14. ***Lease Costs.* *Reduce Item 2720-001-044 by ~~$576,000.~~*** Recommend reduction because the expenses for leasing facilities are overbudgeted. Further recommend the adoption of Budget Bill language establishing a rental reserve of ~~$319,000~~ and reverting any unused amount to the Motor Vehicle Account. $359,000 476

GENERAL PROGRAM STATEMENT

The Department of the California Highway Patrol (CHP) is responsible for ensuring the safe, lawful and efficient movement of persons and goods along the state's highway system. To meet this responsibility, the department administers three programs designed to assist the motoring public. These programs are: (1) *Traffice Management,* (2) *Regulation and Inspection,* and (3) *Vehicle Ownership Security.* A fourth program, *Administrative Support,* provides administrative services to the first three programs.

Department activities are coordinated from CHP headquarters in Sacramento, which oversees eight division commands, 96 area offices, several inspection and scale facilities, and two communication centers. In addition, the department plans to add area offices in Livermore and Temecula during the budget year. All facilities are linked to headquarters by an extensive communications network.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

The department has 8,058 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $385,079,000 from various funds for support of the Department of the California Highway Patrol in 1984–85. This is $37,281,000, or 10.7 percent, more than estimated total expenditures of $347,798,000 in the current year. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

In the budget year, the department's programs would be funded from three sources. *First,* $350,845,000 is proposed from the Motor Vehicle Account, State Transportation Fund, for general support of the department. *Second,* $30,792,000 is proposed from the California Highway Patrol Law Enforcement Account, State Transportation Fund, to train, equip and deploy additional officers authorized by Ch 933/81 (AB 202). *Third,* $3,442,000 in reimbursements and federal funds is expected to be available for general support of the department during the budget year.

The budget proposes to add 192 traffic officers in 1984–85, thus completing the additional staffing authorized by Ch 933/81. In combination with previously authorized positions, the 192 positions represent a total increase of 670 additional traffic officers over a three-year period under this program.

ANALYSIS AND RECOMMENDATIONS

AB 202: Evaluation Needed to Determine Cost-Effectiveness

We recommend that the Legislature adopt supplemental report language requiring the CHP to report to the Legislature, by December 1, 1984, on (1) the cost-effectiveness of the AB 202 program, (2) alternatives to the program, (3) the rationale for the department's decision to seek or not seek continuation of the program, and (4) the issues raised in this analysis.

The California Highway Patrol currently is in its second year of hiring, training, and deploying additional traffic officers, pursuant to Ch 933/81 (AB 202). In the budget year, the department expects to complete the hiring phase of the AB 202 program by adding the final increment of 192 state traffic officer positions to the patrol. This proposed increase will achieve the original goal of hiring 670 officers during the four years that the AB 202 program will be in effect.

Under existing law, the AB 202 program will terminate on December 31, 1985. As of January 1984, the department had not decided whether it would seek to continue funding for the 670 positions authorized by AB 202. Furthermore, it is our understanding that little, if any, analysis has been conducted on the impact that these officers have had on critical performance measurements such as the number of traffic accidents, the number of traffic violations, and the average response time of the department's field units. Given the short period of time that most of these officers have been on the highway (initial deployment began September 1982), it is understandable that analytical information at this point may be somewhat sparse.

Nevertheless, the Legislature will have to decide in either 1984 or 1985 whether to continue the program. In order to make its decision, the Legislature will need information on the program's cost-effectiveness.

Specifically, it will need information on the following issues:

Funding Source. The department's AB 202 positions currently are supported by a $1 surcharge on motor vehicle registration fees, which is scheduled to expire on December 31, 1985. If the Legislature chooses to continue the program, it will need to decide whether funding is to come from (1) a reauthorization of the surcharge, (2) an appropriation from the Motor Vehicle Account, the department's normal funding source, or (3) an other funding source.

Deployment Policy. The Highway Patrol has developed a three-level approach to deploying AB 202 officers. They are (in order of priority): (1) providing 24-hour coverage of the interstate system and state routes 99 and 101, (2) meeting newly established minimum staffing levels at the CHP's smaller offices, and (3) satisfying additional workload requirements identified at area offices. This will result in all 96 area offices receiving additional officers. The department should be able to identify the benefits from deploying the additional officers on this basis, and discuss alternative ways of deploying these officers.

Level of Staffing. Based on its experience under AB 202, the CHP should be able to comment on the number of traffic officers which is needed to meet its mission.

If the Legislature chooses *not* to continue the AB 202 program, the following issues will have to be resolved:

Means of Reducing Positions. The department currently loses approximately 25 uniformed positions per month through normal attrition. If the program is not continued and the Legislature decides to eliminate the 670 positions by attrition, it would take over two years to reduce traffic officer strength to pre-AB 202 levels. In our estimation, the balance remaining in the CHP Law Enforcement Account would not be sufficient to fund the residual positions during the transition period. If the patrol orders layoffs effective July 1, 1985, we believe the balance in the fund would be adequate to provide for the transition. In either case, the patrol would need a plan for reducing traffic officer positions in a timely manner.

Alternatives to Additional Personnel. The Legislature may wish to consider alternatives for reducing the impact of terminating the program if it chooses not to extend AB 202. These alternatives might include use of radar, increased reliance on air operations, transfer of county road responsibilities, or the transfer or elimination of nontraffic management related activities, such as vehicle ownership security and dignitary protection.

Summary. At the time this *Analysis* was prepared, the CHP had only 13 months of actual experience under the AB 202 program. We recognize that this probably is not long enough to develop performance information and reach conclusions about the impact and effectiveness of the program. The CHP, however, should have compiled sufficient information by December of 1984 to permit the Legislature to (1) evaluate the merits of the AB 202 program, and (2) consider alternatives to the program.

Accordingly, we recommend that the Legislature adopt supplemental report language requiring that the CHP report to the Legislature, by December 1, 1984, on (1) the cost-effectiveness of the AB 202 program, (2) alternatives to the program, (3) the rationale for its decision to seek or not seek continuation of the program, and (4) the issues raised in this analysis.

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CHP Due for Overtime Loss?

We recommend a reduction of $102,000 in Item 2720-001-050 because the department's estimate of overtime to be worked by AB 202 officers is overstated.

The CHP has developed a plan for the staggered deployment of the 192 additional traffic officers proposed for the AB 202 program in 1984–85. This permits the department to request funding for only 145.5 additional personnel-years and still support 192 additional positions by year-end.

In calculating various operating expenses related to the AB 202 positions, the CHP generally relied on the department's "average cost per traffic-officer month" for each item, and then multiplied that average by the expected number of traffic-officer months under the AB 202 program. For 1984–85, the number of AB 202 traffic officer-months will amount to 7,471.2. Thus, in a category such as printing, where the average cost per traffic officer-month is $9, the department estimates costs will amount to $67,241 ($9 × 7,471.2).

In determining overtime hours, however, the department provided for 8,040 traffic officer-months, or *568.8 personnel-months more than will actually be utilized.* Based on an average of $179 per traffic officer-month, the requested amount of $1,439,160 is $102,000 more than will actually be needed in 1984–85. We therefore recommend that Item 2720-001-050 (CHP Law Enforcement Account) be reduced by $102,000 to correct for this overbudgeting.

Staff Benefits Reflect Variable Rates

We recommend a reduction of $117,000 in CHP staff benefits ($96,000, Item 2720-001-050 and $21,000, Item 2720-001-044), because there is no reason to believe that claims for workers' compensation benefits submitted by new officers will be higher than claims submitted by existing officers.

A large portion of the California Highway Patrol's personnel budget is devoted to staff benefits paid to its 8,000 employees. The department is requesting $74,082,000 in 1984–85 to support the costs of retirement, health and unemployment benefits for both uniformed and nonuniformed positions. Our analysis of this request indicates that the amount proposed for Workers' Compensation Benefits is overfunded by $117,000, due to the use of different rates to calculate benefits for employees in the same job class.

Workers' Compensation benefits are intended to provide subsistence for those persons who are injured during the course of employment and are temporarily unable to return to work as a result. In the budget year, the patrol is proposing a total of $10,324,625 to finance workers' compensation claims for all of its employees. Over $9.7 million, or 95 percent, of the funds requested are budgeted for claims by uniformed personnel.

The average claim for uniformed personnel in 1983–84 is estimated to be $1,689 per officer. This represents a decrease of $20 per officer, or 13 percent, below the average claim payment in 1982–83. This decrease was not wholly unexpected. As part of our review of the patrol's 1982–83 budget, we questioned the spiraling increase in workers' compensation claims that was occuring. At that time, the department indicated that (1) permanent disability and vocational rehabilitation costs associated with the department's Physical Standards Program (PSP) were a prime reason for the rise in payments, and (2) such costs could be expected to decrease, or at least stabilize, once the PSP program was fully underway in 1983.

The department's 1984–85 request for claims to be paid to existing uniformed personnel remains at $1,689 per officer. For new officers, however, the CHP plans to budget workers' compensation benefits at a rate of $2,188 per officer, which is $499, or *30 percent, higher* than the amount budgeted for existing staff. This amounts to $117,000 more than what would be needed if the $1,689 rate were used. In effect, the CHP is assuming that the injury rate for new officers will be much greater than for those currently employed by the department. The patrol, however, has provided no clear justification to support its plan to budget for new officers at the higher amount.

Furthermore, the Physical Standards Program was intended to promote a healthier uniformed workforce and, in time, reduce disability claims. Thus, permanent disability and vocational rehabilitation claims, which skyrocketed at the inception of the program, should be dropping off somewhat in the current and budget years. In addition, the CHP has structured its Academy and in-service training efforts to emphasize safety as a departmental priority. This should serve to enhance the CHP's ability to reduce, or at least stabilize, workers' compensation claims in the future.

For these reasons, we find no justification for the CHP's proposal to budget for higher workers' compensation claims for new officers than for existing officers. Accordingly, we recommend a reduction of $117,000 in workers' compensation benefits. This reduction should be apportioned between Item 2720-001-050 ($96,000) and Item 2720-001-044 ($21,000).

TRAFFIC MANAGEMENT

Traffic management is, by far, the largest department program, accounting for $346,439,000, or 90 percent, of proposed departmental expenditures in 1984–85. Approximately 86 percent of the department's uniformed personnel (including all of the positions authorized by Ch 933/81 (AB 202)), and nearly half of its nonuniformed personnel, are employed in this program. According to the department, 90 percent of the uniformed personnel in the program are used regularly on patrol duty. Officers spend about 88 percent of their time in "on-sight" patrol, with the balance spent on activities such as report writing.

Two elements make up the traffic management program. They are (1) *ground operations,* which carries out most of the department's responsibilities on the highway, and (2) *flight operations,* which assists CHP ground units and allied agencies in traffic, law enforcement, and rescue activities.

Table 1
Traffic Management Program
Ground Operations Element
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Percent Change*
Program Expenditures	$273,920	$305,308	11.5%	$339,775	11.3%
Personnel-years:					
Uniformed	4,200.3	4,451.3	6.0	4,520.5	1.6
Nonuniformed	1,013.9	1,038.3	2.4	1,054.2	1.5
Totals	5,214.2	5,490.6	5.3%	5,574.7	1.5%

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The ground operations element represents the focal point of the California Highway Patrol. Besides the on-sight patrol duty performed by traffic officers, ground operations personnel are responsible for the investigation of accidents, managing toxic spills on the highway, providing protection to dignitaries, and furnishing support to allied agencies on an emergency basis. Ground operations employs 84 percent of the department's uniformed staff.

Table 1 presents program staffing and expenditure levels for the ground operations element of the traffic management program.

Additional Funds May Be Sought for Olympics and Democratic Convention

The California Highway Patrol has not requested any additional funds in the 1984–85 budget for activities related to either the 1984 Summer Olympic Games in Los Angeles or the Democratic National Convention to be held in San Francisco in July of this year. We understand, however, that the patrol may seek additional funding for these events through an amendment to the 1984 Budget Bill. Additional funds presumably would be requested to support activities such as traffic management, dignitary protection, and possibly, in the case of the Olympics, the escort of athletes to and from the various event sites.

At the time the budget was submitted to the Legislature, the CHP indicated it was unsure to what extent additional funds would be needed. Nevertheless, the department is continuing to plan for a major role in both the Olympics and the Democratic National Convention.

Recognizing the need for funds to cover state costs associated with the Olympics, the Legislature enacted Ch 1289/83, which provides funds, raised through the sale of "Olympic License Plates", for security, traffic control, and law enforcement related to the Olympics. If the department should decide to seek additional support for these activities, we will prepare a supplemental analysis of its request at that time.

1983 Supplemental Report Language

The Legislature adopted language in the Supplemental Report to the 1983 Budget Act requiring (1) the State Personnel Board (SPB), in conjunction with the CHP, to determine appropriate supervisory ratios for lieutenant, sergeant, and traffic officer positions, and (2) the Highway Patrol to review the cost-effectiveness of 24-hour coverage currently provided at 18 inspection facilities statewide. Both reports were completed in December of 1983, and the findings of each are summarized below.

Uniformed Staffing Ratios. The report by the State Personnel Board supported the CHP's average ratio of 3.4 sergeants to each lieutenant in the field. With regard to the ratio for traffic officers to sergeants, the SPB concluded that a CHP sergeant can effectively supervise no more than eight traffic officers at one time.

Our analysis indicates that the 8-to-1 ratio is exceeded in 58 of the CHP's 96 field offices. Currently, CHP sergeants are responsible for, on the average, nine traffic officers. The CHP's budget request for 1984–85, if approved, would result in a traffic officer-to-sergeant ratio of 10 to 1 by June of 1985.

24-Hour Inspection Stations. According to the CHP, the operation of truck weight inspection stations on a 24-hour basis has been cost-effective, *if* savings resulting from reduced highway damage are taken into account. Based on data obtained during the first six months of 1983, the department indicated that truck overload fines at its eight inspection stations had increased by $59,625, but that personnel costs had increased by $414,000 during the same period. This reflects a return of 14 cents for every $1 expended. The CHP added that, however, that as a result of the program, state highway maintenance costs had been reduced by approximately $2,146,500 during the six-month period. Consequently, it concluded that the program actually generated a savings of $5.33 for every $1 expended. The CHP's estimate of highway maintenance savings reflects the higher resurfacing costs caused by overloaded trucks which are in violation of prescribed weight limits, compared to normal resurfacing costs associated with those trucks which are within the limits.

In an effort to verify the legitimacy of the CHP's estimate, we contacted officials at the Department of Transportation (Caltrans). Although Caltrans officials could neither substantiate nor repudiate the *savings* cited by the patrol, they did stress that *no* methodology has been devised which can accurately measure roadway maintenance savings resulting from reducing the weights of trucks on the road.

We believe it is reasonable to assume that 24-hour inspection stations result in *some* savings in roadway maintenance. Whether these savings are as large as the CHP maintains, however, cannot be verified. We will continue, however, to monitor the progress of the program and report to the Legislature as appropriate.

Communications Expenses are Overbudgeted

We recommend reductions of $199,000 from Item 2720-001-050 and $4,546,000 from Item 2720-001-044 because (1) the department's communications budget includes funds for projects which will not be needed in 1984–85, and (2) savings associated with the proposed purchase of telephone systems have not been reflected in the budget.

The California Highway Patrol is requesting $18,653,000 for communications in the budget year. This request primarily consists of (1) $13,152,000 for operating expenses—21 percent more than current-year costs, (2) $3,943,000 for additional radio equipment, and (3) $914,000 for the purchase of 29 telephone systems in the CHP network.

Our review of these expenditures indicates that the amount proposed is excessive. In order to properly reflect the CHP's needs in the budget year, we recommend a decrease of $199,000 from Item 2720-001-050 and $4,546,000 from Item 2720-001-044, for a total reduction of $4,745,000. The basis for our recommendation follows.

Operating Expenses. Included in this category are the monthly use and service charges for telephone services and equipment, microwave services and equipment, radio equipment and maintenance for the patrol's fleet of vehicles, and miscellaneous items such as telephone directories and headsets. For 1984–85, the department conducted an exhaustive analysis of potential price increases for each category and concluded that $12,412,000 would be required from the Motor Vehicle Account (Item 2720-001-044), and $739,000 would be required from the CHP Law Enforcement Account (Item 2720-001-050) to support communications expenses.

The amount requested to provide for the mobile equipment needs of the AB 202 program, however, appears to be based in incorrect information. According to the patrol's request, $739,000 will be needed from the CHP Law Enforcement Account for the installation and maintenance of

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radio equipment in vehicles to be used by AB 202 officers. This amount assumes that 89 vehicles will be purchased for AB 202 operations in the budget year. Our analysis, however, indicates that only 65 vehicles will be purchased with AB 202 funds, resulting in a reduction in the amount needed for radio equipment of $199,000. Consequently, we recommend that $199,000 be deleted from Item 2720-001-050.

Additional Equipment. The patrol's request for additional equipment consists of 11 projects costing of $3,943,550. One project, the Golden Gate Division Consolidated Dispatch Center, accounts for most of the amount requested—$3,636,900. In addition, the department is requesting $696,000 from its operating expense budget to purchase microwave equipment for the new dispatch center.

Our analysis indicates that funds for radio and microwave equipment will *not* be needed in 1984–85, for two reasons.

First, the CHP is not likely to need this equipment until 1986–87, and perhaps not until 1987–88. According to the department, it has yet to begin preliminary plans for this project. The preparation of such plans would be followed by working drawings, and, eventually, construction. Based on the current status of the project, construction will not be completed until at least the middle of the 1986–87 fiscal year. *At that time,* and not before, the installation of radio and microwave equipment will be needed.

Second, the Department of General Services (DGS) is approximately 1½ years behind in installing CHP radio equipment. In other words a large amount of radio equipment is being stored, awaiting installation. This problem has become so acute that DGS is requesting additional storage space in the budget year, due to the backlog. For that reason, it would be imprudent to purchase additional equipment far in advance of need and further compound the department's storage problem. We therefore recommend that the $3,636,900 proposed for radio reliability upgrades and $696,000 requested for microwave installation at the Golden Gate Division Dispatch be deleted, for a combined savings of $4,332,900 to the Motor Vehicle Account.

Telephone Systems. As a result of the break-up of American Telephone and Telegraph (AT&T), the patrol is proposing to purchase telephone systems at 29 of its facilities in the budget year. We recommend that purchase of 28 of these systems be approved. It is our understanding, however, that the purchase of a new system for the Los Angeles Communication Center is unnecessary because a leased system has been contracted for and will soon be installed. As a consequence, the CHP's request is overbudgeted by $150,000.

In addition, the patrol has budgeted any of the savings which it will realize from purchasing, rather than leasing, 28 phone systems. If the new phone systems are installed within the first half of 1984–85, savings of at least $63,000 in leasing costs should be realized. We therefore recommend a reduction of $63,000 in Item 2720-001-044.

Summary. We recommend a total reduction of $4,745,000 in the amount budgeted for communications costs. This consists of (1) a reduction of $199,000 in Item 2720-001-050 for radios needed to equip AB 202 vehicles, and (2) a reduction of $4,546,000 in Item 2720-001-044 for radio and microwave equipment for the Golden Gate Division Dispatch Center, a new telephone system for the Los Angeles Communication Center, and the lease savings resulting from the purchase of 28 other telephone systems throughout the state.

Gasoline Request is Excessive

We recommend a reduction of $1,917,000 in Item 2720-001-044 requested for gasoline purchases because the Highway Patrol's calculations (1) overstate the probable price per gallon of gasoline in 1984–85, and (2) do not make allowance for funds proposed in Item 2720-001-050.

The department is requesting a total of $11,098,000 from the Motor Vehicle Account in 1984–85 to fuel its entire fleet of cars and motorcycles, including AB 202 program vehicles. Our analysis indicates that the CHP's method of calculating gasoline needs for the budget year is faulty and overstates the department's need for at least three reasons.

First, the department estimates that the average miles-per-gallon (mpg) for its fleet in 1984–85 will be 11.85 mpg. This estimate fails to take account of the mileage ratings for the 400 Mustangs (15.23 mpg) or the nearly 350 motorcycles (36 mpg) that will be operated in 1984–85. In fact, one of the reasons cited for the increase in gasoline expenditures is the fact that the monthly road mileage is approximately 25 percent higher for the CHP Mustangs than it is for the Impalas and Diplomats, which are the CHP's primary enforcement vehicles. The 25 percent differential in road mileage, however, is entirely offset by a 28 percent advantage in gas mileage realized by the Mustangs. In effect, the department's fuel estimate includes a built-in reserve factor, due to the lack of allowance for the increased fuel efficiencies of the Mustangs and the motorcycles.

Second, the CHP anticipates that the *retail* price for unleaded gasoline in 1984–85 will be $1.45 per gallon and that the average price in the current year will be $1.36. According to the Department of Finance, the current average price statewide is $1.23, with a 1 percent increase forecast for the budget year. Even if the price increases 6 percent in the budget year, it would still be 15 cents less per gallon than CHP estimates for the *current year.*

The department buys most of its gasoline, however, in bulk, which further reduces the price per gallon paid. In 1984–85, the CHP estimates that it will buy 85 percent of its gasoline at a bulk price of $1.26. Based on current prices for bulk gasoline of $1.07, the department will likely pay $1.13, or 13 cents less than estimated. Consequently, if the department's estimates are adjusted to reflect the current and projected price of gasoline, the amount needed to finance gasoline purchases in 1984 is overbudgeted by $439,000.

Finally, the department bases its gasoline request under this item on the amount of mileage to be recorded by all motor vehicles, *including vehicles assigned to AB 202 officers.* The gasoline needs of the AB 202 program, however, are funded separately from the CHP Law Enforcement Account (Item 2720-001-050). Thus, the CHP has, in effect, double-budgeted the fuel requirements of the AB 202 program in the amount of $1,478,000.

The CHP's budget proposes to continue placing $1,000,000 in a reserve to meet the unexpected fuel needs of the Highway Patrol. In our judgment, this reserve should provide ample protection to the department if fuel prices should rise by more than the six percent provided for by our recommendation.

In summary, we recommend that the CHP's fuel allocation be reduced by $1,917,000, Item 2720-001-044, as a result of (1) excessive fuel price estimates ($439,000), and (2) overbudgeting of fuel needs for the AB 202 program ($1,478,000).

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Reimbursements Need Adjustment

We recommend that the level of reimbursements be increased by $735,000 and the appropriation from Item 2720-001-044 be reduced by a corresponding amount to correct for technical budgeting errors.

Our review of the California Highway Patrol's reimbursement schedule revealed that the level of reimbursements proposed for 1984–85 is understated by $735,000. This is due to (1) the department's failure to properly budget reimbursements of $614,000 which it is eligible to receive from the Office of Traffic Safety for certain overtime expenses, and (2) a discrepancy of $121,000 which exists between the number of licensees expected in the CHP's Hazardous Materials Program and the funds which will actually be generated by the issuance of these licenses. As a consequence, reimbursements should be increased by $735,000 and Item 2720-001-044 should be reduced by a corresponding amount.

Reimbursements Not Reflected in Budget. The CHP proposes to expend $614,000 in 1984–85 in providing overtime enforcement under the Multi-Highway Maximum Speed Enforcement Project. The project, which is eligible for federal funding through the Office of Traffic Safety (OTS), will utilize experimental monitoring and enforcement techniques currently being developed in the 55-Mile-Per-Hour Speed Enforcement Project. The department's budget, however, shows no reimbursement of program costs from the OTS.

In view of the experimental nature of this project and the availability of federal funds for it, we recommend that the department apply for an OTS grant, and that reimbursements be increased by $614,000 in anticipation of this grant. We also recommend that Item 2720-001-044 be reduced by the same amount, resulting in a savings to the state.

Reimbursements are Understated. The patrol's program for inspection of vehicles and tanks used in the transport of hazardous materials is partially supported by license fees paid by the vehicle owners. In 1982–83, the department collected approximately $543,000 in hazardous materials license fees. The patrol's budget indicates that the same level of hazardous material license fees is anticipated in the current year and in the budget year. The CHP workload data for this program for 1983–84 and 1984–85, however, presents a much different picture. Based on this data, the department's license fees should increase by $89,000 in 1983–84 and $121,000 in 1984–85 over the actual level in 1982–83. This would permit an increase of $121,000 in reimbursements, and a corresponding reduction in Item 2720-001-044.

Terminal Procurement Warrants Review

We recommend that the Legislature adopt Budget Bill language specifying that the purchase of 59 terminals for the Los Angeles Communication Center shall not proceed unless and until the Office of Information Technology has reviewed and approved a feasibility study report and terminal bid specifications.

The Los Angeles Communication Center (LACC) provides dispatch services for 13 CHP offices in southern California. In addition to relaying information on driver's licenses and vehicle registration, the 110 communication operators employed by the center are primarily responsible for (1) informing CHP patrol officers of accidents and motorists in distress, and (2) handling incoming calls from allied agencies and the general public. To achieve maximum efficiency, the department utilizes 59 information processing terminals at the center, which allow quick access to a myriad of information on drivers, vehicles and the highway system.

In 1984–85, the department proposes to replace the 59 terminals at a cost of $147,500, or $2,500 per terminal. In addition, the CHP indicates a need for software modification, special installation, and computer-related maintenance which will raise the total cost of the replacement project to $259,800. Although we find that the replacement of these terminals should proceed as planned, we question the need to pay $2,500 per unit.

Our analysis of prices for terminals which will be manufactured in 1984 indicates that, for the type of terminal that the patrol needs (color screen, 32 function keys, editing capability), costs range from $1,150 to $1,745. Moreover, the patrol's current vendor indicates that a 25 percent discount is likely on a large volume purchase. The patrol indicates that two available models that it is aware of exceed the $2,500 per terminal that it is requesting. It acknowledges, however, that a less expensive model could satisfy information processing needs at the center. Nonetheless, the patrol has expressed some reservations about the reliability of the lower-priced models.

Analysis of the patrol's request is made difficult because of (1) the different prices at which terminals could be purchased, and (2) the uncertainty regarding which model the patrol will purchase in the budget year.

The State Office of Information Technology (SOIT), which has responsibility for reviewing and approving information processing equipment requests of state agencies, has delegated approval authority to the patrol for this project, apparently on the understanding that the department would replace these terminals with comparable models. Given the wide range of terminal types and the proposed cost per terminal, we recommend that the Legislature require that this procurement project be made subject to review and approval by SOIT. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 2720-001-044:

> "Provided that none of the $147,500 appropriated for the purchase of 59 replacement terminals at the Los Angeles Communication Center be expended unless and until the State Office of Information Technology (SOIT) has reviewed and approved a feasibility study report and the bid specifications associated with the terminals."

Roofing Proposal Has Leaks

We recommend a reduction of $108,000 in Item 2720-001-044, because reroofing costs are overbudgeted. We further recommend that the Legislature adopt Budget Bill language prohibiting the expenditure of approved funds until a moisture contour map of the roof's surface has been secured.

The CHP's headquarters currently is housed within two separate buildings in Sacramento. The patrol is proposing to completely resurface the entire roof of one of the buildings, at a cost of $250,000. Discussions with other state agencies lead us to believe, however, that (1) the amount budgeted is excessive, and (2) the CHP may not need to resurface the entire roof, as proposed.

The amount requested for roofing was based on a 1981 estimate of $170,000, adjusted for an inflation rate of 14 percent per annum. Given a total of 41,135 square feet, the price per square foot is estimated to be $6.08. This is in vivid contrast to reroofing costs recently paid by the Department

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of Motor Vehicles (DMV) and the California State University (CSU) system, both of which have numerous buildings in the Sacramento area. The DMV is reroofing 16 office buildings in the current year, at a cost ranging from $2.10 per square foot in Carmichael to $3.13 per square foot at its headquarters building in Sacramento. Furthermore, CSU indicates that its statewide reroofing costs have invariably been between $2 to $3 per square foot.

Even if the patrol's request is adjusted to allow for the highest reroofing cost ($3.13 in Sacramento) plus a 10 percent inflation factor, the cost would still be only $3.44 per square foot. We recommend that the budget provide for reroofing at a cost of $3.44 per square foot, rather than $6.08, for a reduction of $108,000.

Furthermore, we have been informed that the CSU system is now utilizing a fairly inexpensive method of moisture detection, which relies on contour maps to identify roofing leaks. Such a method would permit the patrol to *precisely* determine whether the entire roof was in need of replacement, or whether a partial reroofing would suffice. CSU staff has indicated that they would perform the moisture test and produce the subsequent maps, free of charge to the department. We also understand that the Department of General Services is requesting equipment in the budget year which would provide it with this same capability.

Accordingly, we further recommend the adoption of the following Budget Bill language:

"Provided, none of the $142,000 appropriated for reroofing the CHP Headquarters building in Sacramento shall be expended until a moisture contour map of the roof surface has been secured."

FLIGHT OPERATIONS

The CHP has conducted air operations since 1969, when helicopters were first purchased to assist traffic management in Los Angeles and San Francisco. Since then, the department has expanded its air fleet to include (1) four single-engine fixed-wing aircraft based in Coalinga, Barstow and El Centro, (2) three fixed-wing planes purchased with federal funds, which are used in conjunction with ground units to increase compliance with the 55 miles-per-hour speed limit, and (3) six helicopters, which are used for statewide traffic management, regional law enforcement activities and search-and-rescue efforts.

Table 2 shows the staffing and expenditure levels of the flight operations element of the traffic management program. Staffing includes 25 helicopter pilots, 13 fixed-wing pilots, and 24 observers who assist pilots during flight operations.

Table 2
Flight Operations Element
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Proposed Change*
Program Expenditures	$4,661	$6,181	32.6%	$6,664	7.8%
Personnel-Years:					
Uniformed	59.0	61.9	4.9	60.6	−2.1
Nonuniformed	13.6	14.0	2.9	14.0	—
Totals	72.6	75.9	4.5%	74.6	−1.7%

Helicopter Expenses Are Padded

We recommend that $180,000 be deleted from the department's request for helicopter maintenance and insurance because the department has not correctly accounted for the purchase of new helicopters in the past two years.

Total expenditures proposed for helicopter operations in 1984–85 are $2,063,505, excluding the salaries of pilots and observers employed by the patrol. Major expense items projected in 1984–85 for helicopter operations are maintenance ($1,088,712), gasoline ($627,948), and insurance ($267,-119).

Our review indicates that helicopter maintenance and insurance costs do not properly reflect recent helicopter purchases made by the patrol. In addition, the budgeting of any insurance funds may be unnecessary, given the advantages of self-insurance. We discuss this latter issue as part of our analysis of the Department of General Services' budget (Item 1760-001-666).

Maintenance. The department requests $1,088,712 to provide maintenance services to its fleet of six helicopters. This is an increase of $190,274 over estimated current-year costs of $898,438 to maintain the aircraft, and is $290,274 over actual costs in 1982–83. These increases are puzzling, because the purchase of three replacement helicopters in 1983 and a fourth in 1984 should result in reduced maintenance, since the manufacturer's warranties on these helicopters carry over into the current and budget years.

The CHP states that its cost estimates were derived based on (1) a 12.5 percent increase estimated by the CHP's maintenance suppliers, and (2) a 12 percent hike for two helicopters with upgraded engines. In view of the extremely competitive market for helicopter maintenance (during the most recent two-year period, CHP contracted with 10 different vendors), projected increases of these magnitudes appear to be inflated. Moreover, even if these increases do occur, we believe it would still be reasonable to expect a decline in maintenance costs, given the purchase of four new helicopters having maintenance warranties. Although we cannot determine the *exact* amount that costs should decline, we think it is reasonable to assume that any increases in costs above the Department of Finance's 6 percent cost factor will be offset by (1) a significant reduction in the amount of maintenance required, (2) maintenance performed under warranty, and (3) the competitive bidding process for maintenance contracts.

Accordingly, we recommend a reduction of $136,000, the amount by which the department's request exceeds DOF's 6 percent cost factor, and approval of the request in the reduced amount of $952,712.

Insurance. Each year, the California Highway Patrol purchases insurance for its entire helicopter fleet. This policy generally covers all risks related to the loss or damage of the helicopters. In 1983–84, the CHP has budgeted $144,000 for helicopter insurance associated with the six helicopters, worth an estimated $2 million.

In the budget year, the CHP is requesting $267,119, or an increase of $123,119 for insurance purposes. The department indicates this increase is due to the added value of the new helicopters. We agree with the depart-

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ment that an increase in insurable property values will result in added premiums. We do not concur, however, with the Highway Patrol's estimate of these costs.

The department has placed the increased value of the helicopter fleet at $4.1 million. This assumes that (1) *five* new aircraft will be purchased over a three-year period, and (2) the remaining helicopter will increase $90,000 in value. It is our understanding, however, that only four helicopters will be purchased over three years, and that the existing two helicopters will *not* increase in value. Taking these factors into account, our analysis indicates that the insurable value of CHP's fleet in 1984–85 will be $3,650,000, not $4,107,000. Based upon current insurance formulas, and the lower insurable value of the helicopters, our analysis indicates the patrol's insurance expenses in 1984–85 should be reduced by $44,469. Thus, we recommend a reduction of $44,469 in the amount budgeted for insurance and approval in the reduced amount of $222,650.

In addition, the CHP's purchase of insurance may not even be warranted, given the advantages of self-insurance. Self-insurance is being used to protect other assets, such as motor vehicles. A discussion of this issue is included in our analysis of the Department of General Services (Item 1760-001-666).

Aircraft Replacement

We recommend a reduction of $21,000 requested for the purchase of two fixed-wing aircraft as a result of an overstated purchase price.

Fixed-wing aircraft currently operating in CHP's Central Division (Fresno) and Border Division (San Diego) are proposed for replacement in 1984–85. Based on the high number of accumulated air frame hours on the existing planes, it appears that the CHP's request for replacement of these aircraft is justified.

We believe, however, that the patrol's request exceeds the amount needed to purchase these airplanes. The patrol has estimated that $105,909 will be needed to pay the base price (without avionics equipment) for the aircraft. Discussions with plane dealers from the Bay Area and from southern California, however, revealed that the "basic airplane" requested by CHP can be purchased for as low as $86,850 in 1984. Allowing for a price increase of 10 percent if the plane is purchased in 1985, the maximum cost to the patrol would be $95,535 per plane, or $10,374 less than the CHP's estimate. This price, moreover, does not take into account any price reduction that might be available due to (1) buying two planes at one time, and (2) the competitive pressures of the bidding process.

Accordingly, we recommend a reduction of $21,000 in the department's request for two fixed-wing aircraft and approval in the reduced amount of $190,070.

REGULATION AND INSPECTION

The regulation and inspection program is composed of six activities. These activities include inspection of commercial vehicles, school buses, special purpose vehicles, hazardous materials carriers, and farm labor vehicles. CHP personnel also enforce payment of proper registration fees by vehicle owners and drivers. Table 3 shows staffing and expenditure levels for the program in the past, current, and budget years.

Table 3
Regulation and Inspection Program
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Proposed Change*
Program Expenditures	$26,772	$29,264	9.3%	$30,417	3.9%
Personnel-Years:					
Uniformed	224.8	238.1	5.9	247.5	3.9
Nonuniformed	289.0	318.5	10.2	342.4	7.5
Totals	513.8	556.6	8.35%	589.9	6.0%

Operating Expenses Are Overstated in Five Areas

We recommend a reduction of $907,000 requested for operating expenses and equipment purchases to correct for overbudgeting.

The California Highway Patrol is requesting $91,526,000 for operating expenses and equipment purchases in 1984–85. This amount is $16,649,000, or 22 percent, above estimated expenditures in the current year. The areas with the largest percentage increases are major equipment (49 percent), administrative pro rata (45 percent), printing (44 percent), and communications (28 percent). Our review indicates that, as a result of technical errors and unjustified requests, the CHP's request can be reduced by $907,000. This reduction consists of the following:

Data Base Expansion. The department is requesting $539,000 to continue expansion of its management information system data base. According to information provided by the department, however, the expansion of the MIS data base will be concluded in the current year, eliminating the need for further funds. Accordingly, we recommend a reduction of $539,000 in the request.

Copiers. During 1984–85, the CHP will be in its third and final year of replacing its inventory of 128 photocopiers. The patrol is requesting $324,000 to purchase (1) 36 copiers needed to complete it replacement of existing copiers, and (2) 16 additional copiers to support workload increases at various locations. Based on support documentation provided by the CHP, it appears that copier purchases in the current year will allow the patrol to reduce its budget-year request by 10 copiers (one replacement, nine additional), for a savings of $68,000. Thus, the patrol's actual need in 1984–85 should be 35 replacement and 7 additional copiers.

In addition, the CHP has budgeted $59,000 in 1984–85 for expenses related to office copier *rental.* In view of the replacement program that will be concluded in the budget year and the seven additional copiers which we believe should be acquired, further expenditures for the rental of copiers in the budget year is highly questionable. Furthermore, the copiers purchased over the past two years have maintenance contracts which should eliminate the need for rental funds. On this basis, we recommend that the $59,000 budgeted for rental copiers be deleted.

Printing. Costs associated with printed forms and stationery for programs other than AB 202, are estimated to be $687,000 in 1984–85, an increase of $203,000, or 42 percent, above expected costs in 1983–84. Moreover, the 1984–85 cost is $398,000, or 138 percent, above actual expenditures for this purpose in 1982–83. According to the CHP, the sharply higher use of forms and stationery is attributable to the AB 202 program, hazardous materials training, collective bargaining, and emergency operations,

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such as Diablo Canyon and the Coalinga earthquake.

The additional costs identified by the department appear overstated for three reasons. *First,* costs of $15,000 associated with additional AB 202 workload should not be funded from the Motor Vehicle Account, but from the CHP Law Enforcement Account, which already contains funds for printed forms and stationery. *Second,* the department is requesting $33,000 for printing costs associated with hazardous materials training handbooks, even though the CHP has no plans to continue the program in the budget year. *Finally,* the CHP has budgeted $20,000 for the publication of Vehicle Code books in 1984–85. Information provided by the State Printer indicates that it will cost $11,000, or $9,000 less, to publish the Vehicle Code books.

For these reasons, we recommend that the amount requested for printing be reduced by $57,000. The remaining $630,000 should be sufficient to fund the department's normal printing expenses plus the additional printing costs associated with expanded programs and collective bargaining.

Scales. The department proposes to spend $419,000 to replace 158 portable scales used in its mobile road enforcement (MRE) program with new electronic-readout scales. According to the CHP, the proposed purchases will allow the department to complete the replacement of its entire inventory of 298 scales. Based on our analysis, it appears that the number of scales purchased in 1984–85 can be reduced by 66, for a savings of $174,000.

The department currently employs 58 full-time MRE units on the highway, and no new units are planned in the budget year. Each of the mobile units has four scales in order to weigh commercial vehicles on the highway. Thus, for its existing fleet of MRE units, a total of 232 scales will be required, 92 of which are funded in the 1984–85 budget. The remaining 66 scales are proposed for (1) use by officers who provide mobile road enforcement on a part-time or seasonal basis, and (2) temporary replacement when a new scale malfunctions.

Based on the limited use given these 66 scales, we see no reason why they should be replaced at this time. Instead, the patrol should retain 66 of its present scales and assign them to part-time MRE enforcement or use them as temporary replacements. Although these scales do not possess the electronic features of the new scales, it is our understanding that the majority of them remain functional and are an effective means of weighing trucks. Moreover, this "recycling" of scales would create savings of $174,000. We therefore recommend a reduction of $174,000 in the department's request for 1984–85.

Advertising. The department estimates that it will spend $89,000 in 1983–84 for advertising of (1) employment openings, (2) the 55-miles-per-hour speed limit and (3) other safety programs. In 1984–85, the department proposes to spend $103,000, or $14,000 more than it is spending in the current year for advertising. If, however, the expenditure level in the current year is increased by the Department of Finance's 6 percent factor, a spending level of only $94,000 appears to be justified. Consequently, we recommend a reduction of $9,000 and approval in the reduced amount of $94,000.

Summary. Table 4 displays the recommended reductions in operating expenses and equipment purchases.

Table 4
CHP Operating Expense and Equipment Overbudgeted Amounts

Item	*Amount Budgeted*	*Amount Recommended by Analyst*	*Recommended Reduction*
Data Base Expansion	$539,000	0	$539,000
Copiers	383,000	$256,000	127,000
Printing	687,000	630,000	57,000
Scales	419,000	244,000	175,000
Advertising	103,000	94,000	9,000
Totals	$2,131,000	$1,224,000	$907,000

VEHICLE OWNERSHIP SECURITY

The California Highway Patrol is proposing expenditures of $7,282,000 in 1984–85 to support the vehicle ownership security program. Most of the program resources are budgeted for the vehicle theft control element, which is aimed at recovering stolen vehicles by (1) assisting and training allied agency personnel in the investigation and recovery of stolen vehicles, and (2) conducting public awareness programs and working with the automotive industry to reduce the incidence of vehicle theft. The budget also includes a vehicle identification number element, which identifies and renumbers vehicles when identification plates have been removed or are missing.

Table 5 displays proposed staffing and expenditure levels for the vehicle ownership security program. As Table 5 indicates, proposed budget-year expenditures for this program reflect an increase of $237,000, or 3.4 percent, above estimated current-year expenditures of $7,045,000.

Table 5
Vehicle Ownership Security Program Staffing and Expenditures 1982–83 through 1984–85 (dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Proposed Change*
Program Expenditures	$6,272	$7,045	12.3%	$7,282	3.4%
Personnel-Years:					
Uniformed	98.4	104.2	5.9	103.5	−0.6
Nonuniformed	25.4	25.9	2.0	25.9	—
Totals	123.8	130.1	5.1%	129.4	−0.5%

Vehicle Prices Are in Need of Overhaul

We recommend a reduction of $247,000 requested for the procurement of enforcement and nonenforcement vehicles because the purchase price of motorcycles is overstated and abatement figures for some models are not properly included in the budget request.

Enforcement vehicles used by the California Highway Patrol are removed from service when they reach approximately 85,000 miles of service. Nonenforcement vehicles are replaced when they reach between 90,000 and 100,000 miles of service. This requires the department to purchase new vehicles each year to replenish its fleet. In the budget year, the CHP proposes to buy 1,231 assorted vehicles, at a net cost of $9,365,649.

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This is an increase of $711,526 over the amount allocated for vehicle purchases in the current year.

Among the vehicles to be purchase in 1984–85 are motorcycles, vans, and undercover sedans. No allowance was made in estimating the total cost of these vehicles for the abatement revenues that the patrol will receive when the used vehicles are sold. A detailed description of each of the proposed purchases follows.

Motorcycles. The CHP proposes to buy 137 motorcycles in 1984–85 at a total cost of $714,000, or $5,211 per unit. The department, however, recently awarded a contract for 131 motorcycles to be purchased in the *current year,* at a cost of $4,393 per motorcycle. The department indicates that this price will not apply to any of the motorcycles it proposes to purchase in 1984–85.

Nevertheless, we find that the department based its 1984–85 request on the assumption that motorcycles in the current year would cost $4,881 per unit, or $488 more than the actual price being paid. If the department's estimate in 1984–85 is adjusted to reflect the recent purchase price, the department's total cost for 137 motorcycles would be $670,000, or $4,889 per unit.

Moreover, the CHP's request does not reflect any abatement revenue from the sale of the used motorcycles. During the first five months of 1983–84, the CHP sold 61 motorcycles at an average abatement price of $998. Applying this abatement adjustment results in a net unit cost of $3,891. This indicates that $553,000, not $714,000, is needed to purchase 137 motorcycles. Accordingly, we recommend a reduction of $161,000 in the amount budgeted for replacement motorcycles.

Vans. The department is proposing the purchase of 16 vans at a total cost of $176,735, or $11,046 per unit, in 1984–85. These vans are used by nonenforcement personnel in the motor carrier program who inspect buses and trucks for mechanical defects. *The price quoted by the patrol includes $1,800 per van for compressors and support equipment.* Based on discussions with the Department of General Services, it appears that the department's estimate for the vans was $15,000 *under*funded. At the same time, however, we believe the $31,000 requested for compressors and support equipment is questionable, given that such equipment is already installed and functional in the existing vans and can be transferred to the new vans. We therefore recommend that the amount budgeted for motor carrier vans be decreased by $16,000 to correct for this net overbudgeting.

Undercover Sedans. The Highway Patrol indicates that 32 undercover sedans will be replaced in 1984–85, at a net cost of $231,000, or $7,208 per vehicle. According to DGS, this will permit CHP to purchase compact sedans similar to the Chevrolet Citations that will be added to the state's fleet in 1984. These cars will be used by the department's vehicle theft investigators. We believe the purchase of these vehicle is warranted. The department's cost estimate, however, fails to take into account the abatement revenues from the existing sedans, which are expected to yield about $1,200 per vehicle. When adjusted for abatement, the patrol's net cost per undercover sedan should be about $6,080. This would permit a savings of $1,128 per vehicle. Thus, we recommend a reduction of $36,000 in the patrol's request.

Additional Abatements. The department also failed to include abatement figures for 20 class "D" vehicles and 13 special-purpose vehicles proposed for procurement. These omissions result in an overstatement of

$34,000 in vehicle costs. As a consequence, we recommend an additional reduction of $34,000 in the department's request for vehicles in 1984–85.

Summary. Table 6 provides a summary of recommended reductions in the amount budgeted for procurement of vehicles in 1984–85.

Table 6
California Highway Patrol
Overbudgeted Vehicle Purchases
1984–85

Category	*Amount Proposed*	*Legislative Analyst's Recommended Reduction*	*Amount Needed*
Motorcycles	$714,000	$161,000	$553,000
Vans	169,000	16,000	153,000
Undercover Sedans	231,000	36,000	195,000
Abatement	0	34,000	−34,000
Totals	$1,114,000	$247,000	$867,000

ADMINISTRATIVE SUPPORT

Expenditures for administrative support are budgeted at $78,293,000 in 1984–85, an increase of 4.2 percent over estimated current-year expenditures of $75,139,000. The six elements of this program include administrative services, management and command, budget and fiscal management, planning and analysis, training and the Statewide Integrated Traffic Records System.

Administrative costs are prorated among the department's other three operating programs. Expenditures and personnel-years for administrative support is presented in Table 7.

Table 7
Administrative Support Program
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Proposed Change*
Program Expenditures	$64,865	$75,139	15.8%	$78,293	4.2%
Personnel-Years:					
Uniformed	477.8	487.2	2.0	443.3	−9.0
Nonuniformed	827.3	952.3	15.1	928.6	−2.5
Totals	1,305.1	1,439.5	10.3%	1,371.9	−4.7%

Clerical Positions Put on Hold

We withhold recommendation on $186,000 proposed for additional clerical positions, pending completion of a study on the CHP's clerical staffing formula.

Clerical positions constitute approximately 32 percent of the nonuniformed staff assigned to CHP area offices, inspection facilities, and communication centers. The department currently maintains a ratio of one clerical position for every 10 state officers it assigns to the field. The number of clerical positions requested each year, however, is based on a staffing formula which measures such factors as (1) documents processed,

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(2) court activity, (3) number of uniformed positions, (4) number of total positions, and (5) number of vehicles at each CHP location.

In past years, we have reviewed the CHP's clerical staffing formula and have found that the formula was sufficient to respond to the department's clerical needs. We have questioned, however, the department's *deployment* of clerical positions approved by the Legislature. In many instances, positions were justified by workload in one particular office and then subsequently placed elsewhere. In other cases, the department requested additional positions for area offices where workloads were actually decreasing.

This year, the CHP is requesting 10 additional clerical positions at a cost of $186,000, even though the department claims that 13.5 positions are justified by the staffing formula. Moreover, the CHP proposes to use its discretion in deploying the positions to various field locations, once funding for the positions is approved. Thus, it is conceivable that offices which the formula finds are entitled to have additional positions in the budget year may not, in fact, be the ones that receive these positions.

We recognize that a certain amount of flexibility may be needed to *temporarily* loan a position or transfer hours from one location to another. But to consistently justify positions on one basis, and then deploy them on another basis, severely reduces the credibility of the staffing formula.

Department of General Services Report. In 1983, the Highway Patrol requested that the Department of General Services review its staffing formula for clerical personnel assigned to CHP area offices. This review is expected to be completed in February of this year, and could affect the department's estimate of positions needed in 1984–85. Accordingly, we withhold recommendation on the $186,000 and 10 clerical positions requested in the budget, pending completion of the study.

Lease Costs Are Overbudgeted

We recommend a reduction of $576,000 from the Motor Vehicle Account (Item 2720-001-044) because the department has overbudgeted the amount needed to lease facilities in the budget year. We further recommend the adoption of Budget Bill language establishing a rental reserve of $319,000 and reverting any unused portion of that amount to the Motor Vehicle Account.

The patrol proposes to expend $2,550,106 in 1984–85 to (1) lease land, offices and other facilities at 56 locations, and (2) purchase five facilities which it currently leases. This is an increase of $732,655, or 42.7 percent, over estimated expenditures for these purposes in the current year. Based upon discussions with the Department of General Services, Division of Space Management (DSM), we conclude that the patrol's estimated expenditures for leases is overbudgeted by $576,000 in the budget year. Specifically, our findings and recommendations are as follows:

Blythe. The CHP anticipates occupying a build-to-suit facility in Blythe, beginning May 1, 1985. The leasing costs in Blythe would increase from $1,800 per month to $12,000 monthly. According to DSM, construction of the building will take 18 months, once the property has been acquired. This precludes occupancy of the new facility in the budget year. Consequently, we recommend that the amount budgeted be reduced by $20,400 to remove funds for rental of the property in the budget year.

Border Division. The Highway Patrol plans to move into a new facility in San Diego by May 1, 1985, which would house its Border Division. The new monthly lease rate would be $20,000 per month, an increase of $15,510 over the current lease rate. The DSM indicates, however, that construction of the new facility would take 18 months to two years. At the time this *Analysis* was prepared, construction had not started, making occupancy in the budget year highly unlikely. Thus, we recommend a reduction of $31,020 in the amount budgeted.

Central Division. The Division of Space Management is beginning a site search in Fresno for the Central Division. Based on the time needed to plan and construct such a major facility, the DSM estimates at least two years will be needed before the building is ready for occupancy. The budget, however, reflects an occupancy date of January 1, 1985, at a monthly cost of $20,000, although no site had been selected at the time we prepared this *Analysis.* Thus, we recommend a reduction of $120,000 in the amount budgeted.

Inland Division. The Inland Division in San Bernardino currently occupies a leased facility with a monthly rent of $3,400. This amount wil increase to $3,454 in the budget year. The CHP expects to move into a build-to-suit office by January 1, 1985, at a monthly rental rate of $20,000. Our analysis indicates that a new facility will not be ready until the beginning of 1985–86. Therefore, we recommend a reduction of $99,276 in the amount budgeted.

Livermore. The budget proposes $40,000 for a new area office which the patrol expects to be opened in Livermore, beginning May 1, 1985. The expected rent will be $20,000 per month. According to the DSM, if "perfect" conditions prevail, the CHP *may* be able to move in by June 1, 1985. Thus, we recommend a reduction of $20,000 in the amount budgeted to reflect the need for only one month's rent.

Malibu. This office currently is undergoing major renovation, which should increase the total size of the facility. The CHP indicates that, with the new alterations, rent should increase from $810 to $6,500 per month, beginning July 1, 1984. However, we have been informed that the new rent will be only $5,500, permitting a reduction of $12,000. Consequently, we recommend a reduction of $12,000 in the amount budgeted.

Southern Division. The Southern Division currently operates from a state-owned building off the Hollywood Freeway in Los Angeles. The division proposes to move to a new building, beginning July 1, 1984, at additional lease costs of $240,000 per year. The DSM advises that it has not been notified of the proposed move and that such a move would likely take 18 months following notification. As a consequence, we recommend a reduction of $240,000 in the amount budgeted.

Tejon. The CHP expects to transfer to a new office in the Grapevine area on May 1, 1985. The department projects leasing costs will be $14,000 per month, an increase of $12,500 per month over current lease costs. No land has been leased as yet, however. Consequently, construction cannot begin for some time, and occupancy is not likely to occur until 1985–86. Accordingly, we recommend a reduction of $25,000 in the amount budgeted.

Valley Division. Many of the leases held by the CHP have automatic cost-of-living or "escalation" clauses which provide owners with protection against inflation. At Valley Division headquarters, rent will automatically increase to $9,000, beginning May 1, 1984, and to $9,810 on May 1, 1985. The department, however, has mistakenly budgeted $9,810 for the entire year, resulting in a request which is overstated by $8,100.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Consequently, we recommend a reduction of $8,100 in the amount budgeted.

Purchase of Leased Facilities. The Highway Patrol's lease schedule indicates that it plans to purchase five currently leased facilities in the budget year. The five offices proposed for purchase are located at Arrowhead, Newhall, San Andreas, Trinity River, and West Los Angeles. In addition, we now understand that the CHP intends to purchase the El Centro Office, as well. Funds for the purchase of the Newhall and West Los Angeles offices were appropriated in 1983–84. Funds to purchase the remaining offices are proposed in the budget year. The CHP plans to continue leasing these offices, however, until the procurement is completed, and has budgeted a total of $319,479 for this purpose.

In some cases, the entire amount of lease funds proposed will not be needed. To ensure that only funds which are actually needed for rental payments are expended, we recommend that the Legislature adopt the following Budget Bill language:

> "Provided that a rental reserve of $319,000 be established for the Arrowhead, El Centro, Newhall, San Andreas, Trinity River, and West Los Angeles offices that are proposed to be purchased in 1984–85. If actual leasing costs are less than the amount of reserves provided in this item, any unencumbered balance shall not be encumbered for any other purpose and shall revert to the Motor Vehicle Account, State Transportation Fund."

Table 8 provides a summary of the patrol's schedule of lease contract changes in 1984–85. Based upon our findings and recommendations on each leasing project, we recommend a total reduction of $576,000 in leasing expenses in 1984–85.

Table 8
California Highway Patrol
Facilities Rental Schedule
1984–85

Facility	*Amount Requested*	*Amount Needed*	*Analyst's Reduction*	*Recommended Reserve for Purchased Facilities*
Arrowhead	$56,415	—	—	$56,415
Blythe	42,000	$21,600	$20,400	—
Border Division	84,900	53,880	31,020	—
Central Division	120,000	—	120,000	—
El Centro	119,844	—	—	119,844
Inland Division	140,724	41,448	99,276	—
Livermore	40,000	20,000	20,000	—
Malibu	78,000	66,000	12,000	—
Newhall	49,000	—	—	49,000
San Andreas	40,920	—	—	40,920
Southern Division	240,000	—	240,000	—
Tejon	40,000	15,000	25,000	—
Trinity River	20,280	—	—	20,280
Valley Division	117,720	109,620	8,100	—
West Los Angeles	33,000	—	—	33,000
Totals	$1,222,803	$327,548	$575,796	($319,459)

Deficiency Payment

We recommend approval.

Section 42272 of the Vehicle Code prohibits the creation of deficiency payments in support of this department. Moreover, the department cannot obtain additional funds from the Emergency Fund. The Legislature, recognizing that emergencies could occur in a department of this size, has provided funds each year which may be used for any approved deficiency. The budget proposes $2,000,000 for this purpose in 1984–85.

The Joint Legislative Budget Committee must be notified at least 30 days before the authorization of funds for *contingency* expenditures, and within 10 days after the authorization of funds for *emergency* expenditures. No expenditures have ever been authorized from this item.

Advance Purchase Authorization

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order vehicles in one fiscal year for delivery in the next. This item provides the department with the authority to incur motor vehicle purchase obligations up to $5,000,000 in 1984–85 for vehicles to be delivered in 1985–86. No funds have ever been expended under this procedure. It provides authorization only, with actual expenditures made from the department's regular budget in the years affected.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY

Item 2720-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 100

Requested 1984–85	$5,374,000
Recommended approval	3,386,000
Recommended reduction	273,000
Recommendation pending	1,715,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Golden Gate Division Office and Communications Center. Reduce Item 2720-301-044(3) by $115,000.* Recommend deletion of funds for working drawings because preliminary plans will not be available during current year. 481
2. Oakland Area Facility. Withhold recommendation on $957,000 requested in Item 2720-301-044 (6), construction, pending receipt of a new cost estimate for the project. 481
3. *Consolidated CHP Headquarters. Reduce Item 2720-301-044(5) by $25,000.* Recommend deletion of funds for proposed feasibility study regarding new consolidated CHP Headquarters because the item should not be budgeted as capital outlay and can be funded on a priority basis from the patrol's support budget. 482

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

4. ***Academy Dormitory Addition. Reduce Item 2720-301-044(10) by $15,000.*** Recommend deletion of funds for preliminary plans because need for additional space has not been documented. (Future savings $740,000) 483
5. ***Los Angeles Communications Center Expansion. Reduce Item 2720-301-044(11) by $96,000.*** Recommend deletion of funds for preliminary plans because no justification has been provided for additional space. (Future savings $1,310,-000) 484
6. ***Purchase of Leased Facilities. Reduce Item 2720-301-044(4) by $9,000, Item 2720-301-044(7) by $2,000, Item 2720-301-044(8) by $5,000, and Item 2720-301-044(9) by $6,000.*** Recommend reductions to correct for overbudgeting of administrative costs. 485
7. 1983 Purchases of Leased Facilities. Recommend that CHP report to the Legislature on its progress in purchasing West Los Angeles, Newhall, and Stockton facilities, as provided for in 1983 Budget Act. 487
8. Minor Projects. Withhold recommendation on $758,000 requested in Item 2720-301-044(1) pending receipt of information on projects that the department plans to fund with the budgeted amount. 487

ANALYSIS AND RECOMMENDATIONS

The budget proposes $5,374,000 under Item 2720-301-044 for the Department of the California Highway Patrol (CHP) capital outlay program. Included in this total is $4,581,000 for nine major capital outlay projects, $758,000 for unspecified minor projects, and $35,000 for various property appraisals and purchase options for future construction sites. Table 1 summarizes the department's proposal and our recommendations.

Table 1
Department of the California Highway Patrol
1984–85 Capital Outlay Program
Item 2720-301-044
(in thousands)

Project Title	*Phase*[a]	*Budget Bill Amount*	*Analyst's Proposal*	*Estimated Future Cost*[b]
Golden Gate Division Office and Communications Center	w	$115	—	$3,628
Oakland Area Office	c	957	pending	—
Consolidated CHP Headquarters	s	25	—	31,234
CHP Academy Dormitory wing	p	15	—	740
Los Angeles Communications Complex Expansion	p	96	—	1,310
Trinity River—Purchase leased facility	a	1,132	$1,123	—
San Andreas—Purchase leased facility	a	457	455	—
Arrowhead—Purchase leased facility	a	875	870	—
El Centro—Purchase leased facility	a	909	903	—
Property Options and Appraisals	ap	35	35	—
Minor Projects	pwc	758	pending	—
Totals		$5,374	pending	$36,912

[a] Phase symbols indicate: a = acquisition, p = preliminary plans, w = working drawings, c = construction, s = feasibility study.
[b] Department's estimate.

Golden Gate Division Office and Communications Center

We recommend that Item 2720-301-044(3), working drawings for the Golden Gate Division Office and Communications Center, be deleted because preliminary plans have not been started and revised cost estimates are not available, for a reduction of $115,000.

The budget includes $115,000 under Item 2720-301-044(3) for the preparation of working drawings for the new Golden Gate Division Office and Communications Center. This facility will consolidate the radio dispatch function currently housed at four area offices in the Golden Gate Division and provide space for division headquarters. The total facility would provide 35,600 square feet at an estimated construction cost of $3,600,000.

The Legislature appropriated $706,000 for site acquisition and preliminary plans for this project in 1982. The project did not proceed in 1982–83, however, because of difficulties the CHP encountered in acquiring a site. Consequently, the 1983 Budget Act reappropriated the unencumbered balances for site acquisition and preliminary plans. Recently, the patrol acquired a five-acre site in Vallejo for the project.

Preliminary planning funds for this project have not been released by the patrol. Accordingly, the Office of State Architect (OSA) has indicated that the preliminary plans will not be started until spring 1984 and will require at least six months to complete.

Because the project has not moved forward during the current year and preliminary plans are not available for legislative review, the Legislature has no more information now than it had in 1982 when the initial planning funds were appropriated. Under these circumstances, we have no basis for recommending approval of the requested amount. Therefore, we recommend that the working drawing funds ($115,000) proposed in the budget be deleted.

We urge the patrol to expedite development of the planning documents so that the Legislature can evaluate the proposal for this facility.

Oakland Area Office

We withhold recommendation on Item 2720-301-044(6), construction, Oakland area facility, pending receipt of updated cost estimates and completed preliminary plans.

Item 2720-301-044(6) contains $957,000 for construction of a new CHP field office in Oakland. The new facility will consist of approximately 9,100 gross square feet of office space for 100 officers and will replace the office on adjacent property on Telegraph Avenue in Oakland.

The 1983 Budget Act provided $24,000 for preliminary plans and $35,000 for working drawings for the facility. The *Supplemental Report of the 1983 Budget Act* specified that the facility was to include a temporary radio dispatch facility which will be converted to other uses after the Golden Gate Communications Center is completed.

At the time this *Analysis* was prepared, OSA was still working on preliminary plans for the project with a target completion date of early February. OSA has indicated that it expects to begin working drawings in mid-April and complete them by early August.

We withhold recommendation on the request for construction funds,

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

pending receipt of the preliminary plans and detailed cost estimates.

New Consolidated CHP Headquarters

We recommend that Item 2720-301-044 (5), feasibility study, Consolidated CHP Headquarters, be deleted because the cost of the proposed study would be more appropriately funded from the consultant services portion of the department's support budget, for savings of $25,000.

The budget proposes $25,000 under Item 2720-301-044(5) to study the feasibility of constructing a new, consolidated CHP headquarters. According to the patrol, estimated future costs of the project total $31,234,000, consisting of $718,000 for preliminary plans, $831,000 for working drawings, and $29,685,000 for construction. The CHP has indicated that these estimates are based on the presumption that the new facility would be constructed at the CHP Academy in Bryte, West Sacramento.

Departmental justification. The department has indicated that a new facility is needed to consolidate all CHP headquarters functions at a single location. At present, CHP operations are carried out at five separate locations in Sacramento. The CHP training Academy is located west of Sacramento in Bryte. Headquarters staff is located in two state-owned buildings near the downtown area. Support functions occupy ten state-owned buildings and a leased warehouse in the south area. Most of the buildings used to house support functions, however, are close together, and all primary headquarters' functions are conducted in the patrol's two principal buildings, which are adjacent to one another.

The CHP believes that the increase in the patrol's strength since 1982, coupled with the new responsibilities assigned to it, have overtaxed the headquarters facilities to the point that additional personnel cannot be adequately accommodated at these facilities.

The CHP has ruled out the option of remodeling its headquarters building because the costs would be excessive and functions would remain separated. It has not presented any data, however, to substantiate its conclusion that neither the remodeling nor the expansion of present facilities is a viable option.

Feasibility study not properly budgeted. A feasibility study should provide the data needed to evaluate the consolidation proposal. It should answer questions regarding (1) how consolidated space will improve operational efficiency, (2) whether space is available for such a project at the CHP Academy and if this is the proper location for such a facility, and (3) the viability of other available alternatives including *remodeling the existing building.* Such a study should be completed during the budget year and made available to the Legislature for analysis prior to the appropriation of planning funds for the project.

We recommend, however, that funding for the feasibility study be deleted from the capital outlay budget. Conducting studies of this nature is part of the patrol's on-going responsibility for determining its capital outlay needs. Consequently, funding for this study should be made available in priority order from the consulting services component of the patrol's proposed support budget.

New Academy Dormitory Wing

We recommend deletion of Item 2720-301-044(10), preliminary plans, CHP Academy dormitory wing, because no evidence has been presented to substantiate the department's claim that present dormitory space is inadequate, for a savings of $15,000.

Item 2720-301-044(10) provides $15,000 for preliminary plans for the addition of a 48-bed dormitory at the CHP Academy. The patrol has estimated the future costs of the project to be $740,000, including $45,000 for working drawings and $695,000 for construction.

The CHP has indicated that the lack of dormitory space for Academy trainees is burdening the training program. Specifically, the department notes:

1. The Academy's eight classrooms have seating space for 382 students while the residency capacity is only 334.
2. Dormitory space is required for the majority of in-service trainees since the trainees come from throughout the state.
3. Housing trainees in facilities away from the Academy is too costly.
4. The increase in cadet classes for training has increased the need for additional space.
5. Without additional dormitory space, the department will be forced to cancel or postpone a number of classes.

Cadet class size. Our analysis indicates that the number of CHP cadets requiring the initial 20-week training class required for entry into the patrol has increased. Chapter 933, Statutes of 1981 (AB 202), increased motor vehicle registration fees through 1985 and allowed the department to hire, train, and deploy new officers. By the end of 1984–85, the department expects to increase the number of CHP officers by approximately 670. This increase has required the Academy to increase its training program to accommodate two cadet classes at the same time.

Our analysis, however, does not indicate a continuing need for two classes. The staffing increase authorized by Chapter 933 will have been accomplished by the end of the budget year. This will allow the Academy to reduce its training program to one cadet class at a time. This, in turn, will decrease the need for additional dormitory space.

Classroom versus dormitory space. Although the patrol indicates that the Academy's eight classrooms can accommodate 48 students more than present dormitory space can accommodate, this does not necessarily mean that the amount of dormitory space is inadequate. We do not know, for example, how often the present training facilities are operated at full capacity. Moreover, there *should* be a need for fewer beds than classroom seats, since some training is provided for persons who live in the Sacramento area or who attend for only one day.

Use of Academy for re-training. The CHP informs us that officers return to the Academy every three to four years for additional in-service training. This training includes short courses on new traffic laws, arrest methods and management techniques for senior officers. Since the academy is the CHP's only training facility, the patrol requires officers to travel to the Academy from throughout California and stay in the dormitory during the training period. No information has been provided, however, on the range or duration of this training. Moreover, it is not clear that expansion of the Bryte facility would be the best solution if a problem does exist. With the high concentration of CHP officers in southern California, it might make more sense for the CHP to explore the possibility of providing training closer to the officers' home base—perhaps using local

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

schools, institutions of higher education and/or state buildings—before requesting funds for additional dormitory space.

Lack of detail on training. In addition, the department has not presented data on (1) the number, timing, and duration of training classes, (2) the criteria used to select officers for re-training, (3) the number of officers attending each training session, and (4) the total use of CHP training facilities for cadets, senior officers, or local law enforcement agents.

Given the lack of justification for or detailed information on this proposal, we recommend that funds for preliminary planning be deleted.

LACC Expansion

We recommend that Item 2720-301-044(11), preliminary plans, Los Angeles Communications Complex expansion, be deleted because the patrol has not justified the need for additional space, for a savings of $96,000.

The department is requesting $96,000 to fund preliminary plans for an expansion of the Los Angeles Communications Center (LACC). The existing facility is used as a consolidated radio dispatch headquarters for the Los Angeles area and headquarters for the Southern Division.

The proposal is for 2,000 square feet of office space, 1,840 square feet of dispatch operations space and development of on-site underground parking for a minimum of 50 vehicles. The expanded facility would include space for additional service desk positions, office space for data processing staff, an employee counseling room, and an enlarged employee lunch room, while reducing the amount of parking area. The CHP has indicated that the requested modifications should satisfy its requirements through the year 2000.

The CHP estimates the future costs of the project at $1,310,000 ($110,000 for working drawings and $1,200,000 for construction).

Insufficient justification for the project. The patrol has not presented adequate information to justify the expansion of the LACC. The specific deficiencies of the request include the following:

- Much of the department's justification for the project rests on the need to provide additional space for more staff. For example, the CHP indicates that 24 additional communication operator positions have been requested for 1984–85, and that 18 new service desk operators will be added to the complex within the next two years. The department says that the new space is needed to accommodate these positions. The department's support budget for 1984–85, however, requests only two new communication operators and no new service desk operators.
- The patrol is proposing a 400 square foot expansion of the facility's data processing area, but has provided no justifications for the additional space.
- There is inadequate justification for the additional space that would be used as an employee room. Moreover, in attempting to document the use and crowding of the employee room, the CHP has assumed that all employees take breaks and eat lunch at the same time.
- Finally, the patrol has failed to demonstrate that presently available space cannot be used for an employee counseling room.

In view of these concerns, we recommend deletion of the $96,000 requested for preliminary plan to expand the Los Angeles Communication Center.

Purchase of Leased Facilities

We recommend that Item 2720-301-044(4) be reduced by $9,000, Item 2720-301-044(7) be reduced by $2,000, Item 2720-301-044(8) be reduced by $5,000, and Item 2720-301-044(9) be reduced by $6,000, to correct for overbudgeting of administrative costs.

CHP is requesting $3,373,000 for the purchase of four area offices that currently are leased by the department. These offices are located in Arrowhead (Running Springs), Trinity River (Weaverville), San Andreas, and El Centro. Table 2 summarizes the department's acquisition request and terms of the current lease. The department has indicated that none of the facilities will require modifications.

Table 2

Department of the California Highway Patrol Proposed Purchases of Leased Facilities

Location	*Budget Request*[a] *Acquisition*	*Administrative*	*Present Annual Rental*	*Lease Expiration Date*
Trinity River (Weaverville)	$1,120,000	$12,000	$167,000	8-31-97
San Andreas	452,000	5,000	120,000	9-30-97
Arrowhead (Running Springs)	867,000	8,000	131,000	10-31-97
El Centro	900,000	9,000	116,000	5-31-97

[a] Estimated by CHP, but not verified by the Department of General Services, Real Estate Services Division.

The amounts budgeted for the purchase of these facilities are based on contractual amounts written into leases under lease-purchase agreements.

Administrative Costs for Purchases Overbudgeted. The budgeted amounts for administrative costs associated with the purchases represent approximately 10 percent of the contractual purchase price and range from $12,000 to $5,000. These amounts would be paid to the Department of General Services, Real Estate Services Division (RES). Our analysis indicates that the budgeted amounts for administrative costs are excessive. In each case, the state will simply be exercising the lease option and paying a previously agreed upon amount to the current owner. Consequently, we recommend that administrative costs for each be reduced to $3,000. At the current $45.30 per hour fee charged by RES, this would provide one and one-half weeks for the necessary administrative work and cover necessary transportation costs to the site.

Trinity River Area Office. The budget includes $1,132,000 under Item 2720-301-044(4) for the purchase of the Trinity River (Weaverville) leased facility. The facility was occupied in 1982 and has 13 years remaining on the lease. The state has cancellation rights after the tenth year. The facility contains 4,845 square feet of office space and currently houses 14 traffic officers. The CHP has indicated that the facility is capable of accommodating as many as 25 officers. The facility is relatively new and the CHP does not anticipate needing to make any modifications to it.

The department currently pays $167,000 in annual rent for this facility—on a square foot basis, this is the most paid for any CHP area office in the state. Included in the total is rent for 51 parking spaces, at $454 per space per year. The rent is scheduled to increase three times during the life of

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

the lease; to $179,000 beginning in September 1984, to $191,000 in 1987, and to $216,000 in 1992.

The present value of projected rental costs over the next 13 years is approximately $1,370,000. Thus, the purchase price of $1,132,000 makes the acquisition financially beneficial to the state. Accordingly, we recommend that the Legislature provide the funds needed to purchase the facility. Prior to purchase, however, RES should review the project. This review should ensure that the purchase price does not exceed the property value. In addition, as discussed above, we recommend that acquisition costs for the project be reduced from $12,000 to $3,000, to eliminate overbudgeted funds for administrative costs.

San Andreas Area Office. Item 2720-301-044(7) would provide $457,000 to purchase the leased facility in San Andreas. This is a 14-officer facility with 4,550 square feet of office space. The facility has been leased by CHP since 1982. Current annual rental is $120,000. The lease contains a rent escalator that uses the CPI in March 1984 as the base for annual increases, beginning July 1985.

Over the remaining 13 years of anticipated occupancy, the present discounted value of rental payments is approximately $1,000,000. Accordingly, we recommend that the purchase proceed, but that RES review the purchase to ensure that the price is within prevailing rates for the market. We also recommend that administrative costs for the project be reduced from $5,000 to $3,000, for a savings of $2,000.

Arrowhead Area Office. The budget includes $875,000 for purchase of the Arrowhead (Running Springs) area facility under Item 2720-301-044(8). This 4,792 square foot office was occupied in 1983 and rents for $131,000 annually. The rent is scheduled to increase to $155,000 in November 1984, and to $167,000 in 1986.

The present worth of rental payments over the remaining 13 years of the lease is approximately $1,200,000. Therefore, purchase of the facility would be cost beneficial to the state, and we recommend that funds for acquisition be approved. RES however, should review the project prior to purchase, to guarantee that the value of the property is equal to or greater than the purchase price. In addition, the amount budgeted for administrative costs, however, should be reduced from $8,000 to $3,000, for a savings of $5,000.

The Arrowhead facility has been plagued with ground water drainage problems in the parking area since it was first occupied. We recommend that prior to budget hearings, the CHP assure the Legislature that these problems have been corrected.

El Centro Area Office. Item 2720-301-044(9) provides $909,000 for the purchase of the El Centro area facility. This facility has been leased by CHP since 1967. There is 4,542 square feet of office space in the facility, which carries an annual rent of $116,000. Rental rates are scheduled to increase to $120,000 in June 1984, to $143,000 in 1987, and to $167,000 in 1992. This amount would be further adjusted by a CPI and tax escalator included in the lease agreement.

The present value of projected rental costs over the next 13 years is approximately $1,300,000 or $391,000 greater than the purchase price. Consequently, acquisition is justified. Like the other lease-purchase proposals, the cost of this project should be reviewed by RES before the state purchases the property. In addition, the amount budgeted for administrative costs should be reduced from $9,000 to $3,000, for a savings of $6,000.

Purchases Approved in 1983

We recommend that CHP report to the Legislature on why purchase of the West Los Angeles, Newhall, and Stockton facilities that were approved in the 1983 Budget Act have required actions for condemnation and immediate order of possession.

The 1983 Budget Act appropriated funds for the purchase of five CHP facilities. The purchases scheduled for the Stockton, West Los Angeles, and Newhall facilities have proceeded under condemnation and orders for immediate possession.

Last year, the CHP indicated that each of these three projects had a willing seller, and the Legislature appropriated funds for the purchases based on advice of CHP and RES. We recommend that CHP report to the Legislature on why the purchases have required condemnation and immediate order of possession, given that the amount budgeted was based on RES property values and the projects were supposed to have been owned by willing sellers. CHP should also indicate the current status of each of these three acquisition projects.

Property Options and Appraisals

We recommend approval of Item 2720-301-044 (2), property options and appraisals.

Item 2720-301-044 (2) would provide $35,000 for property appraisals and purchase options in various areas. The Budget Bill contains control language specifying that the funds appropriated under this item be used only in connection with projects to be included in the 1985–86 budget.

Our analysis indicates that the availability of purchase option and appraisal funds can substantially reduce acquisition time. Accordingly, we recommend approval of this item.

Minor Projects

We withhold recommendation on Item 2720-301-044 (1), minor capital outlay projects, pending receipt of a priority list of projects from CHP.

The Highway Patrol originally requested $1,724,000 for 50 minor capital outlay projects. Item 2720-301-044 (1), however, includes $758,000. It is not clear which projects will go forward in the budget year. According to Department of Finance staff, the CHP will pare the list of 50 projects to those that it plans to fund with the $758,000.

We withhold recommendation on this item, pending receipt of information from CHP on which of the 50 projects originally proposed it intends to undertake. This information should be made available prior to budget hearings.

Business, Transportation and Housing Agency
DEPARTMENT OF MOTOR VEHICLES

Item 2740 from the Motor Vehicle Account, State Transportation Fund and various funds — Budget p. BTH 102

Requested 1984–85	$243,325,000
Estimated 1983–84	225,996,000
Actual 1982–83	193,149,000
Requested increase (excluding amount for salary increases) $17,329,000 (+7.7 percent)	
Total recommended reduction	2,753,000
Recommendation pending	532,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
2740-001-001	Anatomical donor designation, petit jury selection	General	$67,000
2740-001-044	Departmental Operations	Motor Vehicle Account, State Transportation	170,258,000
2740-001-064	Collection of Vehicle Use Taxes	Motor Vehicle License Fee Account, Transportation Tax	70,272,000
2740-001-378	Bicycle Registration	State Bicycle License and Registration	23,000
2740-001-516	Undocumented Vessel Registration	Harbors and Watercraft Revolving	2,705,000
2740-011-044	Reserve for deficiencies	Motor Vehicle Account, State Transportation	($1,000,000)
Total			$243,325,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Waiting Times. Recommend the department submit a report to the fiscal subcommittees that describes its effort to reduce customer waiting times at field offices and evaluates alternatives raised by the Legislative Analyst. 497
2. Customer Visits. Recommend the adoption of supplemental report language directing DMV to develop effective survey techniques to determine the total number of customer visits made annually to DMV field offices and report to the Legislature on its progress. 497
3. Micrographics. Recommend adoption of Budget Bill language requiring DMV to include the microfilming of accident reports as part of its micrographics proposal. 499
4. ***Staff Benefits. Reduce Item 2740-001-044 by ~~$1,355,000~~.*** $883,000 Recommend reduction of $1,355,000 to correct for overbudgeted staff benefits. 500
5. ***Biennial Inspection Program. Reduce Item 2740-001-044 by $1,044,000 and add new Item 2740-001-420, appropriating $1,044,000.*** Recommend funding shift for smog certification activities from the Motor Vehicle Account to the Vehicle Inspection Fund. 502

6. Implied Consent Hearings. Recommend enactment of legislation transferring Implied Consent hearing function from the DMV to the courts (potential savings: $2,000,000). 504
7. Microcomputers. Withhold recommendation on $312,000 requested for purchase of 30 minicomputers. 505
8. ***Bad Checks. Reduce Item 2740-001-044 by $167,000.*** Recommend reduction to reflect delay in implementing dishonored check program. Further recommend the adoption of Budget Bill language prohibiting expenditure of any funds until 30 days after Legislature has received a report on alternatives for reducing outstanding volume of bad checks. 506
9. New Motor Vehicle Board. Recommend enactment of legislation authorizing the board to assess filing fee on dealers filing protests. 508
10. ***Reimbursements. Reduce Item 2740-001-044 by*** 35,000 ~~***$38,000.***~~ Increase reimbursements by ~~same amount.~~ 53,000 Recommend reduction because reimbursements for facility and equipment rental are understated. 510
11. ***Printing. Reduce Item 2740-001-044 by $498,000.*** Recommend reduction to correct for overbudgeting. Withhold recommendation on $220,000 requested to reprint Vehicle Code, pending receipt of user survey. 510
12. ***Lease Funds. Reduce Item 2740-001-044 by $695,000.*** Recommend reduction to correct for overbudgeting of funds for facilities which will not be occupied in the budget year. 511

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest and promoting public safety on California's roads and highways. The department includes the Divisions of Drivers Licenses, Field Office Operations, Administration, Electronic Data Processing, Registration and Compliance. Through these divisions, the department administers the following programs: (1) *Vehicle and Vessel Registration and Titling,* (2) *Driver Licensing and Control, and Personal Identification,* (3) *Occupational Licensing and Regulation,* and (4) *Administration.* In addition, the *New Motor Vehicle Board* operates as an independent agency within the department.

In the budget year, the department will operate 154 field offices in 15 districts throughout California, as well as a headquarters facility in Sacramento. The department is authorized 7,689 positions in 1983–84.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $243,325,000 from various state funds for support of the Department of Motor Vehicles in 1984–85. This is $17,329,000, or 7.7 percent, more than estimated expenditures in the current year. This increase will grow by the amount of any salary or benefit increase that may be approved for the budget year.

The budget also proposes reimbursements of $18,557,000 for services the department will provide to other agencies and the public. This results in a total expenditure program of $261,882,000 in 1984–85, an increase of $17,211,000, or 7 percent, over total expenditures in 1983–84.

DEPARTMENT OF MOTOR VEHICLES—Continued

The department proposes 7,433.6 positions in 1984–85. This represents a net decrease of 255.4 positions, or 3.3 percent, below the 7,689 positions authorized in 1983–84.

Significant Program Changes

The department's budget includes seven significant budget changes in 1984–85. Table 1 identifies these changes, and indicates the associated staffing changes and fiscal effects of each.

Table 1
Department of Motor Vehicles
Significant Program Changes
1984–85
(dollars in thousands)

Program Change	*Personnel-Years*	*Cost*	*Nature of Change*	*Cause of Change*
1. Workload Adjustments	12.8	−$285	Increased workload	Discretionary
2. DMV Automation of field offices and headquarters (Phase II and III)	−171.3	−2,586	Workload shift	Discretionary
3. Vehicle Inspection Certification	44.0	1,044	New program	Ch 892/82
4. Dishonored Check Collection	16.7	666	Program expansion	Discretionary
5. Registration Micrographics	−36.4	1,352	New program	Discretionary
6. Microcomputer Conversion	1.1	312	New program	Discretionary
7. Financial Responsibility Requirements	18.2	455	New program	Ch 1252/83
Net totals	−114.9	$958		

ANALYSIS AND RECOMMENDATIONS

SERVICE AT DEPARTMENT OF MOTOR VEHICLES FIELD OFFICES

The keystone of the Department of Motor Vehicles' operations is the direct service provided to the general public at its 154 field offices and eight travel runs (mobile service units). Approximately 36 percent of all funds appropriated to the department in any year goes directly to support the operation and maintenance of these field units. Moreover, 46 percent of the over 7,500 persons employed by the DMV work at field locations. Thus, it is not surprising that, as far as the DMV is concerned, most of the public's focus is on field office operations, and the quality of service at these offices.

Legislative Efforts to Reduce Waiting Times

Chapter 786, Statutes of 1983 (AB 489), expressed the Legislature's intent that DMV take steps to ensure that its customers wait no longer than one-half hour in any one line to receive service. Chapter 786 also directed the Legislative Analyst to examine the department's program for reducing waiting times and submit his recommendations to the Legislature on how best to allocate resources and personnel so as to achieve the ½-hour service goal.

In response to the Legislature's directive, we have examined the department's field office processes and its program for speeding up public services. Specifically, we reviewed processing operations in eight DMV field offices which, according to the department, periodically encountered problems with excessive waiting times. In 1982–83, these eight offices handled approximately 12 percent of the DMV's registration workload and 16 percent of the department's licensing activity. Table 2 displays the individual workload for each of the eight offices.

Table 2
Department of Motor Vehicles
Registration and Driver License Documents
Processed at Selected Field Offices
1982–83

		Vehicle Registration		*Driver's Licenses*	
Office	*Grade* [a]	*Number Issued*	*Percent of Statewide Total*	*Number Issued*	*Percent of Statewide Total*
Hollywood	IV	100,414	0.97%	118,441	2.31%
Santa Ana	IV	134,177	1.30	83,810	1.63
Fullerton	V	220,356	2.13	102,519	2.00
Westminster	V	264,521	2.56	103,002	2.01
San Jose	V	144,320	1.40	83,062	1.62
San Francisco	V	116,825	1.13	113,826	2.22
San Diego, Normal	IV	137,921	1.33	68,747	1.34
Los Angeles, Central	V	124,774	1.21	155,910	3.03
Subtotal, Above		1,243,308	12.03	829,317	16.16
Total Documents, All Field Offices		10,339,369	100.00	5,131,782	100.00

[a] Grade indicates size of office workload. Grade V has highest workload; Grade I has lowest.

Factors Contributing to Excessive Waiting Time. In the course of reviewing the department's registration and licensing processes, it became evident that most activities conducted at DMV field offices have grown more complex in recent years. In most cases, this increasing complexity is the result of recent legislation requiring DMV to undertake new programs such as (1) smog certification, (2) environmental license plates, (3) reflectorized license plates, and (4) identification cards. Recent legislation has also required the Department to increase its efforts in documenting sales tax, vehicle license fee, and weight fee collections, and has made many other changes that result in additional workload to the department. Invariably, these new responsibilities increase the time it takes to process applications and other workload, and result in increased customer waiting times at the field offices.

Moreover, the increasing complexities of DMV operations has coincided with a major effort by the department to automate registration and licensing functions at its major field offices. It is likely that automation initially will *increase*, not *reduce*, waiting times until the staff is fully trained on the new equipment.

Components of Waiting Time. Our review of field office activities at eight locations indicated that it is useful to think of the amount of waiting times as primarily the result of three factors: (1) the amount of processing times associated with driver's license, registration and cashiering functions, (2) the number of customers within a field office at any given time, and (3) the number of employees which are available to handle customers. These factors, along with alternatives for reducing waiting times, are discussed separately in the next three sections.

DEPARTMENT OF MOTOR VEHICLES—Continued

Alternatives for Reducing Processing Time.

Our analysis revealed that waiting times in any one line at six of the eight offices we visited were, *on the average*, less than 30 minutes during December 1983. The two exceptions were in Santa Ana and San Diego/Normal, where average waiting times for registration were 30.3 and 43 minutes, respectively. Peak, waiting times at the San Francisco and San Diego/Normal office exceeded one hour for the processing of vehicle registration documents during this same month. Generally, however, it appears that the department was able to serve a *majority* of the public within one-half hour in the following three key areas: (1) processing of driver's license applications and written tests, (2) registration of motor vehicles, and (3) cashiering. Table 3 shows average and maximum waiting times for the eight DMV offices in December 1983.

Table 3
Average and Maximum Waiting Times
Selected Field Offices
December 1983
(in minutes)

	Vehicle Registration		*Driver's Licensing*				*Cashiering*	
			Typing		*Correcting*			
	Average	*Maximum*	*Average*	*Maximum*	*Average*	*Maximum*	*Average*	*Maximum*
Hollywood	20.3	29.0	10.9	18.7	7.7	13.7	6.9	11.5
Santa Ana	30.3	33.3	6.2	9.2	4.0	6.1	7.8	10.9
Fullerton	22.3	25.4	10.6	14.1	9.1	11.9	4.5	5.7
Westminster	22.0	32.0	6.0	8.0	7.0	10.0	3.0	6.0
San Jose	22.0	31.0	6.0	15.0	7.0	17.0	6.0	13.0
San Francisco	25.3	62.0	4.3	18.0	7.6	33.0	5.1	26.0
San Diego/Normal	43.0	67.0	4.0	11.0	11.0	22.0	—	—
Los Angeles	10.7	22.0	6.7	11.0	1.9	3.6	6.6	17.3

Nevertheless, it appears that steps can be taken to further reduce the amount of processing time associated with these functions. These steps include:

1. ***Eliminate or Consolidate Forms.*** The DMV's processes, especially those related to vehicle registration, often require a multitude of forms. Thus, in order to register a vehicle, a DMV employee may have to wade through various documents which verify ownership, the bill of sale, the smog inspection certification, and information on outstanding parking tickets, to name a few. The time needed to check these documents increases when a customer has forgotten to have the required forms signed by the necessary parties.

Elimination of some of the less important documents, or at least consolidation of some of these documents into a single form, would promote much quicker service at DMV windows. A good example of a marginal form is the Certification of Non-Operation, on which a motor vehicle owner certifies that he or she has not operated his or her vehicle during the time the vehicle was not registered. Department officials indicate that little, if any, effort is made to verify the validity of the vehicle owner's statement. The elimination of this form, therefore, would appear to have little impact on fee collection efforts or enforcement costs. Elimination or consolidation of forms could also reduce the number of return visits which are needed because a customer has forgotten to have a form signed.

2. ***Establish Bilingual Windows.*** The eight field offices that we visited serve ahigh percentage of non-English-speaking clients. Despite the department's efforts to adjust service to reflect changes in the ethnic composition of its service populations, slow-downs are at least partially attributable to language difficulties. Even if a bilingual or multilingual employee is available, a non-English-speaking customer must either wait for that person to come to the customer's window, or must be directed to that employee's work station. Both procedures take time.

The DMV might be able to improve service by establishing bilingual windows at offices where a substantial portion of the clients speak a language other than English. For example, in Los Angeles and San Diego, Spanish-speaking windows might be cost-effective, given the high percentage of non-English-speaking Hispanics who are served in those offices. Likewise, in San Francisco and Santa Ana, the large Asian population might be served more effectively in a similar manner.

3. ***Increase the Efficiency of DMV Personnel.*** In many of the offices we visited, we found that the amount of experience possessed by DMV personnel noticeably affected the amount of time required to complete a transaction. In some cases, experienced registration rating clerks were able to produce two to three times the documents that new personnel could process. The problem does not appear to be one of training, which appears to be sufficient. Rather, it appears to stem from turnover. Certain offices consistently experience a high rate of transfers and turnover, both of which consume an inordinate amount of the work hours allocated to those field offices, due to the need to train replacements. The necessity to back fill with inexperienced personnel often results in slow service to the public.

One means of reducing turnover at offices such as Hollywood, Los Angeles, and Santa Ana, where this is a problem, would be to establish a one-year probationary period during which employees would not be allowed to transfer to another DMV location. This policy is followed by the California Highway Patrol, with a high degree of success. Undoubtedly, such a policy would have to be considered in collective bargaining negotiations with employee groups. Nonetheless, it represents an option for improving service at those offices where transfers occur at an excessive rate.

Another means for increasing the efficiency of DMV personnel would be to create an *incentive program* which recognizes and rewards exemplary job performance. With the implementation of its new office automation system, the DMV will be able to monitor the qualitative and quantitative output of its employees. This will permit the department to spot potential trouble areas and, if needed, provide assistance and correct the problem. It will also provide the department with the capability to recognize and reward those employees whose performance is clearly exceptional.

Finally, as we note above, automation of DMV's registration and licensing functions over the next two years will likely result *initially* in longer waiting times at DMV field offices. This is due principally to the "learning curve" associated with new equipment and processes. Over time, however, the department anticipates that automated processing will *lower* the waiting time experienced at field offices, and it currently is collecting information which will be used to test this assertion.

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Alternatives for Reducing the Number of DMV Field Office Customers.

In 1979, the Department of Motor Vehicles began implementing the provisions of Ch 658/78 (AB 583) which permitted the DMV, on a trial basis, to grant a two-year driver's license extension, by mail, to motorists whose driving records showed no traffic violations or accidents in the preceding four-year period. Subsequent legislation has provided for (1) up to *two* license extensions of *four* years each for motorists with clear driving records and (2) extensions based on two, rather than four, years of safe driving. Table 4 displays the number of driver's licenses issued by field offices and driver's licensing workload for the entire department, since July 1979.

Table 4
Department of Motor Vehicles
Driver's License Workload
1979–80 through 1982–83

	Driver's Licenses Issued by Field Offices	*Driver's License Extensions*
1979–80	4,464,325	629,254
1980–81	3,930,501	1,160,295
1981–82	3,997,682	1,544,479
1982–83	3,920,921	1,576,181

As Table 4 indicates, driver's license workload has been reduced somewhat at field offices since the introduction of extension by mail, while driver's license extensions by mail have increased progressively since their introduction in 1979.

In addition, the DMV instituted the Enhanced Registration Renewal Program in 1979, which encourages the payment of vehicle registration fees by mail. This also appears to have had a major impact on the number of persons who must visit DMV field offices annually. Table 5 illustrates the reduction in vehicle registrations processed by field offices since July 1979.

Table 5
Department of Motor Vehicles
Vehicle Registration Renewal Workload
1979–80 through 1983–84

	Processed by Field	*Total Renewals*
1979–80	5,542,103	16,897,043
1980–81	5,416,788	17,417,879
1981–82	4,767,646	17,031,457
1982–83	4,670,100	17,510,832
1983–84	4,508,000 (est.)	17,663,000 (est.)

In summary, it appears that driver's license extension and vehicle registration renewal by mail have had a significant effect on the number of transactions handled at DMV field offices. Our analysis indicates, however, that further actions may be possible to reduce the number of customers visiting DMV field offices and thereby reduce waiting times.

1. ***Encourage More Registrations by Mail.*** Despite the department's heavy emphasis on registration renewal by mail, many unnecessary visits

into DMV field offices still occur on a daily basis. According to field office staff, this is due primarily to four factors: (1) many motorists pay fees in cash because they don't have checking accounts; (2) some motorists distrust the postal system and feel the need to receive important documents directly, (3) some motorists need a registration document immediately, and (4) many motorists are unaware that most registration transactions can be completed by mail.

We believe the DMV should undertake a vigorous public awareness campaign which not only informs motorists that they can conduct registration renewals by mail, but also explains the advantages of doing so—savings in time, money and convenience.

2. ***Expand the Use of Centralized Information Units.*** Currently, in the southern California area, the department operates a centralized information unit (CIU) from the Region 3 headquarters located in downtown Los Angeles. Through a sophisticated communications system, operators at the CIU are able to receive incoming calls from the entire Los Angeles basin and parts of Orange County and, in turn, provide information to the public on the location of offices, application forms which are needed, operating hours of field offices, and other information related to motor vehicle registration and driver's licensing regulations. Current operating costs of the Los Angeles CIU are about $650,000 per year. Other regions continue to utilize a decentralized approach for responding to calls from the public.

There are many benefits to be gained from a centralized communications system which appear to justify implementation of these systems in all urban areas throughout the state. *First,* it eliminates telephone calls to the various field offices, leaving field office employees with more time to serve the public directly. *Second,* it enables DMV employees to encourage callers to conduct business by mail. *Third,* by establishing a bank of receptionists at one location, it allows the DMV to take advantage of economies of scale and realize savings in terms of reduced field office supervision, equipment and utilities, and also permits the department to employ a number of blind and disabled persons as receptionists.

3. ***Require Registrations by Appointment.*** The DMV recently has begun a pilot test in Santa Barbara which requires motorists to make an appointment prior to coming in to register their vehicles. When the vehicle owner calls, he or she receives an appointment and is sent a checklist of forms to bring to the field office. The early results of the pilot project appear to be encouraging. In the short time the pilot has been in operation (since mid-October 1983), the Santa Barbara field office has increased the number of registration items handled daily by 3 percent, increased mail transactions by 41 percent, and reduced the number of items which must be returned because they are incomplete by 19 percent. The DMV indicates that two additional districts—with offices smaller and larger than Santa Barbara—soon will begin registration by appointment. If the results of this program continue to be positive, statewide implementation should be considered.

Increasing Availability of Field Office Personnel.

A large portion of field office activity is directed at "dealer work", consisting of registration forms and payments which are submitted by new and used car dealers. The DMV gives this type of work special attention and generally strives to complete dealer work within five days, as a means of ensuring dealer compliance with registration deadlines and accelerat-

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ing fee collection. (In contrast, first-time vehicle registrations by a member of the general public take up to six weeks.) Items which are delivered in person by dealers are often given same-day service. Clearly, the time devoted to dealer work often comes at the expense of direct service to the public.

Our review indicates that several actions could be taken to at least partially alleviate the conflict between dealer work and general public work, and thereby increase the availability of staff at field offices.

1. ***Expand the Use of Statewide Centralized Registration Units.*** Closely aligned, both physically and conceptually, with the DMV's Centralized Information Unit in Los Angeles is the Centralized Registration Unit (CRU). Housed in the same building as the CIU, the registration unit performs dealer work for 14 field offices in southern California. Plagued initially by problems of coordination, the CRU is now generally able to meet the five-day deadline imposed internally by the department, at an annual cost of approximately $715,000.

The benefits from the CRU concept are similar to those afforded by the centralized information approach. Specifically, less employee time is spent at field offices handling bulk dealer work (at most offices we visited this percentage exceeds 40 percent), because there is a low level of distraction. Significant economies of scale are also available from a centralized operation. Again, the additional costs of establishing centralized registration units statewide probably can be offset by savings which would be realized at field offices.

2. ***Establish Swing Shift Registration Units.*** The DMV currently is exploring the possibility of instituting swing shift crews (6 p.m. to 10 p.m.) which would process both dealer work and mailed-in applications received by the field offices. The department indicates that this may be a preferable alternative to separate centralized registration units, because it would avoid the need for a separate facility and equipment. The department, however, may (1) encounter difficulties securing qualified help at night, (2) find it necessary to pay shift differentials, pursuant to collective bargaining agreements, and (3) run into security problems in employee parking lots after dark. Even so, we encourage the department to fully explore the potential advantages of using field office resources during evening hours, in order to process workload which interferes with providing quicker service to the public during normal operating hours.

Additional Funding for DMV Operations

Undeniably, the problem of waiting time at DMV offices could likely be solved by adding more personnel to those offices experiencing long waits. Given the apparent fluctuation of waiting times and the dubious cost-effectiveness of hiring additional employees only for "peak periods", we believe the DMV should pursue other available remedies *before* seeking to add more staff.

If the Legislature should decide to place more personnel at DMV field offices to reduce waiting times, the source of funding for these personnel should be fully explored ahead of time. Recent projections by the Department of Transportation indicate that, by 1987–88, resources in the Motor Vehicle Account may not be sufficient to finance anticipated expenditures by the DMV and the California Highway Patrol, as well as certain functions of the Air Resources Board and the Department of Justice which are currently funded from the MVA. Consequently, the assignment of additional personnel to DMV field offices for purposes of reducing waiting times might require that other activities currently funded from the MVA be cut-back or eliminated.

Efforts by the Department to Reduce Waiting Time

We recommend that at the time of budget hearings the Department of Motor Vehicles submit a report to the fiscal subcommittees (1) describing its efforts to reduce customer waiting times at its field offices, and (2) evaluating alternatives for reducing waiting time identified by the Legislative Analyst in the course of his review of field offices operations.

In response to Chapter 786, the department is conducting its own study of ways to reduce waiting times at the 154 DMV field offices throughout California. In order that the Legislature may be informed on the department's progress in this effort, we recommend that the department submit a report to the fiscal subcommittees at the time of budget hearings on the status of the study and any preliminary conclusions that have been drawn from it. This report should also include an assessment of the alternatives identified in this *Analysis* for improving services at field offices and reduce waiting times.

Number of Customer Visits Needs to be Determined

We recommend that the Legislature adopt supplemental report language requiring the department to develop effective survey techniques for determining the total number of customer visits made to DMV field offices annually and to report to the Legislature by December 15, 1984, on its progress.

The Division of Field Office Operations within the Department of Motor Vehicles is responsible for allocating personnel and resources to the 154 DMV offices throughout California. As part of its allocation process, the division annually reviews workload volumes, current staffing levels, and other variables which may affect the personnel needs of a particular office. Subsequently, adjustments are proposed in the DMV's annual workload budget proposal and, if approved by the Legislature, these changes are then implemented.

Our review indicates, however, that no allowances are made for the number of *customer visits* made to field offices each year. Although the DMV can determine the number of various transactions *completed* (for example, the number of driver's licenses, registrations, or I.D. cards issued) at its field offices, it has no way of estimating how many customer visits are made in order to complete a transaction. According to the department, no data on total customer visits has been collected because of the deficiencies and uncertainties associated with various counting techniques.

The absence of this information puts offices, where return visits occur frequently, at a disadvantage in terms of securing needed personnel. This, in turn, leads to longer waiting times, because field offices have been largely staffed according to the number of documents completed, not on the number of customers that must be serviced. The collection of basic information pertaining to the number of customer visits could help establish the severity of this problem and provide a basis for alleviating it.

To provide for the collection of this data, we recommend that the Legislature adopt the following supplemental report language:

"The Department of Motor Vehicles shall develop effective survey

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techniques for determining the total number of customer visits made to DMV field offices annually and report to the Legislature by December 15, 1984, on its progress in this area."

REGISTRATION AND TITLING

The department's largest program, Vehicle and Vessel Registration and Titling, accounts for $145,264,000, or 55 percent, of the proposed expenditures by the DMV in 1984–85. This is an increase of $10,631,000, or 7.9 percent, over current-year expenditures. Activities carried out as part of this program include the issuance of titles and registration documents, the determination of vehicle or vessel ownership, the collection of various fees for state and local governments, and the processing of registration information. During 1984–85, the registration functions of 101 field offices and DMV Headquarters will become fully automated.

In the budget year, the department is requesting a staffing level of 3,558.7 personnel-years for registration and titling services, a decrease of 251.7, or 6.6 percent, from the current-year staffing level.

Table 6 shows staffing and expenditure levels for the registration and titling program.

Table 6
Department of Motor Vehicles
Vehicle and Vessel Registration and Titling Program
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Percent Change*
Program expenditures	$115,339	$134,633	16.7%	$145,264	7.9%
Personnel-years	3,486.5	3,810.4	9.3	3,558.7	−6.6

DMV Automation Project: And The Byte Goes On

As we reported in our *Analysis of the 1983–84 Budget Bill*, the Department of Motor Vehicles is in the midst of a multi-phased program to fully automate the registration and licensing functions at a majority of its field office locations. We also indicated at that time that Phase II—Registration—would be fully operational by January of 1985 and that Phase III—driver's licenses and I.D. cards—would be in full operation by June of 1985.

Since January, 1983, the department has fallen approximately five months behind its schedule for implementing automated registration functions and nearly six months behind its schedule for installing the automated driver's license program. According to the department, the delays reflect difficulties experienced by the department in developing computer programs that are compatible with DMV processes. The fiscal effect of the new schedule will be to defer project savings ($17 million annually) until 1986–87 and to spread training costs into the 1985–86 fiscal year.

Currently, automated registration is being conducted at South Sacramento DMV, and is scheduled to begin March 14, 1984, in Carmichael. Anticipating system conversions at other field offices, modular furniture has been installed at 19 other locations. By the end of the current year, five DMV offices and the Centralized Registration Unit (CRU) in Los Angeles will have automated registration capability. During 1984–85, the department expects that 95 additional field offices will be fully automated for registration, and that 36 of the 101 targeted offices will have automated driver's license functions.

Notwithstanding the delay in implementation, it appears that the DMV Automation Project is proceeding at an acceptable pace. We should be able to provide the Legislature with a more detailed review of the operational and programmatic aspects of the project in next year's *Analysis.*

Micrographics Can be Extended to Accident Reports

We recommend that the Legislature adopt Budget Bill language requiring the Department of Motor Vehicles to include filed accident reports among the documents which will be converted to a computer-assisted micrographics file.

Vehicle registration and title documents currently are retained by the Department of Motor Vehicles for three years following the date of expiration on the document. This has resulted in a massive filing and storage system at the department's headquarters in Sacramento. The DMV estimates that approximately 32,000 square feet are consumed by title and registration files. In addition, 149 personnel-years are required annually to sort, file, access and refile these documents.

To reduce this filing and storage burden, DMV is proposing to expend $1,352,000 in the budget year to purchase computer-assisted micrographics equipment which will place registration and vehicle title information on microfilm. The department already processes driver's licenses and identification cards through such a system. The proposed new system will:

- Reduce office space required for the filing system by 15,067 square feet by 1988.
- Allow enlargement of the California ownership certificate without increasing processing and filing costs.
- Reduce ongoing file support costs by 56.2 positions by 1988–89.
- Reduce document-retrieval time from 7½ to 4 minutes.
- Permit the retention of titling records for up to 10 years.

The department estimates that the pay-back period for this project will be five years, which is somewhat longer than the three-year pay-back period the department normally requires for proposed projects. This is primarily due to the long implementation period required and the time it will take to complete the conversion to the micrographics system. Nevertheless, it appears that the proposed conversion to microfilm is a needed and worthwhile change. Thus, we recommend its approval.

We believe, however, that DMV can take further advantage of this conversion by also placing *accident reports* on microfilm. Currently, the department receives approximately 500,000 accident reports per year from the California Highway Patrol and retains the hard copies for approximately 37 months. Although the space and personnel required to process and maintain these items is much less than what is required for registration and titling documents, maintaining hard copy files of accident reports still imposes a heavy—and avoidable—burden on the department.

The department anticipates spending nearly 87 percent of the $1,352,000 requested for 1984–85 on equipment needed to process registration and titling documents. We know of no reason why approximately 1.5 million accident reports could not be included in a micrographics project which will convert over 122 million documents to a soft copy format.

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Moreover, any additional costs could be offset in one of two ways. *First,* the department would realize savings in terms of reduced filebox space and personnel costs associated with a conversion to micrographics. *Second,* the California Highway Patrol, which processes all of the accident reports submitted to DMV, could process the soft copy conversion prior to submitting the reports to the department for filing.

In view of the benefits to be gained from converting accident reports to microfilm, we recommend that the Legislature adopt the following Budget Bill language:

"Provided that $1,352,000 of the funds appropriated in this item shall not be expended for micrographic conversion of registration and titling documents unless the Department of Motor Vehicles includes conversion of accident reports as part of its conversion program."

Staff Benefits Ignore Actual Costs

We recommend a reduction of $1,355,000 in Item 2740-001-044 to correct for overbudgeted staff benefits.

Staff benefits totaling $48,856,000 are budgeted for DMV employees in 1984–85. This amount represents 35.3 percent of net salaries and wages for the department, a slight increase from the estimated percentage (34.9) in the current year. The proposed amount, however, is substantially higher than the amount expended in 1982–83. Table 7 represents staff benefit totals for the previous, current and budget years.

Table 7
Department of Motor Vehicles
Staff Benefits
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Projected 1984–85*
Net Salaries and Wages	$119,135	$130,864	$138,227
Staff Benefits	34,415	45,721	48,856
Percentage of Salaries and Wages	28.8%	34.9%	35.3%

Our analysis indicates that the amount of funding requested for four staff benefits is *overstated* and can be reduced. The components which should be adjusted are as follows:

Health Benefits. The amount requested for health benefits in 1984–85 is $10,887,000. At the time this amount was calculated, the DMV was estimating that 7,643.2 personnel-years would be utilized in 1984–85, and that health benefit costs would average $1,425 for each personnel-year. This amount includes a 3.5 percent contingency which the department applies to its health benefits package.

The Governor's Budget shows that the department is actually proposing 7,264.8 personnel-years. When the health benefit rate is applied to the 7,264.8 personnel years requested by DMV, the amount needed for health benefits becomes $10,354,000, or $533,000 less than the amount proposed. We therefore recommend a reduction of $533,000.

Dental Benefits. Dental benefits payments were calculated in a fashion identical to health benefits. Consequently, the department's request is overstated by $63,000. We recommend that this amount be deleted.

Worker's Compensation. The department estimates that worker's compensation benefits paid to employees will increase by 45 percent in the current and budget years. Based on actual expenditures in 1982–83 of $1,016,857, the department estimates its expenditures will be $1,474,000 in 1983–84, and rise to $2,137,000 in 1984–85. The department's estimates, however, contradict experience in the first five months of the current year, which indicates that the rate of growth in worker's compensation payments is not as large as anticipated.

During the first five months of 1982–83, the department paid $385,250 in worker's compensation benefits. The amount for the first five months of the current year is $445,273, or *15.6* percent higher than payments during the July 1–November 30, 1982 period. If this rate of growth continues throughout the current and budget year, DMV worker's compensation payments will total $1,175,286 in 1983–84 and $1,358,400 in 1984–85. Even if a reserve of 5 percent per annum is allowed for, the maximum amount that would be needed in the budget year is about $1,498,000, rather than the $2,137,000 as proposed. Accordingly, we recommend that funding for worker's compensation benefits be reduced to $1,498,000, for a savings of $639,000.

Unemployment Insurance. The DMV is requesting $552,000 to fund unemployment insurance (UI) payments in the budget year. Using data from the past four years, the DMV estimates that payments in the current and the budget year will increase by $70,000 per year. Table 8 reflects the department's unemployment benefits for past, current, and budget years.

Table 8
Department of Motor Vehicles
Unemployment Insurance
1979–80 through 1984–85
(dollars in thousands)

	Amount Paid	*Difference From Previous Year*	*Percent Change*
1979–80 (actual)	$327	NA	NA
1980–81 (actual)	378	$52	18.0%
1981–82 (actual)	465	87	22.9
1982–83 (actual)	412	−54	−11.5
1983–84 (estimated)	482	70	17.0
1984–85 (estimated)	552	70	14.5

As Table 8 illustrates, insurance claims actually decreased in 1982–83. The department, however, is assuming that these payments will rise rapidly in 1983–84 and 1984–85. It has not provided any information which would substantiate this assumption. Moreover, the DMV is making a substantial effort in the current and budget year to hire more employees on a *permanent basis* and thereby avoid unemployment payments which usually accompany the use of temporary help. It is our understanding that heavy use of temporary help in previous years was partially responsible for the increases which occurred prior to 1982–83.

For this reason, we believe the DMV's *actual* expenditures of $411,836 in 1982–83 provide a more reliable basis for determining what level of funding should be budgeted for UI benefits in 1984–85. If this amount is increased to provide for a 5 percent contingency reserve, the amount requested by the department would still be $120,000 more than what

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appears to be needed ($432,000). Accordingly, we recommend a reduction of $120,000 requested for unemployment insurance benefit payments and approval in the reduced amount of $432,000 ($411,836 × 1.05 percent).

Summary. In sum, we believe the department's estimate of expenditures for health benefits, dental payments, worker's compensation and unemployment insurance in 1984–85 is $1,355,000 more than what will be needed. Thus, we recommend a reduction of $1,355,000 to correct for this overbudgeting.

Funding For Vehicle Inspection Program Needs Realignment

We recommend that the source of funds for the Biennial Vehicle Inspection Program be shifted from the Motor Vehicle Account to the Vehicle Inspection Fund, because this is the fund established by the Legislature to finance this program (Reduce Item 2740-001-044 by $1,044,000 and appropriate $1,044,000 under a new Item 2740-001-420).

The Department of Motor Vehicles, along with the Bureau of Automotive Repair (BAR) in the Department of Consumer Affairs, is scheduled to begin implementation of the Biennial Vehicle Inspection Program (BVIP) in March 1984. This program requires biennial motor vehicle inspections to detect and reduce violations of vehicle emission standards in certain urban areas throughout the state. (Implementation of the BVIP is discussed as part of our analysis of Bureau of Automotive Repair—Item 1150-008-420.) The DMV is proposing Motor Vehicle Account expenditures of $1,044,000 and 44 personnel-years to support certification activities in the budget year.

Specifically, DMV's role will consist of providing information to the motorists on the new program, and requiring a certificate of compliance as a condition for renewing registration. The Bureau of Automotive Repair is authorized to charge inspection and repair stations up to $6 for each certificate of compliance and to deposit the fee revenues in the Vehicle Inspection Fund. All of the activities of the Bureau of Automotive Repair related to the Biennial Vehicle Inspection Program will be supported by the Vehicle Inspection Fund.

Last year we pointed out that DMV activities related to vehicle inspection should also be financed from the Vehicle Inspection Fund. We recognized, however, that due to cash flow problems, such funding would probably not be available in 1983–84. On that basis, we recommended that DMV's program-related expenditures in 1983–84 be funded from the Motor Vehicle Account, with the understanding that the department would work with the bureau and the Department of Finance to determine the appropriate source of funding for DMV's inspection activities.

Our analysis indicates that DMV's request for $1,044,000 and 44 personnel years appears to be justified. In our view, however, the Vehicle Inspection Fund, rather than the Motor Vehicle Account, should support the activities to be funded with the $1,044,000 requested in the budget, for the following reasons:

- The Vehicle Inspection Fund was established to fund all state activities related to the Biennial Vehicle Inspection Program.
- There will be a surplus of nearly $20 million in the fund during the budget year, which is more than ample to support DMV's expenditures.
- The Vehicle Inspection Fund will not experience cash-flow problems in 1984–85, as it did in 1983–84.

Accordingly, we recommend that (1) Item 2740-001-044 (Motor Vehicle Account) be reduced by $1,044,000 to eliminate support for vehicle inspection activities, and (2) an equal amount be appropriated from the Vehicle Inspection Fund under a new Item 2740-001-420. The new item should be reflected in the Budget Bill as follows:

"2740-001-420—For support of Department of Motor Vehicles, Program II—Vehicle and Vessel Registration and Titling, payable from the Vehicle Inspection Fund .... 1,044,000.

Provisions:

1. Funds appropriated in this item are for purposes of Chapter 5 (commencing with Section 44000) Division 26, of the Health and Safety Code."

DRIVERS LICENSING AND CONTROL AND PERSONAL IDENTIFICATION

The Drivers Licensing and Control and Personal Identification Program is designed to promote the public's use of the road and highway system, while minimizing the risk of injury, death, or property loss. To these ends, the program licenses drivers, promotes safe driving practices, and exercises control over drivers who have mental or physical impairments or have been judged to be unsafe. In addition, the program provides personal identification services for all drivers and nondrivers in the state. Operations include providing anatomical donor stickers with driver's licenses and identification cards, and promoting financial responsibility of vehicle operators by suspending the driving privilege of individuals who are unable to show proof of financial responsibility following an accident.

The department is proposing total expenditures of $99,530,000 in 1984–85 for drivers licensing and personal identification activities. This is an increase of $5,638,000, or 6.0 percent, over current-year expenditures.

Staffing and expenditure levels for the Drivers Licensing and Control, and Personal Identification Program are displayed in Table 9.

Table 9
Department of Motor Vehicles
Drivers Licensing and Control,
and Personal Identification Program
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Percent Change*
Program expenditures	$80,731	$93,892	16.3%	$99,530	6.0%
Personnel-years	2,636.8	2,832.6	7.4	2,847.1	0.5

"Targets of Opportunity" Report Completed

In January 1976, the Research and Planning Section (now the Research and Development Section) of the DMV prepared an internal memorandum listing potential areas where the department might reduce costs without adversely affecting the level of service to the public. The memorandum, entitled "Targets of Opportunity", was prepared at the request of the DMV director, and was used by top-level management in its review of DMV operations.

DEPARTMENT OF MOTOR VEHICLES—Continued

Language included in the *Supplemental Report to the 1983 Budget Act* directed the Department of Motor Vehicles to (1) produce a new "Targets of Opportunity" memorandum for use in preparing the department's 1984–85 budget request and (2) report to the Legislature by December 15, 1983, on the results of its efforts.

In December 1983, the department issued its report. Given the limited amount of time that the DMV had to prepare the report, we believe the results are commendable. The report pointed out 17 areas where the department currently is attempting to (1) reduce costs, (2) increase revenue, or (3) provide an improved level of service to the public. More important, the report identified 31 alternative actions which potentially could improve the effectiveness of the department or enhance the fiscal outlook of the Motor Vehicle Account. Of these 31 alternatives, seven call for administrative improvements which are now being evaluated. The remaining 24 would require enactment of legislation before they could be implemented.

We will be prepared to discuss the report and the alternative actions identified by the department at the time of budget hearings.

Transfer of Implied Consent Hearings

We recommend the enactment of legislation which would transfer the Implied Consent hearing function from the DMV to the courts and require that violations of the Implied Consent law be adjudicated at the same time as associated DUI offenses. (Potential savings: $2,000,000)

As part of its "Targets of Opportunity" report, the Department of Motor Vehicles identified ways of reducing costs under its Implied Consent Program. Under current law, motorists are deemed to have given their consent to a specified blood-alcohol test when operating a motor vehicle. Motorists who are suspected of driving under the influence (DUI) and who refuse to submit to a test requested by a law enforcement officer are in violation of the Implied Consent law and are subject to license suspension by the DMV.

Under the Implied Consent process, arresting law enforcement agencies notify the DMV of motorists who have refused to submit to one of three blood-alcohol tests specified by law. In turn, the DMV begins license suspension proceedings and notifies the motorist of its intent to suspend the person's license for a six-month period. If the motorist wishes to appeal the suspension, the department conducts an administrative hearing on the matter. This process is separate from the judicial hearing which takes place on the DUI offense.

According to the department, major savings could be achieved if the department were required to suspend the license of only those persons who pleaded *"not guilty"* to the DUI offense. This would result in 50 percent reduction in the number of license suspension hearings that the department must conduct each year. The DMV indicates that currently, about 30 percent of those persons who violate the Implied Consent law, or 10,000 persons annually, request such a hearing.

There would be some drawbacks to implementing this alternative. For example, in some cases, the DMV might schedule suspension hearings before a person has had a chance to enter a plea in court. Thus, the DMV might end up suspending the license of motorists who *later* plead guilty to the DUI charge. In such cases, the DMV might be required to conduct *two* hearings in order to resolve the matter.

Furthermore, there is some question as to whether persons who refuse to submit to a blood-alcohol test and then later plead guilty in court should be treated any differently by the DMV than persons who refuse the test and plead *not* guilty, but are later found to be guilty. A dual system of enforcement, such as the department suggests, could induce innocent people to plead guilty in order to avoid license suspension.

As an alternative, we believe that the *entire* Implied Consent hearing process could be *transferred* to the judicial system, at little or no additional cost to the courts, and yield savings of approximately $2 million annually to the department. If the transfer were approved, the DMV would continue to start suspension proceedings upon notification from a law enforcement officer that an Implied Consent violation had been cited. If a person requested a hearing on the license suspension, it would be conducted by the same judge ruling on the DUI offense, at the *same time* the DUI offense is adjudicated. According to the DMV, the 10,000 hearings conducted annually by the department essentially duplicate the judicial process related to adjudication of DUI offenses.

Court reporting of the charge could be handled in the same way. When the courts forward information to the DMV related to a DUI offense, it could also notify the department of its decision on the Implied Consent violation. For persons found guilty of the Implied Consent violation, no further action would be required by the department. For those motorists found innocent, the DMV would merely reinstate these licenses on the basis of the court abstract.

In order to effect such a change, legislation would need to be enacted. Given the potential savings to be gained from combining adjudication of Implied Consent and DUI violations, we recommend the enactment of legislation requiring that persons wishing to contest an Implied Consent action related to a charge of driving under the influence (DUI), be afforded a court hearing on the Implied Consent matter at the time the DUI offense is adjudicated.

I recommend approval of $192,000 for savings of $120,000.

Will Minicomputers Provide Maxibenefits?

We ~~withhold recommendation~~ on $312,000 (Item 2740-001-044) requested for the purchase and operation of 30 microcomputers, pending receipt of (1) a report on the Microcomputer Pilot Project, and (2) an analysis of potential cost savings from the operation of the 30 computers.

For 1984–85, the department requests $312,000 to support (1) the purchase of 30 microcomputers, (2) 1.2 new personnel-years of temporary help to replace persons receiving microcomputer training, and (3) general expenses related to the operation of the computers. According to the DMV, these small minicomputers are needed because many individual users of computer terminals within the department often require a quick response which a centralized computer processing system cannot always offer. The department also anticipates a productivity increase of at least 15 percent as a result of this purchase. As part of its supporting documentation, DMV indicates that the introduction of 30 of the microcomputers could generate savings in temporary and overtime help exceeding $500,000.

The DMV currently is involved in the Microcomputer Pilot Project, which is measuring the feasibility and cost-effectiveness of microcomputers in use at DMV headquarters in Sacramento. The department expects to have results of the pilot project by the end of March 1984. The acquisi-

DEPARTMENT OF MOTOR VEHICLES—Continued

tion of the 30 microcomputers is dependent on the success of the pilot project. Accordingly we withhold recommendation on DMV's request for the 30 microcomputers, pending the results of that project.

Our analysis indicates, however, that the department has not reflected the savings that it expects to realize from these computers in its budget for 1984–85, particularly since, according to the department, *cost avoidance and productivity increases* will be the primary benefits to be gained from the new equipment.

We recommend that the department include in its report on the pilot project an analysis of potential cost savings from use of the 30 microcomputers in the budget year and beyond.

OCCUPATIONAL LICENSING AND REGULATION

The department provides consumer protection to the motoring public through its occupational licensing and regulation program. It does so through the program's regulation of persons and firms engaged in the manufacture, transportation, sale, distribution, and dismantling of vehicles. The program also serves as a means of remedial or recovery action for victims suffering financial loss. The budget of the New Motor Vehicle Board, which formerly was displayed under the Occupational Licensing and Regulation Program in DMV, appears in the budget as a separate program.

In 1984–85, DMV is proposing to spend $16,312,000 on occupational oversight activities. This is $859,000, or 5.6 percent, over current-year estimated expenditures.

Table 10 displays expenditure and staffing for the Occupational Regulation and Licensing program.

Table 10
Department of Motor Vehicles
Occupational Licensing and Regulation
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual[a] *1982–83*	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Percent Change*
Program expenditures	$13,876	$15,453	11.4%	$16,312	5.6%
Personnel-years	355.5	370.5	4.2	362.0	−2.3

[a] Includes New Motor Vehicle Board.

Bad Check Issue Bounces Back

We recommend a reduction of $167,000 from Item 2740-001-044 because the department will not be implementing its dishonored check collection activities until October 1, 1984. We further recommend the adoption of Budget Bill language related to the dishonored check collection program.

Dishonored checks submitted to the DMV represent a major revenue loss to the Motor Vehicle Account each year. In 1982–83, for example, the department received 57,850 dishonored checks with a face value of $5,475,968. Currently, the department issues collection letters for checks with amounts below $200 and refers those with a value over $200 to DMV investigators. The department is able to collect on approximately 55 percent of the bad checks it receives through these means. The department's inability to clear a greater volume of bad checks in 1982–83 and 1983–84, however, has resulted in an almost linear rise in the number of *outstanding* checks and a steady growth in the average value of the checks. This growth is illustrated in Table 11.

Table 11
Department of Motor Vehicles
Outstanding Dishonored Checks
By End of Fiscal Year
June 1979 through June 1983

	Outstanding as of				
	June 1979	*June 1980*	*June 1981*	*June 1982*	*June 1983*
Volume	18,541	24,659	29,704	23,182	34,718
Amount Due	$1,278,102	$1,887,547	$2,435,843	$2,178,839	$3,684,408
Average Check Amount	$69.27	$76.55	$82.00	$93.99	$106.12

The department is making a vigorous effort to reduce both the number of bad checks it receives and the number which remain outstanding. As part of this effort, the department has (1) begun a pilot project which will determine the cost-effectiveness of referring all checks with a value over $26 to investigators, (2) awarded a contract to a commercial collection agency in an attempt to recover the value of checks deemed "uncollectible", and (3) requested $666,000 in 1984–85 to hire 17 special investigators in order to attempt collection of all checks over $100 by means of vehicle seizure and sale.

We applaud the DMV's comprehensive approach to this troublesome problem. It appears, however, that the department's request for additional staffing may be premature. The DMV acknowledges that the 17 new positions should not be filled until more is known about the results of those actions taken in the current year to reduce the volume of dishonored checks outstanding. The department indicates that the results from the pilot project will not be known until June 1984 and, more important, its analysis of services provided by the commercial collection agency will not be available until sometime in August or September of 1984.

It is unlikely, therefore, that the DMV would be in a position to decide which alternative is likely to be the most cost-effective until October 1, 1984 at the earliest. Thus, funds budgeted for the 17 new special investigator positions will not be required during the first three months of 1984–85. Accordingly, we recommend a reduction of $167,000 in the amount budgeted for these positions, leaving a balance of $499,000 to support the proposed dishonored check collection program during the last 9 months of the fiscal year. Furthermore, to ensure that the Legislature has an opportunity to review the results of current efforts to increase dishonored check collections, we recommend that it adopt the following Budget Bill language:

"Provided that none of the $499,000 provided for dishonored check collection activities shall be approved for expenditure by the Department of Finance until 30 days after a report has been submitted to the fiscal committees and the Joint Legislative Budget Committee on (1) various alternatives related to dishonored check collection, and (2) the basis for the alternative selected."

DEPARTMENT OF MOTOR VEHICLES—Continued

NEW MOTOR VEHICLE BOARD

The New Motor Vehicle Board is an independent review agency which provides quasi-judicial and regulatory oversight of manufacturers, dealers and salespersons of new vehicles. The board also conducts a consumer complaint program which seeks to mediate disputes arising from the sale or service of a new motor vehicle.

For 1983–84 and 1984–85, the New Motor Vehicle Board is displayed as a separate program within the Department of Motor Vehicle's budget. Previously, the board's activities were included in the Occupational Licensing and Regulation Program. Thus, no expenditures for the board are displayed separately for 1982–83.

The budget requests $634,000 to support the board in 1984–85, which is $84,000, or 15.3 percent, more than estimated current-year expenditures. Table 12 details the board's expenditures and personnel for the current and budget years.

Table 12
New Motor Vehicle Board
Staffing and Expenditures
1983–84 through 1984–85
(dollars in thousands)

	Estimated 1983–84	*Proposed 1984–85*	*Percent Change*
Program expenditures	$550	$634	15.3%
Personnel-years	12.7	14.6	15.0

Fees Would Curb Rising Protests

We recommend the enactment of legislation which would (1) authorize the New Motor Vehicle Board to charge filing fees for protests filed by dealers and (2) require that revenue generated by the filing fees be used to reduce the board's annual license fees.

The New Motor Vehicle Board (NMVB) regulates the activities of motor vehicle manufacturers and dealers conducting business in California. As part of its programs, the NMVB oversees the relocation, addition, or termination of motor vehicle franchises, and provides a quasi-judicial forum for protests by dealers objecting to decisions made by manufacturers that may affect their dealership. A significant portion of the board's cost each year derives from activities related to such protests, including processing the protests filed with it, mediating disputes and conducting hearings. In 1982–83, for example, costs related to protests accounted for $283,000, or 77 percent of the board's total expenses for that year.

The Volume of Protests is Rising Rapidly. Our analysis indicates that protests by dealers are increasing at a fairly rapid pace. Table 13 illustrates the growth in protests filed with the board since July 1981.

Table 13
New Motor Vehicle Board
Protest Activity
1981–82 through 1983–84

	Actual 1981–82	*Actual 1982–83*	*Estimated[a] 1983–84*	*Proposed 1984–85*
Protests Filed	55	68	98	125
Percentage Increase	—	23.6%	44.1%	28.6%

[a] Based on five months of data.

The large and growing volume of protest-related workload means that less staff time is available for other functions of the board, such as hearing appeals by dealers concerning disciplinary action taken by the DMV and the board's consumer complaint program. If the board wishes to meet these other workload demands, an increase in funding for the board will be needed.

Protests are Largely Unsuccessful. According to information provided by the board, dealer protests have resulted in an overwhelming number of decisions in favor of the manufacturer. In 110 cases associated with the location or termination of a franchise, dealers were successful in only 23 (21 percent) cases.

Furthermore, it appears that dealer protests tend to represent negotiating tools, rather than as authentic grievances against manufacturers. Since the board's inception, approximately 80 percent of all protests filed with the board were either settled or dismissed for lack of merit before a hearing could take place. Although it is the policy of the board to mediate as many disputes as possible before a hearing occurs, this high rate of settlements and dismissals brings into question the legitimacy of many protests filed with the board.

Potential Benefits From a Filing Fee. We believe that a policy of requiring protesters to pay a fee could accomplish two objectives. *First,* it would allocate the costs incurred by the board to those persons who make use of the NMVB's services—namely, dealers filing protests. This would allow the board to reduce the license fees for all of its applicants, many of whom never use the services of the board. *Second,* a filing fee would increase the likelihood that protests filed with the board are bonafide, and are not filed merely to delay the proposed actions of manufacturers or as a means of negotiating concessions.

Filing fees currently are required in superior and municipal courts, where civil litigants are assessed a fee to offset the court's expenses in connection with the action. According to NMVB staff, the board does not have the statutory authority to assess such fees. For the reasons given above, we believe it would be desirable to establish filing fees for dealers protesting actions by manufacturers. Accordingly, we recommend the enactment of legislation (1) authorizing the New Motor Vehicle Board to assess filing fees for protests filed by dealers and (2) requiring that revenue resulting from filing fees be used to reduce the board's annual license fees.

ADMINISTRATION

The department's administration program provides executive direction in administering and enforcing provisions of the Vehicle Code, formulates departmental policy and provides management support services, including EDP services to all department programs.

The budget requests $44,463,000 for this program in 1984–85, which is $2,701,000, or 6.5 percent, more than estimated current-year expenditures. (The department's administrative budget for 1984–85 reflects activities previously funded under other programs. The DMV has, in turn, adjusted previous and current-year amounts to reflect this change.)

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 14 shows staffing and expenditures for the Administration program. The expenditures are distributed to other DMV programs.

Table 14
Department of Motor Vehicles
Administration Program
Staffing and Expenditures
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Percent Change*	*Proposed 1984–85*	*Percent Change*
Program expenditures	$34,271	$41,762	21.9%	$44,463	6.5%
Personnel-years	454.7	481.3	5.9	482.4	0.2

Payments From Other Agencies Understated

We recommend a reduction of $38,000 in Item 2740-001-044 and a corresponding increase in reimbursements, because the DMV has understated the amount of reimbursements that it will receive in 1984–85.

For 1984–85, the DMV budget includes $18,557,000 in reimbursements from various sources. According to information we have received from DMV, this amount is understated by $39,000. An increase in reimbursements of this amount will permit a conforming reduction in the appropriation from the Motor Vehicle Account. The additional reimbursement consists of the following:

Leasing Costs—EDD. The Employment Development Department (EDD) currently leases part of the DMV office in Paso Robles at a cost to EDD of $28,524 annually. The DMV's reimbursement schedule, however, shows only $6,000 in projected reimbursements from this lease, a difference of $22,524. Accordingly, we recommend that the Motor Vehicle Account appropriation be reduced by this amount and that reimbursements be increased by a similar amount to reflect the understated reimbursements.

Equipment Rental—HCD. The DMV intends to provide the Department of Housing and Community Development with electronic data processing services estimated to cost $139,720 in the budget year. Officials at HCD indicate, however, that the need for additional equipment rental in the budget year will actually increase the amount in the contract to $154,800, at no additional cost to the DMV. Consequently, we recommend that reimbursements be increased by $15,080 and that the amount appropriated under Item 2740-001-044 be reduced by a like amount.

A Few Too Many Envelopes

4/6/84 , now rec. approval

We recommend a reduction of $498,000 in Item 2740-001-044 to correct for overbudgeting of printing costs. We ~~withhold recommendation~~ on $220,000 requested to print a new Vehicle Code in 1984–85, pending receipt of a user survey associated with this publication.

A total of $4,859,000 is proposed in the budget for printing in 1984–85. This is an increase of $336,000, or 7 percent, over current-year estimated expenses. Our analysis indicates the request should be reduced by $498,125 to rectify an error regarding the number of envelopes that will be required in 1984–85. In addition, we withhold recommendation on the proposal to continue funding the annual publication of Vehicle Code books, until the results of the department's user survey associated with these books is available.

Envelopes. Each year, the DMV estimates the number of forms and envelopes it will need to accommodate the millions of transactions which take place in the areas of registration and driver's licenses. For 1984–85, the department inadvertently budgeted for *seven million envelopes* related to one of its registration functions, when only *seven thousand* will be needed. This has resulted in overbudgeting of $498,125 for printing costs. We recommend that this amount be deleted.

Vehicle Codes. The department annually prints about 110,000 Vehicle Code books, many of which are distributed free of charge to members of the Legislature, police departments, state agencies, and high schools, among others. In addition, the department sells books to automobile clubs and the general public at all DMV field offices, at a cost of $2 per book. The estimated cost to print the Vehicle Code in 1984–85 is $220,000.

In lieu of printing of the entire publication each year, we asked the department if it had considered printing *supplements* to the code which could be added each year when the code is revised. Such a change could generate substantial savings in printing costs each year. The DMV indicated that it is studying this alternative and will have the results of a user survey in April 1984. Accordingly, we withhold recommendation on $220,000 requested to publish a new Vehicle Code, pending review of the results from the department's user survey.

Leasing Request is Too Optimistic

We recommend a reduction of $695,000 in Item 2740-001-044 because the department's estimate of leasing costs includes funds for facilities that will not be occupied in the budget year or will be occupied later in the fiscal year than anticipated.

The department proposes expenditures for the leasing of offices and other facilities at 84 locations in the budget year. In addition, DMV is proposing to share leasing costs with the California Highway Patrol (CHP) at six other facilities.

Our review of the DMV's proposed leasing schedule and discussions with the Division of Space Management (DSM) in the Department of General Services indicate that estimated expenditures for leasing in the budget year are overstated by $694,238. Our analysis of those leasing projects where there is a discrepancy follows:

Blythe. Rental funds of $27,950 are proposed for the Blythe field office in the budget year. This assumes that, together with the CHP, DMV will be able to enter into a lease-purchase agreement for a new facility in April of 1985. The Division of Space Management indicates, however, that problems in securing a site will delay occupancy of a lease-purchase facility until 1985–86, at the earliest. Thus, we recommend a reduction of $22,350 in the amount budgeted.

Mariposa. In drafting its request for 1984–85, the department anticipated that its proposed new facility in Mariposa could not be occupied until April of 1985. However, due to favorable conditions, occupancy will actually occur late in the *current* year. Therefore, we recommend an increase of $35,472 to provide funds to lease this space during the first nine months of 1984–85.

Mission Viejo. The lease schedule indicates that DMV anticipates moving into new quarters at Mission Viejo on April 1 of the current year.

DEPARTMENT OF MOTOR VEHICLES—Continued

According to DSM, occupancy probably will not take place until at least 1985–86. As a result, the $156,000 budgeted for leasing the new facility is not needed. Thus, we recommend a reduction of $156,000 in the amount budgeted.

Mountain View. As in Mission Viejo, DMV had expected to occupy a new building in the Mountain View/Palo Alto area sometime in the current year. However, no site has been secured, making occupancy of a new facility in the budget year highly unlikely. Accordingly, we recommend a reduction of $72,000 in the amount budgeted.

Palm Springs. The department has been trying to locate a new facility in Palm Springs for a number of years, with no success. The budget proposes monthly payments of $15,000 per month, beginning January 1, 1985, for a new build-to-suit facility in this area. Because recent negotiations for the site have failed, DMV will remain in its existing facility until 1985–86, where rental payments are $575 per month. Thus, we recommend a reduction of $86,550 in the amount budgeted.

Petaluma. According to DSM, the proposed occupancy in Petaluma will not occur until at least June 1, 1985. The department, however, has budgeted lease funds of $168,000, based on a June 1, *1984*, occupancy date. To provide for eleven month's rent at the existing facility ($11,830) and one month's rent at the proposed new building ($14,000), we recommend a reduction of $142,120 in the amount budgeted.

San Luis Obispo. The lease schedule indicates that the department intended to move into a new facility in San Luis Obispo as of October 1, 1983, at a cost of $10,000 per month. The DSM estimates that a move cannot be completed before January 1, 1985. For this reason, we recommend that $60,000 be deleted from the amount requested for the first six months of rental payments.

Ventura. Rental of a new facility is proposed in Ventura at a cost of $15,000 per month, or $180,000 annually. The DSM indicates that the department will not be able to occupy a new facility by the end of the budget year. As a consequence, we recommend a reduction of $143,280 in the amount budgeted.

Table 15
Department of Motor Vehicles
Adjustment to the Lease Schedule for Buildings
Recommended by Legislative Analyst
1984–85
(in thousands)

Facility	*Amount Requested*	*Amount Needed*	*Analyst's Recommendation*
Blythe	$28	$6	−$22
Mariposa	13	48	35
Mission Viejo	156	—	−156
Mountain View	72	—	−72
Palm Springs	94	7	−87
Petaluma	168	26	−142
San Luis Obispo	120	60	−60
Ventura	180	37	−143
Weaverville	57	9	−47
Totals	$888	$193	−$695

Weaverville. The DMV's share of the rental payments for a facility in Weaverville that it shares with the CHP is $4,747 per month. According to DSM, CHP will purchase the facility by September 1, 1984. At that time, CHP will no longer assess DMV for its share of the rent. Accordingly, we recommend a reduction of $47,470 in the amount budgeted.

Summary. Table 15 displays the recommended reductions in leasing costs for the eight facilities and the augmentation needed at Mariposa.

Based on our analysis of the department's estimate of leasing costs in 1984–85, we recommend a net reduction of $695,000 from Item 2740-001-044.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 2740-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 120

Requested 1984–85	$3,978,000
Recommended Approval	1,173,000
Recommended reduction	404,000
Recommendation pending	2,401,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Standard Field Office Formula. Recommended adoption of supplemental report language directing DMV to reevaluate methodology used to determine size of field offices. Further recommend that no preliminary planning funds for new field offices be allocated until reevaluation has been completed. 514
2. Sacramento Headquarters—Fire and Safety Retrofit. Withhold recommendation on $150,000, pending receipt of information on costs and benefits of funding the project over a three-year period. 515
3. ***Pomona Field Office. Reduce Item 2740-301-044(3) by $63,000 to delete working drawing funds.*** Recommend reduction because the funds will not be needed in the budget year. Withhold recommendation on funding requested for acquisition and preliminary plans, pending receipt of adequate cost estimates and information on site availability. 516
4. ***Walnut Creek Field Office. Reduce Item 2740-301-044(4) by $72,000 to delete working drawing funds.*** Recommend reduction because the funds will not be needed in the budget year. Withhold recommendation on funding request for acquisition and preliminary plans, pending receipt of adequate cost estimates and information on site availability. 517
5. ***Pinedale Field Office. Reduce Item 2740-301-044(5) by $249,000 to delete working drawing funds.*** Recommend reduction of (a) $180,000 requested for acquisition because funds are overbudgeted and (b) $69,000 requested for working drawings because funds will not be used in budget year. Withhold recommendation on funding request for prelimi- 518

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

nary plans, pending receipt of adequate cost estimates for the project.

6. Newhall—Purchase of Leased Facility. Withhold recommendation on Item 2740-301-044(6), pending receipt of information on residual value of property proposed for purchase. 519
7. *Minor Projects. Reduce Item 2740-301-044(1) by $20,000.* Recommend deletion of two projects that should be funded from the appropriation for construction of the facility. 519

ANALYSIS AND RECOMMENDATIONS

The budget proposes $3,978,000 under Item 2740-301-044 for the Department of Motor Vehicles (DMV) capital outlay program. This includes $3,088,000 for acquisition and planning for three new field offices, $472,000 for the purchase of a leased facility, $150,000 for modifications to the DMV headquarters facility, and $268,000 for eight minor capital outlay projects. Table 1 summarizes the department's proposal and our recommendations.

Table 1
Department of Motor Vehicles
1984–85 Capital Outlay Program
Item 2740-301-044
(in thousands)

Project/Location	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Estimated Future Cost*[b]
Sacramento Headquarters Building				
Fire and Life Safety Retrofit (Phase I)	pwc	$150	Pending	$411
New field offices:				
Pomona	apw	856	Pending	1,765
Walnut Creek	apw	992	Pending	2,031
Pinedale	apw	1,240	Pending	1,928
Purchase leased facility:				
Newhall	a	472	Pending	—
Minor projects	pwc	268	248	—
Totals		$3,978	Pending	$6,135

[a] Phase symbols indicate: a = acquisition, p = preliminary plans, w = working drawings, c = construction.
[b] Department's estimate.

Reevaluation of Standard Formula Needed

We recommend that the Legislature adopt supplemental report language directing DMV to reevaluate its methodology for determining the appropriate size of field offices to account for recent program modifications. We further recommend that no preliminary planning funds appropriated for 1984–85 be allocated until the reevaluation has been completed.

DMV field offices are designed on the basis of workload projections covering the next 15 years. New facilities also make allowances for expansion so that a facility can be used for 25 years.

In determining the required size of its facilities, DMV uses a guideline formula that incorporates information on service area population, staff workload, storage area needed, parking requirements, and the like. This formula was established 15 years ago. It has been modified several times, with the last significant modifications made three years ago.

In recent years, there have been a number of changes in DMV program requirements that should have an effect on the required size of facilities. These changes include introduction of the Phase II automation program, requiring appointments for driver testing, and the Calvo extension program. In addition, a number of other programs or management techniques are available for use by individual field offices at their option, such as use of seated waiting areas, drop-box registration, information desks, and various line-flow arrangements.

Some of the changes in program requirements, as well as the optional techniques, allow DMV offices to operate with less public service space. As a result, the amount and type of space needed may not conform to the standards reflected in the guideline formula. Accordingly, we recommend that the Legislature adopt the following supplemental report language directing DMV to reevaluate the current formula:

> "The Department of Motor Vehicles (DMV) shall reevaluate the space formula used to determine the appropriate size of DMV field offices. This reevaluation should take account of all recent changes in program requirements and management techniques. The reevaluation shall be submitted to the Joint Legislative Budget Committee by November 1, 1984."

Until this reevaluation has been completed, we recommend that no preliminary planning funds be released for new DMV field offices. This will avoid the need for changes in the size and scope of proposed field offices in the event the evaluation suggests the need for significant changes in the space formula. This should not hinder progress on new facilities since the reevaluation should be completed by the end of the calendar year.

Recommend $40,000 for preliminary plans and working drawings only

DMV Headquarters—Fire and Life Safety Modifications

We withhold recommendation on Item 2740-301-044(2), Sacramento Headquarters, fire and life safety retrofit, pending receipt of information on the costs and benefits of funding this project over a three-year period.

Item 2740-301-044(2) requests $150,000 for phase one of a three-phase program to make fire and life safety modifications to DMV's headquarters in Sacramento. Specifically, the project consists of removal and replacement of non-fire rated partitions, doors, suspended ceiling system, HVAC fire dampers, smoke detectors and related work. Estimates provided by the Office of State Architect (OSA) indicate that the total project should cost $561,000.

The department's request is based on a 1981 report by the Office of the State Fire Marshal that revealed a number of fire and life safety code violations at the Sacramento headquarters. The department originally intended to make these modifications through the minor capital outlay process, but later changed its mind because of the complexity and scope of the work.

The project, as proposed, is to be phased over three years in order to avoid disruption of departmental operations. (DMV indicates that all work could be accomplished in one year.)

While work on the project may need to be phased, we question the need

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

to *fund* the project in three parts. Contracting with one firm (rather than three), would limit the contractor's overhead expenses for moving onto the site, and would expedite completion of the project. Accordingly, we withhold recommendation on the project, pending the receipt of information from the department indicating (1) why *funding* for the project has been phased over three years, (2) what cost savings will result from phased funding and (3) what portion of the project would be funded with the $150,000 requested for 1984–85.

recommend $763,000 for acquisition and preliminary plans ($706,000 for acquisition, $57,000 for preliminary plans)

Pomona Field Office

We recommend that Item 2740-301-044(3), acquisition, preliminary plans, working drawings, Pomona, be reduced by $63,000 to delete the amount for working drawings, because these funds will not be needed in the budget year. We withhold recommendation on funds requested for acquisition and preliminary planning, pending receipt of cost estimates and additional information on site availability.

Item 2740-301-044(3) requests $856,000 for acquisition ($732,000), preliminary plans ($61,000), and working drawings ($63,000) for replacement of a DMV field office and parking facility in Pomona. The department estimates future construction costs for the project to be $1,765,000.

Need for a new facility. The current Pomona facility, which contains 3,400 square feet of public service space and 79 parking spaces, has been leased by DMV since 1967. The current facility is very crowded and there is no room for expansion. The department's population projection and program requirements formula indicates that this facility should have 4,264 square feet of public service space in 1985, and 4,700 square feet by the year 2000—considerably more than the 3,400 square feet currently available. In addition, DMV has indicated that the present facility is unsatisfactory because (1) it is located in an inconvenient area within the service district, (2) the electrical and lighting systems are poor, (3) it is located in an area with poor security, and (4) the layout of the facility makes the driving test area and parking lot unsafe.

Cost estimates unclear. The DMV proposes to construct a new, 11,000 net square foot field office with 4,700 square feet of public service space and 116 parking spaces. The department proposes to build the facility on 2.2 acres of land. It has estimated that the cost of acquiring a site in this area will be approximately $686,000, plus $46,000 for administrative costs. The estimate, however, is not based on an appraisal from the Department of General Services, Real Estate Services Division (RES). Consequently, there is no evidence that land is available or that the estimates are valid. Prior to appropriation of acquisition funds, RES should perform a site search and present an estimate of the purchase cost.

In addition, there are no construction or design cost estimates available for the project from the OSA. It is, therefore, not clear that the amount of funds requested for preliminary plans and working drawings is appropriate.

Working drawing funds should be deleted. The department has requested funds for acquisition, preliminary plans, and working drawings for 1984–85. The uncertainties in site selection outlined above, coupled with the amount of time the Department of General Services generally requires for DMV acquisitions, make it highly unlikely that acquisition, preliminary plans and working drawings could be accomplished in the budget year. Moreover, preliminary plans and cost estimates for the field offices, parking and site development, should be available for legislative review prior to appropriating funds for working drawings.

Taking all of these factors into consideration, we conclude that the working drawing funds will not be needed in the budget year. If the DMV is able to develop the necessary preliminary plans and cost estimates on a timely basis, it will be able to submit them for legislative consideration in support of a 1985–86 request for working drawings *and* construction funds. Consequently, we recommend that funds budgeted for working drawings be deleted, for a reduction of $63,000. We withhold recommendation on funding for acquisition and preliminary plans, pending receipt of the additional information noted above.

Walnut Creek Field Office

We recommend that Item 2740-301-044(4), acquisition, preliminary plans, working drawings, Walnut Creek, be reduced by $72,000 to delete funds for working drawings, because these funds will not be needed in the budget year. We withhold recommendation on funds requested for acquisition and preliminary planning, pending receipt of cost estimates and additional information on site availability.

The budget proposes $992,000 under Item 2740-301-044(4) for acquisition, preliminary plans, and working drawings for a new field office in Walnut Creek. The request consists of $850,000 for acquisition, $70,000 for preliminary plans, and $72,000 for working drawings. According to department estimates, construction costs should total $2,031,000.

Need for a new facility. DMV has leased a facility in Walnut Creek since 1967. The department has indicated that the present office is overcrowded and does not have sufficient space for parking. According to DMV's population projections and formula used to determine facility size, the Walnut Creek field office should contain 5,200 square feet of public service space and 109 parking spaces by 1985, and 5,800 square feet and 127 parking spaces by the year 2000. The current facility, however, contains only 4,200 square feet of public service area and 79 parking spaces. The department plans to locate the new office near the current facility, depending on the availability of land.

Cost estimates unclear. The department proposes to build a new, 12,600 net square foot office with lobby/counter (public service) area of 5,800 square feet. We have the same concerns with this project that we raised in our analysis of the Pomona project, above. First, the department has not targeted a land parcel for purchase and no appraisals have been completed. Consequently, it is impossible to recommend a specific amount for acquisition. Second, the project cost estimates provided by the dpeartment are inadequate and lack detail. Without a cost estimate from the OSA, we are unable to recommend funding for the other elements of the project. We, therefore, withhold recommendation on the funding request, pending receipt of this information.

Only acquisition and preliminary plans should be included. Because of the length of time needed to acquire a parcel and complete preliminary plans, it is unlikely that working drawings for the project could begin in the budget year. Furthermore, the Legislature should have an opportunity to review preliminary plans prior to considering a funding request for working drawings and construction. We, therefore, recommend a $72,000 reduction to delete funds for working drawings. We withhold recommendation on acquisition and preliminary plans, pending receipt of the additional information noted above.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

Pinedale Field Office recommend $959,000 for acquisition and preliminary plans ($900,000 for acquisition, $59,000 for preliminary plans

We recommend that Item 2740-301-044(5), acquisition, preliminary plans, working drawings, Pinedale, be reduced by $249,000 to delete (1) $180,000 requested for acquisition to correct for overbudgeting and (2) $69,000 for working drawings because these funds will not be needed in the budget year. We withhold recommendation on the request for preliminary planning funds, pending receipt of an OSA cost estimate.

Item 2740-301-044(5) includes $1,240,000 for acquisition, preliminary plans, and working drawings for a new DMV field office northeast of Fresno in Pinedale. Specifically, the budget includes $1,105,000 for acquisition of 2.5 acres ($1,080,000 for acquisition and $25,000 for administrative costs), $66,000 for preliminary plans, and $69,000 for working drawings. DMV indicates that it expects construction costs for the project to total $1,928,000.

Current Fresno and Clovis offices. This proposal calls for a new field office in Pinedale and elimination of both the leased field office in Clovis and the leased Driver Improvement Analyst (DIA) office in Fresno. The department's plan would relieve the overcrowded Fresno field office, which would remain open. Service for Clovis apparently would be provided primarily at Pinedale and secondarily at the Fresno office. The DIA office would also be located at Pinedale. According to the department, Pinedale is the prime location to serve Clovis and north metropolitan Fresno. The termination of leases for the Clovis and the DIA office would result in annual rental savings of approximately $70,000.

The DMV's formula for determining facility size indicates that the new Pinedale office should contain 4,900 square feet of public service space with 140 parking spaces. This would make the facility adequate to meet the department's needs in this area through the year 2000.

Acquisition costs overestimated. The Department of General Services, Real Estate Services Division, has estimated the costs of acquiring land for the new Pinedale facility. The division has informed DMV that a three-acre parcel in the desirable vicinity would likely cost $1,080,000—the budgeted amount. The department, however, requires only 2.5 acres. Thus, the acquisition cost should be reduced to $900,000, a reduction of $180,000.

Cost estimates need clarification. Like the requests for the Pomona and Walnut Creek projects, the request for Pinedale does not contain adequate cost information to permit legislative review. Until a cost estimate has been prepared by the OSA, we are unable to recommend the appropriate amount of funding for the design costs of the project.

Funding should only provide for acquisition and preliminary plans. Because of length of time needed to acquire the site and prepare preliminary plans, it is unlikely that working drawings could be used in the budget year. In addition, by providing funds only for acquisition and preliminary plans, the Legislature would retain the opportunity to review the plans prior to appropriating funds for working drawings and construction.

Consequently, we recommend that (1) the acquisition cost be reduced by $180,000, (2) the working drawing funds ($69,000) be deleted, and (3) preliminary planning funds be provided based on an OSA estimate.

Newhall—Purchase of Leased Facility

We withhold recommendation on Item 2740-301-044(6), purchase of leased facility, Newhall, pending review by RES of the potential residual value of the property.

The budget proposes $472,000 under Item 2740-301-044(6) for the purchase of the department's leased facility in Newhall. The facility has been leased by DMV since 1975, and the current lease expires in 1990. Annual rent currently is $62,292 and will increase to $63,600 in March. Over the remaining six years of the lease, the state would make rental payments having a present value of approximately $280,000.

Under terms of the lease, the state may purchase the facility in 1985 for $460,000. Funds for administrative costs ($12,000) have also been included in the budget.

Our analysis indicates that it may be more economical for the state to continue to rent the facility than to purchase it. The present value of rental payments ($280,000) is $180,000 less than the cost of purchasing the facility. In order for the purchase to be economical, the residual value of the property would have to be at least $319,000. Since the purchase of this project appears to offer only a marginal benefit to the state, we withhold recommendation pending an analysis by RES of the residual value of the property.

Minor Projects

We recommend that $20,000 be deleted from Item 2740-301-044(1), Minor Projects, to eliminate two projects that should be funded from the appropriation for construction of the new Los Angeles field office.

Item 2740-301-044(1) provides $268,000 for eight minor capital outlay projects. These projects, together with the location and cost of each, are shown in Table 2. We recommend approval of all but two of these projects.

Los Angeles Parking Lot Lighting and Vehicle Compound. Two projects are proposed for the new Los Angeles (Hope Street) field office, which is scheduled for completion in 1984–85. The first provides $11,000 for additional lighting for the parking lot. The second provides $9,000 for construction of a state vehicle compound for nine vehicles. The construction funding for the new Los Angeles facility, which was appropriated in the 1983 Budget Act, was supposed to provide for all aspects of the new project, including lighting and vehicle storage. On this basis, we recommend that funding for these two projects be deleted.

Table 2
Department of Motor Vehicles
Minor Capital Outlay Program

Project Title	*Location*	*Budget Bill Amount*
Interior work area lighting	San Diego-Clairemont	$56,000
Handicapped access	various	101,000
Parking lot lighting	Los Angeles	11,000
State vehicle compound	Los Angeles	9,000
Remodel control room	Los Gatos	7,000
Micrographics area	Sacramento headquarters	63,000
File security unit	Sacramento headquarters	6,000
Vehicle compound	Compton	15,000
Total		$268,000

Business, Transportation and Housing Agency

TRAFFIC ADJUDICATION BOARD

Item 2760 from the Driver Training Penalty Assessment Fund — Budget p. BTH 121

Requested 1984–85	$1,527,000
Estimated 1983–84	1,827,000
Actual 1982–83	1,664,000
Requested decrease (excluding amount for salary increases) $300,000 (−16.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Project Cost-Effective. Recommend enactment of legislation to extend the Traffic Adjudication Board concept statewide, because it is more cost-effective and provides better service than the courts. 521

GENERAL PROGRAM STATEMENT

The Traffic Adjudication Board (TAB) was established by Ch 722/78. The board operates a demonstration program for adjudication of traffic safety violations (infractions) in Sacramento and Yolo Counties, in lieu of adjudication by the courts.

The TAB began processing citations in October 1980. The program was scheduled to terminate July 1, 1984, but Ch 1116/83 extended this date by one year. Chapter 1116 also established a procedure to provide for a transfer of traffic citation processing back to the Sacramento and Yolo Municipal Courts by July 1, 1985. Beginning January 1, 1985, all new citations issued in these counties will be handled by the courts, and the TAB will process only those citations issued prior to that date.

The board is authorized 46.2 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,527,000 from the Driver Training Penalty Assessment Fund to support the board's activities in 1984–85. This is $300,000, or about 16 percent, below estimated current-year expenditures. The reduction, however, makes no allowance for the cost of any salary or staff benefit increase that may be approved for the budget year.

The decrease in the TAB's budget is due to the phase-out of the board during the budget year. Because the TAB's workload will drop significantly after January 1, 1985, the board expects to terminate about 12 of its 46.2 positions between October 1984 and January 1985. This reduction will be offset partially by increases requested in temporary help funding due to workload increases during the past and current years. The remaining TAB staff will be terminated on July 1, 1985.

TAB Project Cost-Effective

We recommend that legislation be enacted to extend the TAB concept statewide, because it is more cost-effective and provides better service to the public than does court processing of traffic citations.

The legislation that established the TAB project required the board to retain independent consultants to evaluate the project. Two contracts were awarded by the board—one to analyze the impact of the project on traffic safety, and one to evaluate the costs and benefits of the project and its effect on the courts, law enforcement, the general public, and the Department of Motor Vehicles. The final reports of these evaluations were submitted to the Legislature in December 1983.

The traffic safety evaluation indicated that the project had no observable impact on traffic safety when compared to adjudication through the court system. The report concluded that traffic safety considerations are not relevant in determining the future of the TAB project.

The cost-benefit evaluation, however, concluded that *citation processing by the TAB is significantly less costly than court processing,* despite the fact the TAB provides motorists with faster and more convenient access to hearings than do the courts. Specifically, the report indicates that TAB processing of citations cost about 45 percent less than Sacramento court processing costs, and 35–40 percent less than Yolo County costs. In addition, the report estimates that if the TAB were to operate on a large scale basis, its ongoing processing costs would be approximately 29 to 44 percent less than court processing costs.

One major reason for these savings is that the TAB system results in significantly lower state and local law enforcement costs. For example, unlike many courts, the TAB arranges its schedules so that hearings involving the same law enforcement officer are held sequentially, and without significant intervening delays. This minimizes the amount of time an officer must spend away from his or her regular law enforcement duties.

Another portion of the savings from the TAB project accrues to the Department of Motor Vehicles (DMV). The report indicated that a statewide use of the TAB's features could result in savings to the DMV for two reasons. First, the DMV expends about $1.8 million annually in its Negligent Operator program to send warnings and suspension notices to drivers who have received an excessive number of citations within a given period of time. The TAB, however, performs this function automatically as part of its ongoing operations. Second, the DMV advises that it annually expends approximately $3.5 million attempting to match traffic violation records it receives from the courts, with its own driver's license records. Matching these records is important because the severity of a penalty for a traffic offense is often based on the number and nature of prior convictions.

The DMV indicates that failure to match these reports may result in courts imposing inappropriately low penalties, and the DMV being unable to impose appropriate administrative sanctions. About 25–30 percent of traffic citation records sent to the DMV by courts cannot be matched to the department's records. The study found that TAB citations, by comparison, did not match DMV records between 3 and 5 percent of the time. This low error rate is due to the TAB's automated system and its methods of

TRAFFIC ADJUDICATION BOARD—Continued

processing citations. Thus, if the TAB program was extended statewide, the DMV advises that it could substantially reduce its $5.3 million annual expenditure for processing records and for the Negligent Operator program.

In addition to saving the DMV money, TAB processing provides more timely updating of DMV records. While TAB updates DMV's records within two days after it processes a citation, an estimated 50 percent of the courts' citation records take longer than three weeks to reach the DMV.

Although the consultant's report did not identify the costs and benefits of specific elements of the TAB project, TAB staff advise that they have determined that certain elements of the project were not cost-effective. For example, the TAB estimates that its appeal process consumed about 10 percent of its budget (largely in costs to prepare transcripts), although less than one-half of one percent of all violators appealed. The TAB indicates that this procedure is considerably more expensive than comparable procedures used by the courts (which do not require that transcripts be prepared).

In summary, the evaluation report indicates that the TAB demonstration project largely has achieved the goals set out for it by the Legislature. The TAB has proven to be more cost-effective than court processing, and faster and more convenient to users. It also provides more accurate and timely updating of DMV records. Finally, it reduces the amount of time that law enforcement officers spend acting as witnesses in traffic violation cases, instead of performing other important law enforcement duties.

In our judgment, the evaluation results indicate that adoption of the TAB concept statewide would result in major economic and program benefits to state and local law enforcement agencies, the court system, the DMV, and the general public. However, it is important to note that statewide expansion of the TAB concept would require initial expenditures for equipment, personnel selection, and training. Further, adoption of a new system for processing traffic violations would result in other one-time costs because it would be necessary to operate *both* systems for a time in order to ensure a smooth transition. Not all of these costs would be offset in the first year by savings from discontinuing the existing court adjudication system.

Because of the long-run economic and program benefits of an improved statewide traffic violation processing system, we recommend that legislation be enacted extending the TAB concept statewide.

Business, Transportation and Housing Agency

STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P. Teale Data Center Revolving Fund — Budget p. BTH 123

Requested 1984–85	$44,182,000
Estimated 1983–84	39,514,000
Actual 1982–83	33,338,000
Requested increase (excluding amount for salary increases) $4,668,000 (+12 percent)	
Total recommended reduction	216,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Overdue Payments. Recommend adoption of supplemental report language requiring the data center and the Department of Finance to report on means to improve payments for data center services. 524
2. ***Computer Acquisition. Reduce Item 2780-001-683 by $150,000.*** Recommend reduction in amount budgeted for computer acquisition and a corresponding change in Budget Bill language, because the computer to be purchased will be smaller than originally planned. 526
3. ***Paper Costs. Reduce Item 2780-001-683 by $66,000.*** Recommend reduction in paper costs to reflect savings that will be realized by putting more computer output onto microfiche. 526

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center is one of three consolidated data centers authorized by the Legislature. The center, which provides automated data processing services to 120 state governmental units, was established to provide centralized computing capability to state agencies, while at the same time minimizing the total cost of data processing to the state. The costs of operating the center are fully reimbursed by the center's clients.

The data center is authorized to have 348 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an expenditure of $44,182,000 for the data center in 1984–85. This is an increase of $4,668,000, or 12 percent, above estimated expenditures in the current year. The increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

The data center requests 351 positions for 1984–85. This is an increase of three positions above the authorized staffing level for 1983–84. According to the data center, the increase is needed to handle increased workload.

Table 1 summarizes the impact of proposed changes in the data center budget.

STEPHEN P. TEALE DATA CENTER—Continued

Table 1
Stephen P. Teale Data Center
Proposed Budget Changes for 1984-85
(in thousands)

1983-84 Expenditures	$37,822
1. Cost Changes	450
2. Workload Changes	
a. Add third time-share computer system	1,020
b. Additional support staff	46
c. Vendor price increases	3,999
d. Staffing efficiencies	−31
Total Workload Changes	$5,004
3. Program Changes	
a. Replace V5 central processing unit (CPU)	876
b. Install system for online microfiche file	—
Total Program Changes	$876
Proposed 1984-85 Expenditures	$44,182

ANALYSIS AND RECOMMENDATIONS

Possible Changes in Data Center Budget

The data center is planning several changes which could have a significant impact on its costs and revenues in 1984-85. One such change is the consolidation of the center's two operating facilities and its separate administrative office in a single facility. A feasibility study for this consolidation is being prepared. If approved, consolidation would take place in the budget year.

The impact of consolidation on the data center's 1984-85 expenditures would be significant. Depending upon the final configuration of the data processing systems, there could be a need for additional equipment during the transition phase. Over time, however, the data center could realize savings by leasing only one larger facility, rather than three smaller facilities.

A change in the data center's rate structure may also be made during the budget year. The budget assumes that the costs to users of Teale Data Center services will increase by 4.5 percent in the budget year, and funding to pay the higher costs is included in the budgets of client agencies. At the time this *Analysis* was prepared, however, the data center had not established a rate structure for the budget year. Moreover, it is not clear that *any* increase in rates will occur. Discussions with center management indicate that, instead, there could be (1) some realignment of existing rates, with no net increase in total costs, or (2) an overall reduction in rates.

When more information on the center's plans for the budget year becomes available, we will provide the Legislature with an analysis of these changes and recommend any adjustments in the budgets of the data center or its client agencies that may be warranted.

Problems with Collection of Accounts Receivable

We recommend that the Legislature adopt supplemental report language directing the Department of Finance and the Teale Data Center to evaluate alternative means for improving the payment of bills to the data center, and submit a report of their findings and recommendations to the Joint Legislative Budget Committee and the fiscal subcommittees by November 15, 1984.

All of the data center's costs are reimbursed by the center's client agencies; there is no *direct* appropriation of funds to the center to support its operations.

Because some data center clients do not pay their bills on time, the center has been experiencing cash-flow problems. The center estimates that, at any one time, its overdue receivables generally total between $6 million and $7 million, or about 15 percent of its proposed expenditures in 1984–85. Frequently, the amount owed the center is equal to the unencumbered reserve in the data center's revolving account. Consequently, the data center frequently operates with little, if any, *cash* reserves.

Under existing law, the data center can maintain a reserve in its revolving account, *including accounts receivable,* equal to 25 percent of its previous year's budget. This would be about $10 million in the budget year. If, however, $7 million of the allowable reserve represents outstanding bills, only $3 million of the fund's authorized reserve would be in the form of cash at the start of the budget year. This is not enough to fund the data center's operation for one full month. To generate an additional $3 million in cash, the data center would have to impose a one-year 10 percent surcharge on the rates paid by client agencies (including those supported from the General Fund).

The center indicates that payments to vendors have been late because of cash-flow problems. In some cases, smaller vendors have not made discounts available to the data center because of the late payments. This has the effect of increasing data center expenditures, and, ultimately, the cost to data center customers. Moreover, on several occasions, Teale staff have had to pick up overdue payments from client agencies and deliver the checks to the Treasurer's office for deposit in the data center's revolving fund before the Controller's office could release Teale's monthly payroll.

Our analysis indicates that there are three reasons why Teale does not receive timely payments of its bills:

1. ***Interagency agreements with client agencies are not executed on a timely basis.*** Four agencies accrued over $100,000 in bills during the current year, but could not pay the data center because no interagency agreement had been executed between the data center and the agency.
2. ***Client agencies withhold payment of bills when a portion of the bill is under dispute.*** For example, the Secretary of State would not pay a $200,000 balance because it disputed $15,000 in billings.
3. ***The center does not make a sufficient effort to collect overdue accounts.*** It does not impose any sanction on agencies that do not pay their bills on time.

We believe the center's cash-flow problems are the result of careless management on the part of both client agencies and the data center. Agencies should be paying the undisputed portion of the bills they receive from the center within 30 days after the bill is received. This is the amount of time allowed state agencies in paying for goods and services provided by private businesses. For its part, the center should strengthen its collection efforts, and not rely on letters to clients, informing them of the problems months after bills have become delinquent.

Consequently, we recommend that the Department of Finance and the Teale Data Center evaluate alternative means to ensure prompt collection of data center bills and report their findings and recommendation to the Joint Legislative Budget Committee and the fiscal committees. Specif-

STEPHEN P. TEALE DATA CENTER—Continued

ically, we recommend adoption of the following supplemental report language:

"The Department of Finance and the Teale Data Center shall evaluate alternative means to improve the payment of bills by data center customers. The Department of Finance and the data center shall submit a report of their findings and recommendation to the Joint Legislative Budget Committee and the fiscal committees on November 15, 1984."

Computer Acquisition Costs Overbudgeted

We recommend a reduction of $150,000 in the amount requested for a new computer because the equipment purchased would have smaller capacity than anticipated in the budget, and a corresponding amendment to Budget Bill language to reflect the lower amount.

Each of the data center's two operating facilities have two central processing units (CPUs) which are "tied" together to share related peripheral devices, such as magnetic disk storage devices. The data center proposes to replace one of its older CPUs during the current year with newer equipment having more capacity. This acquisition will cost a total of $1,392,000, of which $516,000 will be paid out of the current-year's budget, and $876,000 will be paid in 1984–85.

The data center has submitted its feasibility study of the proposed acquisition to the State Office of Information Technology (SOIT) for its approval. The Budget Bill includes language prohibiting the expenditure of the $876,000 requested in the budget until the study is approved by SOIT. At the time this *Analysis* was prepared, SOIT had not approved the acquisition of a new CPU. Discussions with SOIT staff, however, indicate that if the CPU is replaced, it will be replaced with equipment having less capacity than what is anticipated by the budget request. According to SOIT staff, a smaller CPU would cost the data center $726,000 in 1984–85, $150,000 less than the amount needed in 1984–85 to complete the purchase. Accordingly, we recommend a reduction of $150,000 in the data center's budget and a corresponding change in the dollar amount identified in the accompanying Budget Bill language.

Data Center Realizes Paper Savings

We recommend a reduction of $66,000 to reflect the savings in paper that will be realized by converting computer output data onto microfiche files.

The data center has installed equipment which converts output data onto microfiche files, thereby avoiding the need to have the data printed on paper. This will permit substantial savings in printing and paper costs, as well as in storage space. In order to assure substantial savings, state regulations currently require that output data be stored on microfiche unless specific justification for printed output data is provided by an agency.

To reduce the time it takes to convert microfiche data, the data center is purchasing more sophisticated equipment in the budget year, at a cost of $80,000. According to the data center, this improved capability, together with the new state requirements, will save $66,000 in paper costs during the budget year. These savings, however, are not reflected in the data center's budget. Consequently, we recommend a reduction of $66,000 in this item.