

Accordingly, we recommend that the Department of Finance report to the legislative fiscal committees on how it proposes to fully fund superior court judges' salaries and benefits.

NATIONAL CENTER FOR STATE COURTS

| | |
|-----------------------------------|------------------|
| Item 0460 from the General Fund | Budget p. LJE 18 |
| <hr/> | |
| Requested 1985-86 | \$50,000 |
| Estimated 1984-85..... | 50,000 |
| Actual 1983-84 | 14,000 |
| Requested increase: None | |
| Total recommended reduction | None |
| <hr/> | |

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$50,000 from the General Fund to cover California's membership fee in the National Center for State Courts. This is the same amount appropriated for the current year. Members of the center include all 50 states, four territories, and the District of Columbia. The \$50,000 fee is approximately 23 percent of California's actual assessment (which is based on the state's population), and amounts to approximately 2 percent of the membership fees collected by the center from all states. Membership in the center entitles California to judicial research data, consultative services, and information on the views of the various states on federal legislation and national programs affecting the judicial system.

GOVERNOR'S OFFICE

| | |
|--|------------------|
| Item 0500 from the General Fund | Budget p. LJE 19 |
| <hr/> | |
| Requested 1985-86 | \$5,170,000 |
| Estimated 1984-85..... | 5,170,000 |
| Actual 1983-84 | 4,732,000 |
| Requested increase (excluding amount for salary increases): None | |
| Total recommended reduction | None |
| <hr/> | |

GENERAL PROGRAM STATEMENT

The California Constitution grants the supreme executive power of the state to the Governor, who is responsible for administering and enforcing state law. The Governor is elected to a four-year term and currently receives a salary of \$49,100.

The Governor's office has 85 authorized personnel-years in the current year.

GOVERNOR'S OFFICE—Continued**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$5,170,000 from the General Fund for support of the Governor's office in 1985-86. The proposed amount, which is equal to estimated current-year expenditures for the office, will grow by the cost of any salary or staff benefit increases approved for the budget year.

The office's budget makes no allowance for merit salary adjustments and inflation adjustments for operating expense. We estimate that these adjustments, if granted, would cost \$76,000 in 1985-86. Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1 provides a summary of the Governor's office budget for the past, current, and budget years. As shown in the table, personal services are budgeted at \$3,664,000. This represents a decrease of \$26,000 and 2 personnel-years from current-year levels. According to the Governor's office, these savings will result from workload efficiencies related to the installation of a centralized office automation system.

A total of \$1,451,000 is proposed for operating expenses and equipment. This is an increase of \$86,000, or 6.3 percent, over estimated expenditures for 1984-85. The proposed increase will help finance the cost of the office automation project.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

Table 1 indicates that \$55,000 is requested for special items of expense. This is a decrease of \$60,000 from current-year expenditures in this budget category. The decrease results from eliminating funds budgeted in 1984-85 for rental of a residence for the Governor. The Governor currently lives in a residence which was purchased by a private nonprofit foundation. The Department of General Services (DGS) has entered into a no-rent lease for use of the residence by the Governor. Consequently, the \$60,000 for rental costs is no longer needed. The DGS budget includes funds for security and maintenance for the facility.

Table 1
Governor's Office
Budget Summary
(dollars in thousands)

| | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 | Change From 1984-85 to 1985-86 | |
|--|-------------------|----------------------|---------------------|--------------------------------------|---------|
| | | | | Amount | Percent |
| Personal services..... | \$2,935 | \$3,690 | \$3,664 | -\$26 | -0.7% |
| Operating expenses and equipment | 1,325 | 1,365 | 1,451 | 86 | 6.3 |
| Special items of expense..... | 472 | 115 | 55 | -60 | -52.2 |
| Totals | \$4,732 | \$5,170 | \$5,170 | — | — |

Governor's Office
SECRETARY FOR STATE AND CONSUMER SERVICES

Item 0510 from the General
 Fund

Budget p. LJE 20

| | |
|---|-----------|
| Requested 1985-86 | \$660,000 |
| Estimated 1984-85 | 675,000 |
| Actual 1983-84 | 563,000 |
| Requested decrease (excluding amount for salary increases) \$15,000 (-2.2 percent) | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

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

- | | |
|--|---|
| Department of Consumer Affairs | Public Employees' Retirement System |
| Department of Veterans Affairs | State Teachers' Retirement System |
| Department of General Services | California Museum of Science and Industry |
| Office of the State Fire Marshal | Department of Fair Employment and Housing |
| Franchise Tax Board | Fair Employment and Housing Commission |
| State Personnel Board (by Executive Order) | |

The agency has 12.4 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$660,000 from the General Fund for support of the State and Consumer Services Agency in 1985-86. This is \$15,000, or 2.2 percent, less than estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

Table 1
Secretary for State and Consumer Services
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

| <i>Programs</i> | <i>Actual</i> 1983-84 | <i>Estimated</i> 1984-85 | <i>Proposed</i> 1985-86 | <i>Change</i> 1985-86 Over 1984-85 | |
|--|--------------------------|-----------------------------|----------------------------|--|----------------|
| | | | | <i>Amount</i> | <i>Percent</i> |
| Administration of State and Consumer Services | | | | | |
| Agency | \$651 | \$695 | \$690 | -\$5 | -0.7% |
| Statewide Disabled Compliance Coordination .. | 193 | — | — | — | NA |
| Rescinded Increase for MSA and Operating Ex- penses | — | — | -10 | -10 | NA |
| Totals | \$844 | \$695 | \$680 | -\$15 | -2.2% |
| <i>Funding Sources</i> | | | | | |
| General Fund | \$563 | \$675 | \$660 | -\$15 | -2.2% |
| Reimbursements | 281 | 20 | 20 | — | — |
| Personnel-Years | 15.3 | 12.4 | 11.5 | -0.9 | -7.3% |

SECRETARY FOR STATE AND CONSUMER SERVICES—Continued

Total agency expenditures in 1985-86, including expenditures from reimbursements, are budgeted at \$680,000, a decrease of \$15,000, or 2.2 percent from current-year expenditures. The budget does not include any funds for the estimated amount of General Fund merit salary increases (\$5,000) or inflation adjustments for operating expenses (\$5,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1 presents a summary of the agency's expenditures and personnel-years for the past, current, and budget years. The \$15,000 decrease results primarily from (1) an increase in the salary savings requirement and (2) the elimination of funding for temporary help.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the proposed expenditures for the agency appear to be warranted.

Governor's Office

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

| | |
|---|------------------|
| Item 0520 from various funds | Budget p. LJE 22 |
| <hr/> | |
| Requested 1985-86 | \$943,000 |
| Estimated 1984-85..... | 888,000 |
| Actual 1983-84 | 746,000 |
| Requested increase (excluding amount for salary increases) \$55,000 (+6.2 percent) | |
| Total recommended reduction | None |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|----------------------|---|-----------------|
| 0520-001-001—Support | General | \$335,000 |
| 0520-001-044—Support | Motor Vehicle Account, State Transportation Fund | 608,000 |
| Total | | <hr/> \$943,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. **Consultant Services.** *Reduce reimbursements by \$300,000.* 32
Recommend reduction because the proposal to contract for consultant services is not specific and has not been justified.
2. **Funding Split.** *Reduce Item 0520-001-044 by \$19,000 and increase Item 0520-001-001 by a corresponding amount.* 33
Recommend adjustment in funding split between the Motor Vehicle Account and the General Fund to reflect more accurately the agency's workload.

GENERAL PROGRAM STATEMENT

The Secretary for Business, Transportation and Housing, one of five agency secretaries in the Governor's Cabinet, supervises the activities of 16 departments and administrative bodies. These entities can be divided into three general groupings: (1) business and regulatory agencies, (2) transportation agencies, and (3) housing agencies. The 16 entities are as follows:

Business and Regulatory

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

Transportation

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

Housing

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

The agency is authorized to have 21 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations totaling \$943,000—\$335,000 from the General Fund, and \$608,000 from the Motor Vehicle Account in the State Transportation Fund—to support the Secretary's office in 1985–86. This is an increase of \$55,000, or 6.2 percent, above estimated current year expenditures from the two funding sources. This increase will grow by the amount of any salary of staff benefit increase approved for the budget year.

The agency also anticipates expenditures of \$691,000 in reimbursements during 1985–86, resulting in a total expenditure program of \$1,634,000. This is \$358,000, or 28 percent, more than estimated total expenditures in 1984–85. Most of the increase—\$300,000—is proposed for a study of the structure and role of state departments regulating financial service institutions.

Agency staffing is proposed to continue at the current-year level of 19 personnel-years. In 1985–86, the Secretary is proposing to use an existing position as the California Small Business Advocate in accordance with Ch 1721/84.

Table 1 shows the agency's expenditures and funding sources for 1983–84 through 1985–86, as proposed.

Table 1
Secretary for Business, Transportation and Housing
Program Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

| | Actual 1983–84 | Estimated 1984–85 | Proposed 1985–86 | Changes from 1984–85 to 1985–86 | |
|--|-------------------|----------------------|---------------------|---------------------------------------|---------|
| | | | | Amount | Percent |
| <i>Expenditures</i> | | | | | |
| Agency Administration | \$1,016 | \$1,276 | \$1,634 | \$358 | 28.0% |
| Personnel-Years | 16.6 | 19.0 | 19.0 | — | — |
| <i>Funding Sources</i> | | | | | |
| General Fund | \$285 | \$334 | \$335 | \$1 | 0.3% |
| Motor Vehicle Account, State Transportation Fund | 461 | 554 | 608 | 54 | 9.8 |
| Reimbursements | 270 | 388 | 691 | 303 | 78.1 |

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING—Continued**ANALYSIS AND RECOMMENDATIONS****Request for Consultant Services Unjustified**

We recommend deletion of \$300,000 in reimbursements from constituent departments that would be spent for contracted consultant services, because (1) neither the plan for using these funds nor the specific products to be obtained have not been specified, and (2) the need for these services has not been justified.

The Secretary for Business, Transportation and Housing is responsible for overseeing and coordinating policies and programs implemented by the State Banking Department, and the Departments of Corporations, Savings and Loan, Insurance and Real Estate. In recent years, there have been profound changes in California's financial service market, which have raised a number of significant policy issues regarding the activities and programs of the agency's constituent departments. The budget requests \$300,000 to fund a contract providing for an independent, comprehensive review of the state's policy role toward the regulation of financial service institutions. This review would be the second phase of a two-phase effort.

Current Year Effort. The Secretary is planning to initiate Phase I of the review in the last half of 1984-85 by contracting for a study of interstate banking. According to preliminary information from agency staff, this phase of the study will examine federal preemption of state law governing financial service institutions, the relationship between the state and federal financial regulatory structures, and consumer issues arising from deregulation and changes in financial services. At the time this analysis was prepared, staff advised us that the plan for Phase I had not been completed. The preliminary cost estimate for this phase, however, was approximately \$100,000, with each of the five departments expected to pay \$20,000.

Budget Year Request. Phase II of the review, proposed for 1985-86, would be undertaken through a consulting contract providing for a "strategic planning" approach to the following:

- Overlapping regulatory jurisdiction of state departments;
- Regulatory examination and supervisory effectiveness in the changing and deregulated environment;
- Improvement in California's financial service sector;
- Changes needed in the authority and the structure of the financial service industry; and
- Preparation for an electronic banking age.

The objective of the contract is to develop for the state a strategic approach for dealing with changes in the environment within which financial service institutions operate. The cost of Phase II—\$300,000—would be funded by the five financial regulatory departments, with each one providing \$60,000. The study would be conducted under the auspices of the Secretary.

Analyst's Review. It is evident that the changing market for financial services confronts the state with serious policy issues regarding (1) the relationships between state and federal regulatory authorities and the responsibilities of each, and (2) the effectiveness of the existing state regulatory structure. Depending on how these issues are resolved, major changes may be needed in the state's programs for regulating state licensed financial service institutions. In *The 1985-86 Budget: Perspectives and Issues*, we discuss these emerging issues at some length.

While our analysis confirms the need for further study of the issues facing the state's financial regulatory programs, we are unable to recommend approval of the budget request for \$300,000 to support the proposed consulting contract. Specifically, our analysis had identified the following defects with the proposal.

1. *A specific description of and cost estimates for the proposed study are lacking.* Although the budget proposal lists certain general areas of review, there is no detail plan for the study available for the Legislature's review. In addition, the agency was not able to supply any justification for the amount requested beyond citing the potential cost ranges provided by two consultant firms.

2. *The product to be gained from contracted services is not known.* The proposal calls for the development of a "strategic planning approach" to certain issues relating to the financial service market. It is not clear, however, what it is that the state would be getting for its money. For example, there is no assurance that the study will address the appropriate regulatory role for the state to play in the financial service market or various structural alternatives for fulfilling this role. In fact, there is no assurance that the study will produce specific recommendations to the Legislature.

3. *The consultant will serve, in effect, as an advisor to the Secretary.* Instead of providing a defined product, the proposal would, in effect, allow the Secretary to retain a consultant, at a cost of up to \$300,000, to advise the administration on policy issues identified by the Secretary.

For these reasons, we cannot recommend approval of the proposed study. Accordingly, we recommend that the requested \$300,000 be deleted. Consistent with this recommendation, we also make recommendations elsewhere in the *Analysis* that the budgets of the five financial regulatory departments be reduced by a total of \$300,000.

Funding Split Should Be Adjusted

We recommend that the amount appropriated for agency support from the Motor Vehicle Account, State Transportation Fund (Item 0520-001-044) be reduced by \$19,000 and the amount requested from the General Fund (Item 0520-001-001) be increased by \$19,000 to reflect more accurately the workload of the agency.

The Secretary's office is funded by a combination of General Fund appropriations, Motor Vehicle Account appropriations and reimbursements. Reimbursements are charges to departments within the Business, Transportation and Housing Agency on a pro rata basis, according to department size, and for specific work performed by the agency on behalf of the individual departments.

For 1984-85, reimbursements are expected to account for 30.4 percent of the agency's support and workload. The remaining support comes from the General Fund and from the Motor Vehicle Account in the State Transportation Fund. Table 2 shows the combination of these funding sources.

Agency staff has indicated that the split between the two funding sources is based on past workload. Table 2 shows that, based on actual workload, 38.2 percent of the agency's support in 1983-84 was from the General Fund and 61.8 percent was from the Motor Vehicle Account. For

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING—Continued

Table 2
Secretary for Business, Transportation and Housing
Funding Split for 1983-84 through 1985-86
(dollars in thousands)

| | <i>Actual</i> 1983-84 | | <i>Estimated</i> 1984-85 | | <i>Proposed</i> 1985-86 | |
|-----------------------------|--------------------------|----------------|-----------------------------|----------------|----------------------------|----------------|
| | <i>Amount</i> | <i>Percent</i> | <i>Amount</i> | <i>Percent</i> | <i>Amount</i> | <i>Percent</i> |
| General Fund | \$285 | 38.2% | \$334 | 37.6% | \$335 | 35.5% |
| Motor Vehicle Account | 461 | 61.8 | 554 | 62.4 | 608 | 64.5 |
| Totals..... | \$746 | 100.0% | \$888 | 100.0% | \$943 | 100.0% |

1984-85, the split is estimated to be 37.6 percent and 62.4 percent, respectively. The Governor's Budget, however, proposes that a smaller portion of the agency's support come from the General Fund in 1985-86.

Our review indicates that neither current-year estimated workload nor actual 1983-84 workload justifies a reduction in General Fund support and an increase in support from the Motor Vehicle Account. Moreover, the agency itself has indicated that it does not anticipate any shift in its workload mix for 1985-86. Accordingly, we recommend that support for the agency's activities reflect workload in the current year. This would require that the amount proposed from the Motor Vehicle Account for 1985-86 be reduced by \$19,000, and that the amount from the General Fund be increased by \$19,000.

Governor's Office

SECRETARY FOR HEALTH AND WELFARE

Item 0530 from the General Fund

Budget p. LJE 24

| | |
|--|-------------|
| Requested 1985-86 | \$1,356,000 |
| Estimated 1984-85..... | 4,931,000 |
| Actual 1983-84 | 5,593,000 |
| Requested decrease (excluding amount for salary increases) \$3,575,000 (-72.5 percent) | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

The Secretary for the Health and Welfare Agency (HWA) is directly responsible to the Governor for general policy formulation in the health and human services area, as well as for the operations and sound fiscal management of each department and office within the agency. These departments and offices are as follows:

- | | |
|----------------------------------|---|
| Aging, Department and Commission | Emergency Medical Services, |
| Alcohol and Drug programs | Authority and Commission |
| Developmental Services | Health and Welfare Agency Data Center |
| Employment Development | Office of Statewide Health Planning and Development |
| Health Services | Developmental Disabilities, Area Boards and State Council |
| Mental Health | Health Facilities, Authority and Commission |
| Rehabilitation | Advisory Committee on Child Development |
| Social Services | Medical Assistance Commission |

In the current year the Secretary's office contains staff that assist the Secretary in performing his policy formulation and oversight responsibilities, as well as two program units: The Multipurpose Senior Services Program (MSSP) and the Office of Migration and Refugee Affairs.

The 1984 Budget Act authorized 38 positions for the Health and Welfare Agency. Assembly Bill 2226 (Ch 1637/84), however, mandates the transfer of the MSSP to the Department of Aging as of January 1, 1985. This will necessitate transferring 13 positions in the current year, leaving 25 positions in the Secretary's office.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$1,356,000 from the General Fund to support the Secretary for Health and Welfare in 1985-86. This is a decrease of \$3,575,000, or 73 percent from estimated current-year expenditures. This decrease results from the transfer of the MSSP to the Department of Aging.

Table 1 presents a summary of program expenditures and funding sources. It shows that total program expenditures by the agency, including those financed from reimbursements, are projected at \$1,660,000 in 1985-86.

Table 1
Secretary for Health and Welfare
Expenditures and Funding Sources
1983-84 through 1985-86
(dollars in thousands)

| | 1983-84 Actual | 1984-85 Estimated | 1985-86 Proposed | Change from 1984-85 to 1985-86 | |
|--------------------------------|-------------------|----------------------|---------------------|-----------------------------------|---------|
| | | | | Amount | Percent |
| <i>Expenditures</i> | | | | | |
| Secretary's office | \$1,404 | \$1,653 | \$1,660 | \$7 | 0.4% |
| Office of Long-Term Care | 255 | — | — | — | — |
| MSSP: | | | | | |
| State administration | 1,897 | 1,204 | — | -1,204 | -100.0 |
| Site operations | 6,195 | 5,824 | — | -5,824 | -100.0 |
| Totals | \$9,751 | \$8,681 | \$1,660 | -\$7,021 | -80.9% |
| <i>Revenues</i> | | | | | |
| General Fund | \$5,593 | \$4,931 | \$1,356 | -\$3,575 | -72.5% |
| Reimbursements | 4,158 | 3,750 | 304 | -3,446 | -91.9 |

Excluding expenditures under the MSSP, the budget proposes an increase of \$7,000, or 0.4 percent, for the agency in 1985-86. The increase will grow by the amount of any increase in salaries or employee benefits approved for the budget year.

The \$7,000 increase proposed for 1985-86 will be used for employee compensation adjustments, merit salary adjustments, and inflation increases. Table 2 presents these proposed budget changes. The increases appear to be reasonable.

SECRETARY FOR HEALTH AND WELFARE—Continued

Table 2
Secretary for Health and Welfare
Proposed Budget Changes
1985-86
(dollars in thousands)

| | <i>General Fund</i> | <i>Reimbursements</i> | <i>Total</i> |
|---|-------------------------|-----------------------|--------------|
| 1984-85 expenditures (revised) | \$4,931 | \$3,750 | \$8,681 |
| Proposed changes: | | | |
| 1. Cost adjustments | | | |
| a. Employee compensation adjustment | 4 | -1 | 3 |
| b. Merit salary adjustment | — | 2 | 2 |
| c. Inflation increase | — | 2 | 2 |
| 2. Program change proposals | | | |
| a. Transfer of MSSP | -3,579 | -3,449 | -7,028 |
| 1985-86 expenditures (proposed) | \$1,356 | \$304 | \$1,660 |
| Change from 1984-85: | | | |
| Amount | -\$3,575 | -\$3,446 | -\$7,021 |
| Percent | -72.5% | -91.9% | -80.9% |

Governor's Office
SECRETARY FOR RESOURCES

Items 0540 from the General
Fund and Environmental
License Plate Fund

Budget p. LJE 26

| | |
|---|-------------|
| Requested 1985-86 | \$1,329,000 |
| Estimated 1984-85 | 1,526,000 |
| Actual 1983-84 | 1,028,000 |
| Requested decrease (excluding amount for salary increases) \$197,000 (-12.9 percent) | |
| Total recommended reduction | 85,000 |
| Recommendation pending | None |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|-------------------------------|--------------------------------|--------------------|
| 0540-001-001—Agency support | General | \$1,159,000 |
| 0540-001-140—CTRPA activities | Environmental License Plate | 170,000 |
| Total | | <u>\$1,329,000</u> |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. **CTRPA—Related Costs.** Reduce Item 0540-001-140 by **\$85,000.** Recommend reduction to delete contract funds in excess of amount needed for administration of CTRPA activities.

38

GENERAL PROGRAM STATEMENT

The Secretary for Resources is the administrative head of the Resources Agency. In this capacity, he is responsible directly to the Governor for the management, preservation, and enhancement of California's natural, recreational, and wildlife resources. The Secretary is a member of the Governor's cabinet.

By statute, the Resources Agency is composed of the following units: The Departments of Conservation, Fish and Game, Forestry, Parks and Recreation, Boating and Waterways, and Water Resources, the Air Resources Board, California Coastal Commission, California Conservation Corps, Colorado River Board, Energy Resources Conservation and Development Commission, Santa Monica Mountains Conservancy, State Coastal Conservancy, California Tahoe Conservancy, State Lands Commission, State Water Resources Control Board, and the California Waste Management Board. In practice, however, the Air Resources Board, California Waste Management Board, and the State Water Resources Control Board report to the administratively established Environmental Affairs Agency, rather than to the Resources Agency.

Several miscellaneous programs, including those providing for planning in the Lake Tahoe Basin, also are budgeted in the Resources Agency. In addition, the agency (1) is the administration's liaison with the San Francisco Bay Conservation and Development Commission, (2) allocates money in the Environmental License Plate Fund, (3) issues the state's guidelines for preparation of environmental impact reports (EIRs), and (4) designates the classes of activities exempted from the preparation of EIRs.

The agency has 20.8 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations totaling \$1,329,000 to the Resources Agency in 1985-86. This amount consists of \$1,159,000 from the General Fund for direct support costs and \$170,000 from the Environmental License Plate Fund (ELPF) to carry out the agency's responsibilities as the successor to the deactivated California Tahoe Regional Planning Agency (CTRPA). The total of these two appropriations is \$197,000, or 12.9 percent, less than comparable estimated current-year expenditures. Budget year expenditures, however, will increase by the amount of any salary or benefit increases approved for 1985-86.

Decrease Due to Budget Shift

The apparent decrease in expenditures by the Resources Agency in the budget year is due entirely to a change in the method of budgeting for CTRPA-related legal services provided by the Attorney General. During the current year, the cost of these services is included in the expenditures of the Resources Agency (\$210,000 from the ELPF) and is reflected as a reimbursement in the Department of Justice's budget.

In 1985-86, the budget proposes to finance these costs by appropriating \$243,000 from the General Fund directly to the Department of Justice.

Continued funding for CTRPA legal services is necessary because several lawsuits still are pending against this deactivated agency. The cost of legal services is expected to increase by \$33,000 in the budget year because legal services also will be provided to the new California Tahoe Conservancy by the Attorney General. If funding for legal services is excluded from the agency's expenditures in 1984-85 in order to make the current

SECRETARY FOR RESOURCES—Continued

and budget year comparable, the request for 1985-86 shows an increase of \$13,000, or about 1 percent, due to salary increases and inflation adjustments.

ANALYSIS AND RECOMMENDATIONS**CTRPA-Related Costs Decreasing**

We recommend a reduction of \$85,000 in the amount requested for administration of California Tahoe Regional Planning Agency (CTRPA) activities because the amount actually needed for this purpose will be less than the amount budgeted (reduce Item 0540-001-140 by \$85,000).

The budget includes \$170,000 from the Environmental License Plate Fund (ELPF) to finance the cost of administering CTRPA activities pursuant to Ch 1612/82. This is the same amount provided for this purpose in the current year.

Chapter 1612 authorizes the Resource Secretary to serve as legal successor for purposes of concluding any regulatory or administrative matters which were still pending at the time of CTRPA's deactivation in April 1984.

Current Year Funding. The \$170,000 appropriation from the ELPF is being used by the Resources Agency in the current year to finance a \$145,000 contract with the bi-state Tahoe Regional Planning Agency (TRPA) to (1) monitor and enforce permit conditions for 1,200 active building permits, previously issued by CTRPA, (2) administer approximately \$1.5 million of surety deposits, and (3) verify compliance with mitigation requirements or settlement agreements pertaining to those permits. The Resources Agency advises that the balance of \$25,000 is being used to finance its internal costs for administering this contract and other CTRPA matters.

Request Exceeds Amount Needed. Based on estimates by the TRPA, the amount needed to continue contract work will be \$75,000 during 1985-86. This is less than the current-year amount because the number of outstanding CTRPA permits and surety deposits which TRPA must administer will decrease as construction projects covered by these permits and deposits are completed. The Resources Agency expects that the number of active permits will decrease from 1,200 to 850 by the end of the current fiscal year. In addition, the Resources Agency now estimates that only \$10,000 will be needed to finance its own administrative costs for CTRPA-related activities during the budget year.

On this basis, we estimate that \$85,000 is needed to finance the TRPA contract work and Resources Agency expenses. Accordingly, we recommend that the budget request of \$170,000 be reduced by \$85,000.

Governor's Office
SECRETARY FOR YOUTH AND ADULT CORRECTIONAL
AGENCY

Item 0550 from the General
Fund

Budget p. LJE 28

| | |
|---|-----------|
| Requested 1985-86 | \$814,000 |
| Estimated 1984-85 | 698,000 |
| Actual 1983-84 | 614,000 |
| Requested increase (excluding amount for salary increases) \$116,000 (+16.6 percent) | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

The Secretary for Youth and Adult Correctional Agency coordinates the activities of and provides policy direction to the Department of Corrections, Department of the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, and the Narcotic Addict Evaluation Authority. The agency has 9.3 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$814,000 from the General Fund for support of the Youth and Adult Correctional Agency in 1985-86. This is an increase of \$116,000, or 16.6 percent, above estimated current-year expenditures. The increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The requested increase in the agency's budget results primarily from the addition of a one-year limited-term undersecretary position. The agency indicates that the position is needed to provide oversight to the state's prison construction and inmate work programs. The position will be responsible for coordination and management of construction and work issues between the Department of Corrections and other entities, such as the Department of Finance, the Department of General Services, and the Attorney General, and will chair an agency-level prison policy committee.

The budget requests \$114,000 for salary, benefits, and related operating expenses and equipment for the new undersecretary. In addition, two existing positions at the Department of Corrections (an executive secretary II and a staff services analyst) that currently are vacant will be diverted from other unspecified programs and assigned to the agency to provide additional support directly to the new undersecretary. The cost to the Department of Corrections of providing these services will be approximately \$70,000 in the budget year.

Although this proposal results in the addition of only one position at a cost of \$114,000 to the Youth and Adult Correctional Agency, the total impact of the proposal is to add three positions at a cost of approximately \$184,000, to the state's prison construction program. In addition, the plan will result in the Youth and Adult Correctional Agency being the only state agency with two undersecretaries.

SECRETARY FOR YOUTH AND ADULT CORRECTIONAL AGENCY—Continued

Despite the high costs of adding the second undersecretary position and related support, we believe this proposal is warranted. The \$1.2 billion prison construction program is the largest capital construction project in California's history. Furthermore, given the difficulties the administration has encountered in managing the construction program, increased staffing at the agency level could provide valuable coordination and perform a critical oversight role. Accordingly, we recommend approval of the staffing augmentation.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General

Fund

Budget p. LJE 29

| | |
|---|-----------|
| Requested 1985-86 | \$240,000 |
| Estimated 1984-85 | 240,000 |
| Actual 1983-84 | 168,000 |
| Requested increase (excluding amount for salary increases): None | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

The Office of California-Mexico Affairs (OCMA), established on January 1, 1983 by Ch 1197/82, is the successor to two previous state agencies: the Commission of the Californias and the Southwest Border Regional Conference. Under Ch 1197/82, the purposes, staff, and resources of the two predecessor entities were consolidated into two organizational units within OCMA.

The primary function of the 18-member Commission of the Californias is the promotion of economic, cultural, educational, and scientific relations with the regional Mexican governments of Baja California and Baja California Sur. The commission, which receives staff support from OCMA, meets semiannually in California, Baja California, or Baja California Sur. The Governor serves as chairman of the California delegation to the commission; the Lieutenant-Governor serves as vice-chairman.

The OCMA also provides staff support for California's participation in the Southwest Border Regional Conference. The conference is composed of the Governors of California, Texas, Arizona, and New Mexico, and representatives of six Mexican border states. Its purpose is to promote international cooperation in economic, cultural and environmental exchange across the U.S.-Mexican border.

The office currently has four authorized positions.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of \$240,000 for OCMA in 1985-86. This is the same amount that the office expects to spend during the current year. Since the request for the budget year includes no additional funds for merit salary adjustments or increases in general operating expenses to offset the effects of inflation, these increases will have

to be offset by reductions elsewhere in the OCMA's budget. The OCMA budget, however, will increase to the extent that the Legislature approves staff salary or benefit increases for the budget year.

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General and
the California State World
Trade Commission Fund

Budget p. LJE 31

| | |
|---|-------------|
| Requested 1985-86 | \$1,088,000 |
| Estimated 1984-85..... | 738,000 |
| Actual 1983-84 | 426,000 |
| Requested increase (excluding amount for salary increases) \$350,000 (+47.4 percent) | |
| Total recommended reduction | None |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|----------------------|--|-------------|
| 0585-001-001—Support | General | \$933,000 |
| 0585-001-981—Support | California State World Trade Commission | 155,000 |
| Total | | \$1,088,000 |

GENERAL PROGRAM STATEMENT

The California State World Trade Commission was created by Chapter 1526, Statutes of 1982 (AB 3757), to promote international trade, tourism and investments. Located in the Governor's office, the commission replaced and became the successor to the Office of International Trade in the Department of Economic and Business Development, effective January 1, 1983.

The 15-member commission is composed of executive, legislative and private sector representatives, and is chaired by the Secretary of State. It serves as the official representative of the state on all international trade and tourism matters. The commission's responsibilities include (1) promoting and coordinating export trade, tourism and foreign investments in California through research and administrative programs, trade missions, overseas offices (if feasible) and other appropriate methods, and (2) soliciting funds for the commission's activities from federal, state, and private sources.

The commission is authorized to have an advisory council of 20-40 members, representing the diverse nature of the state's economy.

In the current year, seven authorized positions provide staff support to the commission.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$1,088,000 to support the programs of the commission in 1985-86. This amount is \$350,000, or 47.4 percent, more than estimated current-year expenditures. The increase will grow by the amount of any staff salary or benefit increases that may be approved by the Legislature for 1985-86.

The budget proposes to increase General Fund support for the commis-

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

sion from \$738,000 to \$933,000, or by 26.4 percent, in 1985–86. It also proposes expenditures from the California State World Trade Commission Fund amounting to \$155,000 in the budget year. A summary of the commission's budget for the prior, current, and budget years is provided in Table 1.

Table 1
California State World Trade Commission
Budget Summary
1983–84 through 1985–86
(dollars in thousands)

| Category | Actual 1983–84 | Estimated 1984–85 | Proposed 1985–86 | Budget-Year Increase | |
|---|-------------------|------------------------|---------------------|-------------------------|---------|
| | | | | Amount | Percent |
| Personal Services | \$263 | \$375 | \$424 | \$49 | 13.1% |
| Operating Expenses and Equipment | 163 | 363 | 664 | 301 | 82.9 |
| Totals..... | \$426 | \$738 | \$1,088 | \$350 | 47.4% |
| <i>Funding Sources</i> | | | | | |
| General Fund | \$426 | \$738 | \$933 | \$195 | 26.4% |
| California State World Trade Commission Fund | — | — | 155 | 155 | — |
| Export Finance Fund | — | (\$2,000) ^a | — | — | — |
| Personnel-years | 6.3 | 8.0 | 8.9 | 0.9 | 11.3% |

^a Chapter 1693/84 (SB 1196) provided a one-time, \$2 million General Fund appropriation to the Export Finance Fund.

The components of the \$350,000 increase proposed for the commission in 1985–86 are: (1) an increase of \$48,000 in operating expenses, to reflect prior-year actual expenditures, (2) an increase of \$37,000 to meet increased workload in processing export trade leads for California industrial and agricultural products, (3) an increase of \$110,000 to provide full year funding for the Export Finance Office, and (4) \$155,000 for a new trade exhibit program (assuming contributions are forthcoming from private sources).

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The increases proposed for the commission's ongoing programs are reasonable and should allow the commission to carry out its statutory responsibilities in the budget year.

New Export Finance Program

Effective January 1, 1985, Ch 1693/84 (SB 1196) established the California Export Finance Program within the California State World Trade Commission. Under the direction of a board with specified membership, this program will provide financial and technical assistance to small and medium-sized California companies regarding the export of their products, and insure or guarantee loans to finance qualified export transactions by these companies.

Chapter 1693 provided two General Fund appropriations: (1) \$2 million to the newly created Export Finance Fund to be used as "seed" money

for insuring and/or guaranteeing loans to be made by participating commercial banks, and (2) \$250,000 to the California State World Trade Commission Fund for administration of the program during the January-to-June 1985 period. The ongoing administrative support for the program is to be provided through the Budget Bill. It is not likely that the \$250,000 appropriated for current-year support will all be expended by June 30, 1985.

In 1985-86, the budget proposes \$360,000 for support of the export finance program, an increase of \$110,000.

At the time this analysis was written, the specified appointments to the Export Finance Board had not yet been completed and no staff had been selected. According to the commission's executive director, plans are underway to hire a full-time executive director and secretary for the Export Finance Office (to be located in Los Angeles) and to contract with private consultants for financial and marketing assistance.

The proposed full-year budget of the Export Finance Office was prepared by the commission's staff, based on the projected workload to be generated by the statutory responsibilities of the office.

In the absence of prior experience with a state-operated export finance program in California, it is difficult to evaluate the reasonableness of the proposed budget for this new program. We have learned, however, that Minnesota has an export finance program which is similar in nature and scope to California's. Minnesota's program has a proposed support budget of about \$200,000, supplemented by some marketing assistance provided by that state's trade office. On this basis, and given California's proportionately greater role as an exporting state, the proposed level of expenditures for the office in 1985-86 appears to be reasonable.

Proposed Trade Promotion/Exhibit Program

The budget proposes to implement a trade promotion/exhibit program, to be financed by monetary contributions from the private sector. Such contributions, which are authorized by Chapter 1526/82, the commission's enabling legislation, are to be deposited in the California State World Trade Commission Fund.

The commission proposes to collect \$155,000 in contributions from the California international trade and tourism community during 1985-86, and proposes to spend this amount on exhibits designed to promote (1) the sale of the state's products on foreign markets, (2) international tourism in California and (3) foreign investments in the state. Budget-year expenditures for this program, however, would be limited to the amount of contributions received by the commission during 1985-86.

**GOVERNOR'S OFFICE OF SPECIAL HEALTH CARE
NEGOTIATIONS—REVERSION**

Item 0630-495 to the General
Fund

Budget p. LJE 34

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 328, Statutes of 1982, established the Governor's Office of Special Health Care Negotiations. The act appropriated \$750,000 for support of the office in 1982-83. The requirements of the act have been met, and as of July 1, 1984, a balance of \$286,000 remained unexpended. This item would revert these funds to the unappropriated surplus of the General Fund.

Governor's Office

OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General
Fund and the Federal Trust
Fund

Budget p. LJE 34

| | |
|--|-------------|
| Requested 1985-86 | \$3,503,000 |
| Estimated 1984-85..... | 3,499,000 |
| Actual 1983-84 | 2,692,000 |
| Requested increase (excluding amount for salary increases) \$4,000 (+0.1 percent) | |
| Total recommended reduction | None |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---------------|-------------|
| 0650-001-001—Support | General | \$3,503,000 |
| 0650-001-890—Support | Federal Trust | (500,000) |
| 0650-101-890—Local assistance Reimbursements | Federal Trust | (125,000) |
| Totals | | \$3,503,000 |

GENERAL PROGRAM STATEMENT

The Governor's Office of Planning and Research (OPR) assists the Governor by conducting research and making policy recommendations on a wide range of matters. In addition, it has statutory responsibilities related to state and local land use issues, environmental and federal project review procedures, and permit assistance.

The office is organized into six units:

1. **Education Planning and Policy.** This unit has six positions in the current year that advise the Governor, monitor legislation, and provide liaison with interested parties on issues related to education.

2. **Local Government Affairs.** A staff of 15 positions in this unit assists local governments with planning matters, reviews general plans developed by local governments, analyzes legislation pertaining to local

government issues, and provides liaison between the Governor and local agencies.

3. **Permit Assistance.** This unit, with 23.8 positions in the current year, coordinates state and local reviews of environmental and federal projects through the State Clearinghouse, assists applicants for state and local development permits, provides assistance to the administration on outercontinental shelf matters, and performs other related duties.

4. **Energy Extension Service.** This program conducts outreach efforts and contracts with community groups, businesses, and local governments to promote awareness of energy conservation and renewable resource methods. The program has a staff of eight positions and is fully supported by federal funds.

5. **Community Relations.** Staffed with 11.5 positions, this unit provides liaison between the Governor and various community groups, advises the Governor on policy proposals, and represents the Governor at public meetings with community groups.

6. **Executive Office and Support Services.** This unit has 21 positions that provide general policy direction and administrative and support services to other OPR units. In the current year the unit also provides staff support to the California Commission on Industrial Innovation, and provides various administrative services to the Office of California—Mexico Affairs.

The OPR has 85.3 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$3,503,000 from the General Fund for support of the Office of Planning and Research (OPR) in 1985–86. This is an increase of \$4,000, or less than 1 percent, above estimated current-year expenditures. The increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

This increase reflects (1) the deletion of 2.3 clerical positions made possible by efficiencies resulting from office automation, and (2) increases in operating expenses. The budget, however, does not include any funds for the estimated amount of merit salary increase (\$43,000 in 1985–86) or inflation adjustments for operating expenses and equipment (\$42,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Total expenditures from all funds sources in 1985–86 are proposed at \$4,232,000, an increase of \$4,000, or less than 1 percent above estimated current-year expenditures. No change is proposed in either the amount of federal funds (\$625,000) budgeted to support the California Energy Extension Service or reimbursements (\$104,000). Reimbursements received by OPR are used to fund (1) the Joint Review Panels that review permits for oil and gas projects on state-owned coastal waters and the federal outer continental shelf and (2) administrative services to the Office of California-Mexico Affairs.

The budget proposes a total of 83 positions for OPR in the budget year, a reduction of 2.3 from the current-year level. Table 1 shows the budget for OPR for the past, current, and budget years.

OFFICE OF PLANNING AND RESEARCH—Continued

Table 1
Office of Planning and Research
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

| Program | Expenditures | | | Change From 1984-85 | |
|---|-------------------|----------------------|---------------------|------------------------|---------|
| | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 | Amount | Percent |
| 1. Education Planning and Policy | \$223 | \$309 | \$315 | \$6 | 1.9% |
| 2. Local Government Affairs | 690 | 771 | 790 | 19 | 2.5 |
| 3. Permit Assistance | 1,201 | 1,122 | 1,135 | 13 | 1.2 |
| 4. Energy Extension Service | 1,875 | 625 | 625 | — | — |
| 5. Community Relations | 218 | 586 | 617 | 31 | 5.3 |
| 6. Executive Office and Support Services | 692 | 815 | 835 | 20 | 2.5 |
| 7. Unallocated Merit Salary and OE&E Reduc- tion | — | — | -85 | -85 | NMF |
| Totals | \$4,899 | \$4,228 | \$4,232 | \$4 | 0.1% |
| <i>Funding Sources</i> | | | | | |
| General Fund | \$2,692 | \$3,499 | \$3,503 | 4 | 0.1% |
| Environmental License Plate Fund | 13 | — | — | — | — |
| Federal Trust Fund | 1,875 | 625 | 625 | — | — |
| Reimbursements | 319 | 104 | 104 | — | — |
| Totals | \$4,899 | \$4,228 | \$4,232 | \$4 | 0.1% |
| Personnel-Years | 79.6 | 85.3 | 83 | 2.3 | 2.7% |

NMF means not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Consultant Services Proposed to Implement New Legislation

Chapter 1469, Statutes of 1984 (AB 1813), modifies the standards used by the state to reimburse counties for the cost of certain homicide trials. Under prior law, the state reimbursed counties for a portion of the costs incurred in connection with those homicide trials costing more than an amount equal to the revenue derived from a specified local property tax rate. Chapter 1469 lowered the reimbursement threshold for many trials, and established different reimbursement rates for small and large counties (defined as having more or fewer than 300,000 residents).

The measure required the OPR to evaluate by July 1987 the effects of the changes in the reimbursement formula. The budget requests \$60,000 to (1) hire a consultant to study the impact of the change and (2) establish a task force composed of local district attorneys, the Department of Justice, the Office of Criminal Justice Planning, the State Public Defender, and public members to advise OPR and assist in the study. We believe that this proposal is reasonable and recommend that it be approved.

Salary Schedule Information Provided

The *Supplemental Report of the 1984 Budget Act* required the Governor's Office of Planning and Research (OPR) to annually submit to the Department of Finance complete schedules identifying the specific positions in the office, the number of each type of position, and the costs of these positions for the past, current and budget years, in accordance with the requirement set forth in the State Administrative Manual. The OPR advises that it complied with this directive by submitting the salary schedules with its budget submission for 1985-86.

No Support for Advisory Commissions

The OPR proposes to discontinue providing support for the Planning Advisory and Assistance Council (PAAC) and the California Commission on Industrial Innovation (CCII) in the budget year. The budget proposes a reduction of \$5,000 because the office will not provide reimbursement for travel expenses in connection with CCII meetings.

The PAAC is charged with advising OPR regarding intergovernmental coordination of planning functions involving state, local, and federal agencies. In the past, PAAC also was authorized to evaluate and award local assistance grants under a comprehensive housing assistance program sponsored by the federal Department of Housing and Urban Development.

Federal legislation to end the housing assistance program took effect in 1982. The OPR made the last grant award in 1981. The council has not met since 1981.

The CCII is required by law to convene meetings between business, labor, academic, and government to address various issues related to industrial innovation. The OPR advises that the duties of CCII are currently being carried out by other agencies.

**Governor's Office
OFFICE OF ECONOMIC OPPORTUNITY**

Item 0660 from the General Fund and Federal Trust Fund Budget p. LJE 37

| | |
|--|----------------|
| Requested 1985-86 | \$125,135,000 |
| Estimated 1984-85..... | 152,513,000 |
| Actual 1983-84 | 161,137,000 |
| Requested decrease (excluding amount for salary increases) \$27,378,000 (-17.9 percent) | |
| Total recommended increase | 452,000 |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|------------------------------------|---------|---------------|
| 0660-001-001—OEO, support | General | \$80,000 |
| 0660-001-890—OEO, support | Federal | 8,606,000 |
| 0660-101-890—OEO, local assistance | Federal | 116,449,000 |
| Total | | \$125,135,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|---|--------------------------|
| | <i>Analysis page</i> |
| 1. Office of Economic Opportunity (OEO) Workload Standards. Recommend adoption of supplemental report language requiring OEO to report to the Legislature verifying the office's workload standards using an internal cost-accounting system. | 49 |
| 2. <i>Technical Budgeting Recommendations. Reduce Item 0660-001-890 by \$319,000; Increase Item 0660-101-890 by \$319,000.</i> Recommend reduction of \$319,000 in departmental support to correct technical budgeting errors. Fur- | 50 |

OFFICE OF ECONOMIC OPPORTUNITY—Continued

- ther recommend that these funds be redirected to increase support for local services.
3. Weatherization Service Priorities. Recommend that OEO submit to the Legislature, prior to budget hearings, specified information that will permit the Legislature to establish weatherization priorities which maximize the energy savings resulting from Low-Income Home Energy Assistance (LIHEA) program activities. 51
 4. Discretionary Funds. Recommend that OEO submit to the Legislature, prior to budget hearings, its proposed plan for use of discretionary CSBG funds in 1985-86. 53
 5. *Community Services Block Grant (CSBG) Administrative Expenses. Reduce Item 0660-001-890 by \$365,000; Increase Item 0660-101-890 by \$817,000.* Recommend deletion of \$365,000 proposed for support of the CSBG program to reflect the 5 percent limit required by federal and state law. Further recommend that \$817,000 in carry-over CSBG funds be used to increase support for local programs. 54

GENERAL PROGRAM STATEMENT

The Office of Economic Opportunity (OEO), which is located within the Governor's office, (1) administers the Low-Income Home Energy Assistance (LIHEA) block grant program, (2) administers the Community Services Block Grant (CSBG), (3) plans, coordinates, and evaluates programs that provide services to the poor, and (4) advises the Governor on the needs of the poor. The LIHEA block grant assists low-income persons in meeting their energy needs. The CSBG provides funds to community action agencies for programs intended to assist low-income people.

The 1984 Budget Act authorized 213.9 positions for the office.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$125,135,000 from all funds for programs administered by the office in 1985-86, as shown in Table 1. This is a net decrease of \$27,378,000, or 18 percent, below estimated current-year expenditures. This reduction is due to the fact that \$23 million in LIHEA block grant funds, \$3.4 million in Department of Energy weatherization funds, and \$579,000 in CSBG support carried over into the current year will not be available in the budget year.

The proposed expenditure level of \$125 million includes \$8.7 million for administration and \$116 million for direct services programs. The amount proposed for administration includes \$6,169,000 for management of the LIHEA block grant. The amount proposed for LIHEA administration exceeds the 5 percent limit established in state law. Any increase in salaries or staff benefits approved for the budget year would cause this amount to exceed the 5 percent cap by an even larger amount. In view of this, the administration proposes Budget Bill language to suspend the 5 percent cap and thereby allow funding for LIHEA administrative expenses to be based on program needs, as determined by the office.

Table 1
Office of Economic Opportunity
Program Expenditures and Revenues
1983-84 through 1985-86
(in thousands)

| | 1983-84 Actual | 1984-85 Estimated | 1985-86 Proposed | Change From 1984-85 to 1985-86 | |
|------------------------------------|-------------------|----------------------|---------------------|-----------------------------------|----------|
| | | | | Amount | Percent |
| Expenditures | | | | | |
| Energy Programs..... | \$118,513 | \$119,413 | \$93,634 | -\$35,779 | -27.6% |
| Administration | (5,385) | (6,557) | (6,688) | (131) | (2.0) |
| Program | (113,128) | (112,856) | (86,946) | (-35,910) | (-29.2) |
| Special Programs..... | — | 1,020 | — | -1,020 | -100.0 |
| Administration | — | (70) | — | (-70) | (-100.0) |
| Program | — | (950) | — | (-950) | (-100.0) |
| Community Services..... | 42,572 | 32,000 | 31,421 | -579 | -1.8 |
| Administration | (1,671) | (1,606) | (1,918) | (312) | (19.4) |
| Program | (40,901) | (30,394) | (29,503) | (-891) | (-2.9) |
| Executive and Administration | 1,537 | 2,761 | 2,951 | 190 | 6.9 |
| Distributed Administration..... | -1,485 | -2,681 | -2,871 | 190 | -7.1 |
| OEO Administration..... | 7,108 | 8,313 | 8,690 | 377 | 4.5 |
| Programs | 154,029 | 144,200 | 116,449 | -27,751 | -19.2 |
| Total Expenditures | \$161,137 | \$152,513 | \$125,135 | -\$27,378 | -18.0% |
| General Fund | \$52 | \$80 | \$90 | — | — |
| LIHEA | 110,409 | 111,309 | 88,970 | -22,339 | -20.1 |
| CSBG | 42,572 | 32,000 | 31,421 | -579 | -1.8 |
| DOE | 8,104 | 8,104 | 4,664 | -3,440 | -42.4 |
| Other Federal Funds | 0 | 1,020 | 0 | -1,020 | -100.0 |

ANALYSIS AND RECOMMENDATIONS

OEO POSITION AND EXPENSE NEEDS

OEO Staff Reductions

We recommend approval.

The budget authorizes 213.9 positions for OEO. In 1985-86, OEO proposes to reduce administrative staffing levels by 26.0 positions, or 12.2 percent. Of these positions, 10 positions currently are vacant. Another 10 positions are temporary-help positions that OEO anticipates will not be needed in 1985-86 as a result of workload reductions in the Home Energy Assistance program. The office expects the workload associated with the remaining six positions proposed for deletion to be absorbed within the existing temporary-help blanket.

The office indicates that it can achieve these reductions in staffing levels without reducing its ability to administer the workload associated with the CSBG and LIHEA programs. The office bases this conclusion on a study of its staffing needs submitted to the Legislature in response to the *Supplemental Report of the 1984 Budget Act*. The study concludes that 187.9 positions—26 positions less than OEO's authorized level for 1984-85—are required to efficiently administer the office's programs. (We discuss this study in more detail below.)

We have reviewed this study and concluded that it represents the best available assessment of OEO's staffing needs. Accordingly, we recommend approval of the office's proposed staffing reductions.

Workload Standards Need Verification

We recommend that OEO submit to the fiscal committees, prior to budget hearings, a plan for instituting a cost-accounting system that can

OFFICE OF ECONOMIC OPPORTUNITY—Continued

verify its workload standards. We further recommend adoption of supplemental report language requiring OEO to report to the Legislature by November 1, 1985, on its staffing needs, as determined by actual workload data and the internal cost-accounting system.

The *Supplemental Report of the 1984 Budget Act* requires OEO to submit a report to the Legislature which identifies the office's organizational structure and provides a detailed workload justification for each position in the proposed organization. The office submitted the required report on October 1, 1984.

We reviewed the report and discussed with OEO its staffing and workload patterns. We believe that the report satisfies the Legislature's intent and also represents a good effort on the office's part in estimating workload-based staffing needs. In these discussions, however, it became clear that OEO had to *estimate* much of the workload data because no experience-based data existed within the office. As a result, we cannot independently verify the staffing needs set forth in OEO's report to the Legislature. While OEO plans to establish an internal cost-accounting system that can more accurately measure its workloads and costs, the office has no firm implementation date for the system.

Establishing an internal cost-accounting system is the only way that OEO can truly establish workload standards and, thus, verify its estimate of staffing needs. Such a cost-accounting system would result in other benefits to OEO, as well. For example, it would enhance OEO's ability to establish employee productivity standards and improve its method of allocating indirect costs to its programs.

Accordingly, we recommend that OEO submit to the fiscal committees, prior to budget hearings, a plan for instituting a cost-accounting system that would enable the office to accurately measure workloads and costs. We further recommend the adoption of supplemental report language requiring OEO to report to the Legislature by November 1, 1985, verifying the staffing needs of the office, using data generated by an internal cost-accounting system. The following language is consistent with this recommendation:

"The Office of Economic Opportunity shall submit to the chairperson of the fiscal committee of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee by November 1, 1985, a report discussing the workload-related staffing needs of the office. This report shall utilize data generated by an internal cost-accounting system to provide the following information:

- "a. A detailed workload justification for each position in OEO's organizational structure.
- "b. Workload standards for all job descriptions for which the office budgets two or more positions.
- "c. A separate justification for the number of manager positions, including an analysis of the number of employees each manager oversees, and an explanation of the differences in managerial support between different units within the office."

Technical Recommendations

We recommend:

1. Deletion of \$30,000 in salaries and wages because the salaries related to 26 positions proposed for deletion in 1985-86 were not adjusted to account for the salary increases provided to state employees in the current

year. In addition, we recommend deletion of \$9,000 budgeted for employee benefits that are associated with the \$30,000 in overbudgeted salary costs.

2. Reduction of \$179,000 in operating expenses that will not be incurred, due to the proposed deletion of the 26 positions.

3. Deletion of \$101,000 in operating expenses budgeted for the LIHEA Home Energy Assistance program (HEAP) that was erroneously included in the 1984-85 base and continued in the proposed 1985-86 administrative budget for HEAP.

4. An increase in assistance for local programs by redirecting funds recommended for deletion from OEO's support budget.

Adoption of these recommendations would decrease Item 0660-001-890 and increase Item 0660-101-890 by \$319,000.

LOW-INCOME ENERGY ASSISTANCE BLOCK GRANT

The OEO administers the Low-Income Home Energy Assistance (LIHEA) Block Grant, which provides direct assistance to low-income households in order to help them finance their heating, cooling, and lighting bills. The 1985-86 budget proposes \$89.0 million for the LIHEA programs. This is a reduction of \$22.3 million, or 23 percent, from current-year funding levels. This reduction is due entirely to the fact that funds carried over from prior years into the current year will not be available in 1985-86.

The LIHEA program has three components, as follows:

The Home Energy Assistance program (HEAP) provides cash grants to eligible households to help alleviate the burden imposed by energy-related utility bills. Grants vary by household size, the type of fuel used, and the location of the recipient's residence. In 1983-84, HEAP grants averaged \$149 per household. The office proposes to spend \$61,222,000, or 69 percent of the LIHEA grant, for direct assistance payments.

The Energy Crisis Intervention program (ECIP) provides emergency assistance to households in cases where fuel has been shut off or is about to be shut off, the household does not have sufficient funds to pay a delinquent utility bill, or the household is unable to finance the purchase or repair of heating devices. The ECIP is operated by local Community Action Agencies (CAAs) and other community-based organizations. Payments under ECIP averaged \$168 in 1983-84. The 1985-86 budget proposes \$17,279,000, or 19 percent of the LIHEA block grant, in support of ECIP grants.

The Weatherization program provides low-cost energy conservation services, including weatherstripping, insulation, and heater adjustment, to recipients through community organizations. The average cost of weatherization services totaled \$660 per home in 1983-84. In 1985-86, OEO proposes to dedicate \$10,469,000, or 12 percent of the LIHEA funds, for weatherization. In addition to the LIHEA funds, OEO expects to receive \$4,664,000 in federal weatherization funds through the Department of Energy's Weatherization program. Together, weatherization grants from these two sources will total \$15,133,000 for 1985-86.

OEO Weatherization Priorities Still Not Clear

We recommend that OEO submit to the fiscal committees, prior to the budget hearings, specified information needed by the Legislature in order to determine weatherization policies that maximize the energy savings resulting from LIHEA program activities.

In our *Analysis of the 1984-85 Budget Bill*, we recommended that OEO tell the fiscal committees how it planned to maximize the energy savings

OFFICE OF ECONOMIC OPPORTUNITY—Continued

resulting from weatherization activities under the LIHEA program. This recommendation was based on our conclusion that OEO's weatherization policies failed to ensure that funds were used so as to achieve the maximum effectiveness in reducing the energy needs of low-income households. We based this conclusion on the following findings:

- *The OEO did not have a policy of providing the most cost-effective services to the largest number of low-income households.* Instead, local provider agencies are permitted to furnish up to \$1,000 worth of weatherization services to a low-income household, regardless of (1) the effectiveness of those services in reducing the household's energy needs or (2) the need for weatherization services of other low-income households in the community.
- *The order in which OEO provides weatherization services did not correspond to the different energy and conservation needs dictated by local weather conditions.* Research conducted by the California Energy Commission (CEC) suggests that weatherization activities are most cost-effective when they reflect local climate and energy needs. The OEO's statewide priorities do not account for variation in conservation needs.
- *The office's rules permit installation of solar water heaters, even though, according to CEC research, these devices are not cost-effective in all areas of the state.*

In response to our recommendation, the Legislature adopted supplemental report language directing the office to review its weatherization priorities and provide the Legislature with a report explaining the way in which its policies maximize the use of weatherization funds in reducing the energy needs of low-income households. In its report to the Legislature, the OEO simply reaffirmed its existing policies, as follows:

- *Weatherization policies still permit providing up to \$1,000 worth of services to each household, regardless of the effectiveness of those services or the need for weatherization services of other low-income households in the community.*

Comment. Since funds are limited, this policy allows a low-income household to receive \$1,000 worth of weatherization services while a neighboring household—possessing equal or greater need for weatherization—receives no services. Studies conducted by the CEC, however, suggest that a policy which, instead, uses the \$1,000 to provide a select group of mandatory weatherization services to *both* of these low-income households would yield a greater total reduction of energy needs. Hence, this type of a policy would be more cost-effective than the policy established by the OEO.

- *Statewide service priorities for mandatory and optional weatherization services are "generally more effective" than requiring priorities that reflect local weather conditions.*

Comment. Despite this conclusion, however, OEO included in its report documents demonstrating that the effectiveness of conservation *can* vary with the local climate. These documents, for instance, show that, in one area, thermal drapes are more cost-effective than attic insulation, but in another area—one with different weather conditions—insulating the attic is much more effective in reducing a household's energy needs. We believe that OEO's service priorities should reflect these weather-related differences.

- *The OEO is still evaluating the cost-effectiveness of installing solar water-heating units.*

We believe that the OEO has not responded adequately to the questions raised about the effectiveness of its weatherization policies. So that the Legislature will have the information it needs to establish a policy which maximizes the cost-effectiveness of LIHEA grants, we recommend the OEO submit to the fiscal committees prior to budget hearings, the following information.

1. The estimated number of low-income California households needing basic weatherization services, such as weatherstripping, caulking, and replacing broken or missing windows.
2. The estimated cost of providing average low-income homes with the basic services described above, plus entrance door modification, water-heater insulation, and installation of low-flow water devices.
3. The number of homes receiving weatherization services in 1983-84, the average cost of these services, the cost of and the number of homes receiving the following "optional" weatherization services: (a) heating or cooling timers or set-back thermostats, (b) floor insulation, (c) storm windows, shutters, shade screens, (d) heating duct and hot water pipe insulation.
4. The office's assessment of the cost-effectiveness of installing solar heaters as part of its weatherization program.

COMMUNITY SERVICES BLOCK GRANT

The OEO assumed responsibility for the Community Services Block Grant (CSBG), effective October 1, 1982. The CSBG, which replaced the federally administered Community Services Administration program, provides a range of services to low-income people through local Community Action Agencies (CAAs). The budget proposes the expenditure of \$31,421,000 in CSBG funds by OEO during 1985-86. This is a decrease of \$655,000, or 2.0 percent, from OEO's current-year expenditure level.

Legislature Needs OEO's Plan for Discretionary Funds

We recommend that OEO submit to the fiscal committees, prior to budget hearings, its proposed plan for use of discretionary CSBG funds in 1985-86.

Federal law permits states to use up to 5 percent of their CSBG allocation for discretionary activities designed to assist low-income households. In 1983-84, the OEO used these discretionary funds to support 23 local projects involving economic development or job training. In the current year, the OEO plans two uses for CSBG discretionary funds: (1) emergency foods, shelter, clothing, and transportation services for single low-income heads of families with dependent children and (2) child care for children whose parents work and have no other source of care for their children.

In 1985-86, the OEO proposes to spend \$1.6 million for discretionary activities. The office, however, cannot indicate the types of activities it proposes to support in the budget year.

In order to assure that the Legislature has an opportunity to influence the use of discretionary funds, we recommend that the office submit to the fiscal committees, prior to budget hearings, its plan for spending \$1.6 million in CSBG discretionary funds during 1985-86.

OFFICE OF EMERGENCY SERVICES—Continued

- | | |
|---|----|
| 2. <i>Public Facilities Account. Reduce Item 0690-101-001 by \$3,463,000.</i> | 60 |
| Recommend reduction to reflect a more realistic estimate of funds needed in the budget year. | |
| 3. Southern California Earthquake Preparedness Project. | 62 |
| Recommend the adoption of Budget Bill language requiring the receipt of federal matching funds before General Fund monies can be spent. | |
| 4. <i>Street and Highway Storm Damage Program. Reduce Item 0690-001-001 by \$46,000.</i> | 63 |
| Recommend deletion of funding and 1.5 positions which are no longer needed. | |

GENERAL PROGRAM STATEMENT

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

The office was authorized 147 positions in the current year to carry out these activities. In addition, 13 positions have been established administratively, for a total of 160 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes the expenditure of \$24,257,000 in state funds during 1985–86, which is \$3,849,000, or 13.7 percent, less than estimated state expenditures during the current year.

The budget proposes a *total* expenditure program of \$66,554,000 for support of office activities in 1985–86. This amount is \$3,778,000, or 5.4 percent, less than estimated current-year expenditures, and will be financed from the General Fund, federal funds, special funds, and reimbursements.

The decline in expenditures proposed for the budget year does not reflect a cutback in the office's ongoing programs. The net decline results almost entirely from a reduction in the estimated amount of state disaster assistance that will be distributed to local governments in the budget year. The budget anticipates that \$49.9 million in disaster assistance will be distributed in 1985–86, compared with \$54.4 million in 1984–85. The higher level of expenditure in the current year results from a program which was established to assist local agencies in recovering from the 1983 Coalinga and 1984 Morgan Hill earthquakes. It is important to note that the amount of disaster assistance budgeted for 1985–86 is merely an estimate. The actual level of expenditure in the budget year will depend on the cost of repairing damage caused by natural disasters. Approximately \$81.1 million was distributed for this purpose in 1983–84.

If the proposed budget for 1985–86 is adjusted to eliminate the effect of changes in disaster assistance funding, the level of expenditures is found to be \$658,000, or 4.1 percent, *higher* than estimated expenditures in the current year.

Expenditures for OES support and local assistance are summarized by funding source and fiscal year in Table 1.

Table 1
Office of Emergency Services
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

| Category/Source of Funds | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 | Change From 1984-85 to 1985-86 | |
|---------------------------------|-------------------|----------------------|---------------------|-----------------------------------|--------------|
| | | | | Amount | Percent |
| State Operations | | | | | |
| General Fund..... | \$4,453 | \$7,635 | \$8,222 | \$587 | 7.7% |
| Federal funds..... | 3,834 | 3,938 | 4,009 | 71 | 1.8 |
| Nuclear planning assessment.... | 284 | 300 | 300 | — | — |
| Reimbursements | 104 | 265 | 265 | — | — |
| Subtotals | \$8,675 | \$12,138 | \$12,796 | \$658 | 5.4% |
| Local Assistance | | | | | |
| General Fund * | (\$5,000) | (\$11,635) | (\$7,684) | (-\$3,951) | (-34.0%) |
| Federal funds..... | 79,089 | 38,013 | 38,013 | — | — |
| Nuclear planning assessment.... | 536 | 600 | 600 | — | — |
| State Highway Account..... | 268 | — | — | — | — |
| Natural Disaster Assistance | | | | | |
| Fund: | | | | | |
| Public Facilities Account | 4,371 | 11,635 | 11,635 | — | — |
| Street and Highway Account | 323 | 3,500 | 3,500 | — | — |
| 1983 Natural Disaster | | | | | |
| Account | 564 | 4,436 | — | -4,436 | -100.0 |
| Subtotals | \$85,151 | \$58,184 | \$53,748 | -\$4,436 | -7.6% |
| Totals | \$93,826 | \$70,322 | \$66,544 | -\$3,778 | -5.4% |

* Amounts represent funds transferred to various accounts in the Natural Disaster Assistance Fund.

As can be seen in Table 1, the costs of state operations are proposed to increase \$658,000, or 5.4 percent, in the budget year. In addition, this increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

The \$658,000 increase reflects various changes, including requests for:

- Additional funding of \$510,000 to purchase new and replacement communications equipment.
- Operating expense adjustments of \$275,000 that would be used to rent additional space and modify existing facilities for the headquarters office (\$200,000), and to increase funding for maintenance of communications systems (\$75,000).
- Increases of \$120,000 and one position related to the expansion of the FIRESCOPE project to northern California.
- Increases of \$100,000 and two positions to expand existing programs, and \$66,000 and one position to address workload problems.

Partially offsetting these increases are reductions from the 1984-85 budget totaling \$666,000 that reflect one-time expenses which OES will not incur after the current year.

In addition, the budget indicates that \$147,000 will be needed for employee compensation and inflation adjustments. The budget, however, does not include \$28,000 of this amount. Presumably, these costs will be financed by diverting funds budgeted for other purposes.

The \$4,436,000 decrease in local assistance shown in the table is related to the expected decline in disaster relief expenditures, mentioned above. This amount is 7.6 percent below estimated current-year expenditures for local assistance.

OFFICE OF EMERGENCY SERVICES—Continued

Table 2 provides a summary of the OES expenditures and personnel, by program.

Table 2
Office of Emergency Services
Program Summary
1983-84 through 1985-86
(dollars in thousands)

| <i>Expenditures</i> | <i>Actual</i> 1983-84 | <i>Estimated</i> 1984-85 | <i>Proposed</i> 1985-86 | <i>Change From</i> <i>1984-85 to 1985-86</i> | |
|--|--------------------------|-----------------------------|----------------------------|---|----------------|
| | | | | <i>Amount</i> | <i>Percent</i> |
| Mutual Aid | \$82,866 | \$42,226 | \$42,069 | -\$157 | -0.4% |
| Emergency Communications Systems.... | 1,434 | 1,411 | 1,885 | 474 | 33.6 |
| Emergency Planning | 2,343 | 4,451 | 4,958 | 507 | 11.4 |
| State Mutual Aid Resources | 1,105 | 1,763 | 1,625 | -138 | -7.8 |
| Nuclear Power Plant Planning | 820 | 900 | 900 | — | — |
| Natural Disaster Assistance | 5,258 | 19,571 | 15,135 | -4,436 | -22.7 |
| Administration (distributed) | (1,071) | (796) | (1,049) | (253) | (31.8) |
| Unallocated General Fund Reduction for Operating Expenses | — | — | -28 | -28 | NMF |
| Totals | \$93,826 | \$70,322 | \$66,544 | -\$3,778 | -5.4% |
| <i>Personnel-Years</i> | | | | | |
| Mutual Aid | 37.1 | 47.0 | 45.0 | -2.0 | -4.3% |
| Emergency Communications Systems.... | 13.0 | 16.3 | 15.1 | -1.2 | -7.4 |
| Emergency Planning | 35.0 | 46.2 | 69.1 | 22.9 | 49.6 |
| State Mutual Aid Resources | 16.0 | 21.0 | 19.7 | -1.3 | -6.2 |
| Nuclear Power Plant Planning | 3.4 | 5.0 | 5.0 | — | — |
| Natural Disaster Assistance | — | — | — | — | — |
| Administration | 24.6 | 19.0 | 19.0 | — | — |
| Totals | 129.1 | 154.5 | 172.9 | 18.4 | 11.9% |

NMF means not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS**Budget Does Not Reflect Plan For the California Specialized Training Institute**

We withhold recommendation on the budget for the California Specialized Training Institute (\$806,000 from the General Fund and \$210,000 in reimbursements), pending review of OES's completed plans for the operation of the institute in the budget year.

The California Specialized Training Institute (CSTI) was formally established as part of state government by Ch 639/81, after having been created by executive order in 1971. The original purpose of the institute was to provide a training program for the management of large-scale civil disorders. Since that time, CSTI has developed and presented courses covering a broader range of subject areas. In the current year, the institute is offering courses on (1) planning and emergency management for earthquakes, hazardous materials incidents and major events, (2) peace officer safety and field tactics, and (3) terrorism. In addition, the institute conducts emergency preparedness exercises and various seminars of interest to individuals and local agencies involved in emergency management.

For 1984-85 the administration proposed, and the Legislature approved, the transfer of funding for CSTI from the Military Department, where the

institute had been located since its creation, to the OES. The OES indicated that it would contract with the Military Department to continue operating CSTI during 1984-85, but would assume full control over the institute in 1985-86.

The transfer was identified by the administration as the first step in an effort to consolidate the responsibility for emergency management training in one state agency. Subsequent to the enactment of the 1984 Budget Act, Ch 1410/84 statutorily authorized the transfer of CSTI from the Military Department to the OES.

In approving the concept of the transfer, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* requiring the administration to report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee, by December 1, 1984, on the results of its review and its plans for CSTI in 1985-86. The office was directed to address the issues of organization, classification of employees, proposed services, student fees, additional operating costs, coordination with and use of federal training dollars, and the relationship of CSTI's courses to the courses offered by other government agencies.

The OES submitted its report on CSTI to the Legislature in December 1984. While the report addresses the decisions which OES had made up to that point in time, it does not provide a complete plan for the operation of the institute in the budget year. Nor does the office's budget, which was prepared at approximately the same time, reflect how the funds included for support of CSTI in 1985-86 will be spent. For example, the amount requested for support of CSTI is not based on a revised spending plan. Instead, it is the amount needed in the current year to contract with the Military Department, adjusted for inflation. In addition, funds for operating expenses are not distributed among the various line items of expenditure, but are retained as a lump sum under the interdepartmental consulting contracts category. Finally, the budget reflects deletion from the Military Department's budget of the 20 positions used by the department to operate the CSTI and establishment of the exact *same* positions in OES, rather than the appropriate civil service classifications.

At the time this analysis was prepared, the OES had not yet completed its plan for CSTI and could not indicate how the requested funds would be spent in 1985-86. Consequently, at this time we are unable to recommend approval of the \$806,000 from the General Fund and \$210,000 in reimbursements requested for support of the institute in 1985-86.

We have four concerns about the CSTI's proposed budget for 1985-86. We recommend that the OES, in presenting to the Legislature its final plan for the CSTI, address these concerns which are as follows:

1. **Personnel Needs Have Not Been Identified.** The OES's report indicates that the office has been working with the Department of Personnel Administration to establish appropriate civil service classifications for CSTI employees. Discussions with the OES indicate that most of the positions can be transformed readily into existing classifications, and that desk audits are being performed on certain positions to verify duties and responsibilities.

Prior to budget hearings the office should provide a listing of the institute's positions, along with the proposed classification, duty statement, and salary level for each.

2. **Budget Does Not Reflect Organizational Changes.** The report indicates that the institute will revise its internal organization, based on its assessment of statewide training needs. The CSTI proposes to consolidate

OFFICE OF EMERGENCY SERVICES—Continued

the administrative services and the program development branches into one branch, and to split the current academic branch into two—one to oversee emergency management courses and one responsible for criminal justice courses.

Because the amount included in the budget for support of CSTI is not based on the OES plan for operating the institute in 1985–86, the OES should develop and submit, prior to budget hearings a revised spending plan based on its proposed new organizational structure.

3. Budget Does Not Reflect New Student Fee Structure. The CSTI indicates in its transition report that training recipients will be required to contribute more toward the cost of operating the institute. As a result, tuition rates will be increased incrementally over the next several years. (Information provided by the OES indicates that reimbursements in the current year are expected to increase above the budgeted levels, as well.) An increased level of reimbursements and a corresponding decrease in General Fund support, however, are not reflected in the OES budget for either year. Rather, the level of reimbursements *originally* budgeted for the institute for 1984–85. (\$210,000) is shown for both the current and budget years.

In order to fully inform the Legislature on the impact of the new fee structure, OES should adjust the CSTI's proposed budget to reflect all anticipated increases in reimbursements.

4. Budget Does Not Reflect Full Costs of the Institute. The Military Department has identified an annual cost of \$106,000 for utilities and maintenance associated with the space which CSTI occupies at Camp San Luis Obispo. CSTI's budget, however, includes only \$13,500 for facilities operations. The OES indicates that the remaining \$92,500 is funded from the Military Department's General Fund appropriation for support of Camp San Luis Obispo.

All costs which are attributable to CSTI's operations should be budgeted under the OES, so that the Legislature will know the full cost of operating the institute. Moreover, budgeting the full cost of facilities operations under OES could result in General Fund savings to the extent the CSTI recovers all or part of these costs through fees.

Full Appropriation for Public Facilities Repair Not Justified

We recommend a General Fund reduction of \$3,463,000 so that the budget will reflect a more realistic estimate of funds needed for repair of public facilities in the budget year (Item 0690-101-001).

Under the Natural Disaster Assistance Act, the OES administers a program of aid to local agencies for the repair and restoration of public real property damaged by natural disasters. Local agencies are eligible for funding under the program if a local emergency is declared and the director of the OES concurs with the declaration. Restoration of public facilities, other than streets and highways, is funded from the Public Facilities Account, Natural Disaster Assistance Fund. The account receives its revenue from periodic appropriations from the General Fund and from interest earned on the investment of these monies.

The 1984 Budget Act transferred \$11,635,000 from the General Fund to the Public Facilities Account for the disaster recovery work which the OES expected to fund in 1984–85. This amount was based on the state's estimated contribution to specific recovery projects. At the time these

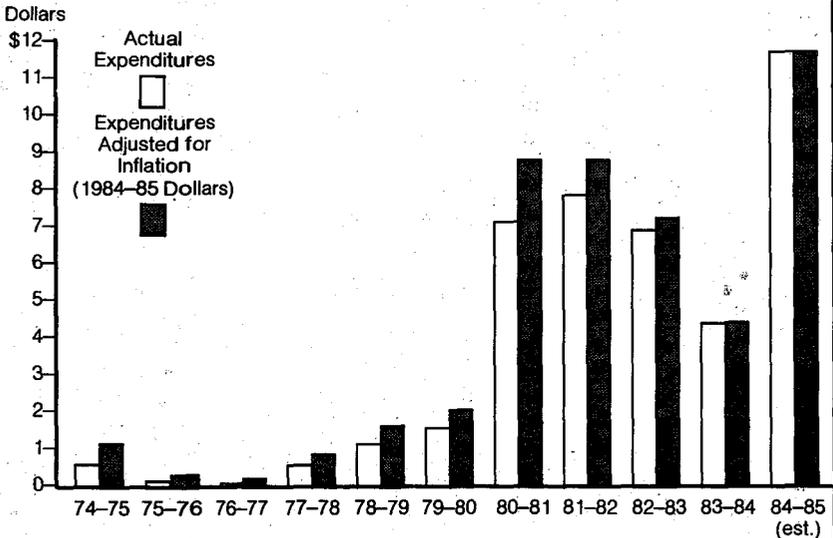
funds were requested, the administration indicated that the needs of the Public Facilities Account would continue to be addressed on an annual basis through the Budget Act. Previously, money had been transferred to the account every several years, whenever disbursements had reduced the account balance to an unreasonably low level.

For 1985-86, the OES is requesting the transfer of \$7,684,000 from the General Fund to the Public Facilities Account.

The amount requested for the budget year, is not based on the estimated costs of identified projects. Rather, the budget request merely seeks to increase the balance of funds available in the account to the \$11,635,000 level, which is the amount made available in 1984-85. As shown in Chart 1, however, estimated 1984-85 disbursements of \$11,635,000 represent an unusually high level of disaster assistance activity.

Chart 1 shows disbursements from the Public Facilities Account for 1984-85 and the preceding 10 years. Both actual disbursements and expenditures adjusted to compensate for the effects of inflation are displayed. As the chart illustrates, disbursements remained at a relatively low level, in both actual and adjusted dollars, through 1979-80. Since 1980-81 expenditures from the Public Facilities Account for disaster assistance have been substantially higher. The OES advises that this is due in part to a higher incidence of disasters, and in part to a reduction in the federal contribution to recovery work. Even so however, 1984-85 is an exceptionally high year.

Chart 1
Public Facilities Account
Expenditures by Fiscal Year
(in millions)



OFFICE OF EMERGENCY SERVICES—Continued

Consequently, using estimated 1984–85 expenditures to project funding needs for 1985–86 would appear to overstate the need for additional money from the General Fund. The average expenditure, in inflation adjusted dollars, for the past five years *including* 1984–85 is \$8,172,000, or \$3,463,000 less than the amount which the administration requests for the budget year.

We recommend that the Legislature limit the amount appropriated for 1985–86 to what prior experience indicates would be needed in an average year. To provide more than this amount could unnecessarily tie up General Fund money that the Legislature may wish to use in other ways. If, on the other hand, 1985–86 turns out to be an above-average year, the Budget Bill makes adequate provisions to increase the amount, pending enactment of a deficiency appropriation. Accordingly, we recommend that Item 0690-101-001 be reduced by \$3,463,000, to reflect a more realistic estimate of disaster assistance needs in the budget year.

Expenditure of State Earthquake Preparedness Funds Should Be Tied to Receipt of Federal Funds

We recommend that the Legislature adopt Budget Bill language authorizing the expenditure of state funds for the Southern California Earthquake Preparedness Project only if federal matching funds are received.

The budget includes \$375,000 from the General Fund and estimates that OES will receive \$375,000 in federal funds, to continue work on the Southern California Earthquake Preparedness Project (SCEPP) in 1985–86.

The SCEPP was first established under the provisions of Ch 1046/80 which required the Seismic Safety Commission to initiate a comprehensive program to prepare the state for responding to the prediction of a major earthquake. The program involved various state and federal agencies, as well as local governments and representatives of the private sector, in the development of prototypical planning guidelines for a five-county area in southern California.

Chapter 313, Statutes of 1984, extended SCEPP for three more years and shifted responsibility for the project from the Seismic Safety Commission to the OES because the project was moving from the research and development stage into the implementation stage. The measure appropriated \$375,000 from the General Fund to the OES for the project for 1984–85, but made the expenditure of the General funds contingent on the receipt of an equal amount from the federal government.

Throughout the term of this project, the expenditure of state funds has been contingent upon the receipt of federal matching funds. The Budget Bill, however, proposes to discontinue this policy. We believe the Legislature's past policy is a reasonable one and assures that the program will not be partially funded, thereby bringing pressure on the Legislature for a deficiency appropriation. On this basis, we recommend that the following language be added to the Budget Bill under Item 0690-001-001:

“Provided that the \$375,000 appropriated in this item for support of the Southern California Earthquake Preparedness Project shall be made available for expenditure only upon receipt of matching federal funds.”

Staffing for Storm Damage Repair Program No Longer Needed

We recommend a reduction of 1.5 positions and \$46,000 from the General Fund to eliminate staff that are no longer needed (Item 0690-001-001).

Chapter 1064, Statutes of 1983, created the Street and Highway Storm Damage Loan Advisory Board for the purpose of making recommendations to the OES concerning loans to local jurisdictions for repair of streets and roads damaged by storms during 1981-82 and 1982-83. The legislation also appropriated \$15 million from the State Highway Account, State Transportation Fund, to the OES to fund loans to cities and counties for the needed repairs.

During 1983-84, the OES made one loan for \$268,000 to the City of Martinez for street and road repairs. The office indicates that it has processed all of the applications for storm damage loans which are eligible for funding and expects no further activity under the program. Consequently, the remaining \$14,732,000 of the appropriation is shown in the budget as savings in the current year and is proposed for reversion under Item 0690-495.

In anticipation of increased workload from this program, the Legislature provided funding in 1984-85 for 1.5 positions. In requesting these positions, the office indicated that it expected a total of 250 applications for loans. Based on the actual response to the program, however, these positions will not be needed in the budget year. Accordingly, we recommend deletion of the positions, for a General Fund savings of \$46,000.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General Fund

Budget p. LJE 51

| | |
|--|-------------|
| Requested 1985-86 | \$1,326,000 |
| Estimated 1984-85..... | 1,302,000 |
| Actual 1983-84 | 1,029,000 |
| Requested increase (excluding amount for salary increases) \$24,000 (+1.8 percent) | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

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

In addition to the Lieutenant Governor himself, the office is authorized 23 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of \$1,326,000 for support of the Lieutenant Governor's office in 1985-86. This is \$24,000 or

OFFICE OF THE LIEUTENANT GOVERNOR—Continued

1.8 percent, more than estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increase approved by the Legislature for the budget year. The past-, current- and budget-year requirements of the office are shown in Table 1.

Table 1
Office of the Lieutenant Governor
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

| Category | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 | Change, 1985-86 Over 1984-85 | |
|---------------------------------------|-------------------|----------------------|---------------------|------------------------------------|---------|
| | | | | Amount | Percent |
| <i>Personal Services</i> | | | | | |
| Salaries and Wages | \$614 | \$775 | \$765 | -\$10 | -1.3% |
| Staff Benefits | 109 | 151 | 153 | 2 | 1.3 |
| Subtotals, Personal Services | (\$723) | (\$926) | (\$918) | (-\$8) | (-0.9) |
| Operating Expenses and Equipment | 353 | 402 | 471 | 69 | 17.2 |
| Total Expenditures | \$1,076 | \$1,328 | \$1,389 | \$61 | 4.6% |
| <i>Funding Sources</i> | | | | | |
| General Fund..... | \$1,029 | \$1,302 | \$1,326 | \$24 | 1.8% |
| Reimbursements | 47 | 26 | 63 | 37 | 142.3 |
| Personnel-Years | 21.8 | 23.0 | 23.0 | — | — |

Table 1 indicates that salaries and wages will be reduced by \$10,000 in 1985-86, to be accomplished by filling vacancies in the office below the currently budgeted salary levels. The proposed 17.2 percent increase in operating expenses and equipment is due primarily to the proposed (1) expansion of the Lieutenant Governor's Office in San Francisco and (2) a shift of the staff for the Commission for Economic Development (CED), which is chaired by the Lieutenant Governor, to the Office of the Lieutenant Governor.

DEPARTMENT OF JUSTICE

Item 0820 from the General Fund and various funds

Budget p. LJE 52

| | |
|--|---------------|
| Requested 1985-86 | \$138,042,000 |
| Estimated 1984-85..... | 127,467,000 |
| Actual 1983-84 | 105,096,000 |
| Requested increase (excluding amount for salary increases) \$10,575,000 (+8.3 percent) | |
| Total recommended decrease | \$1,340,000 |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|--|---|---------------|
| 0820-001-001—Support | General | \$116,319,000 |
| 0820-001-012—Antitrust | Attorney General's Antitrust Account, General | 403,000 |
| 0820-001-014—Toxic substance | Hazardous Waste Control Account, General | 200,000 |
| 0820-001-017—Fingerprints | Fingerprint Fees, General | 7,193,000 |
| 0820-001-044—Data center support | Motor Vehicle Account, State Transportation | 12,307,000 |
| 0820-001-455—Toxic substance | Hazardous Substance Account, General | 230,000 |
| 0820-001-460—Handgun control | Dealers Record of Sale Special Account, General | 803,000 |
| 0820-001-477—Gaming registration | Gaming Registration Fee Account, General | 435,000 |
| 0820-001-890—Support Reimbursements | Federal Trust | (6,500,000) |
| Political Reform Act | | (23,829,000) |
| | | (280,000) |
| Total, Budget Bill Appropriations Chapter 1613, Statutes of 1984 | General | \$137,890,000 |
| Total, State Funds | | 152,000 |
| | | \$138,042,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. **Medi-Cal Fraud. Reduce Item 0820-001-001 by \$38,000 and Item 0820-001-890 by \$115,000.** Recommend deletion of three new auditor positions and one new clerical position requested to comply with federal regulations because the department can reallocate existing staff for this purpose. 69
2. **Tahoe Conservancy. Reduce Item 0820-001-001 by \$100,000 and increase reimbursements by \$100,000.** Recommend that legal services for the Tahoe Conservancy be financed by the conservancy rather than by the General Fund, because existing law requires that special fund agencies pay for these services. 70
3. **Department of Corrections Legal Services. Increase Item 0820-001-001 by \$110,000 and reduce reimbursements by \$110,000.** Recommend that legal services for the Department of Corrections be financed by a direct General Fund appropriation, rather than from reimbursements, to conform with current policy on the financing of legal services. 71

DEPARTMENT OF JUSTICE—Continued

4. *Word Processing Equipment. Reduce Item 0820-001-001 by \$305,000 and reduce various other items by \$133,000.* 72
Recommend deletion of word processing equipment because these equipment needs can be met through the department's Integrated Office Systems project.
5. *Subsidy to Special Funds. Reduce Item 0820-001-001 by \$499,000 and increase various other items by \$499,000.* 73
Recommend a shift in funding source for various activities, from the General Fund to various special fund appropriations, in order to eliminate a General Fund subsidy for special fund programs.
6. *Liaison with Local Agencies. Reduce Item 0820-001-001 by \$221,000.* 73
Recommend deletion of four field representative positions and one clerical position because other authorized positions can provide the service more effectively.
7. *Technical Recommendations: Reduce Item 0820-001-001 by \$433,000 and various other items by \$95,000.* 75
Recommend various reductions to eliminate overbudgeting.

GENERAL PROGRAM STATEMENT

Under the direction of the Attorney General, the Department of Justice enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. Its functions are carried out through six programs—Executive and Administration, Special Programs, Civil Law, Criminal Law, Public Rights, and Law Enforcement.

The department's legal programs are staffed with approximately 660 attorneys, paralegals, auditors, and related support positions. The Civil Law Division provides legal representation for most state agencies, boards, and commissions. The Criminal Law Division represents the state in all criminal matters before the appellate and supreme courts. The Public Rights Division provides legal services in the areas of Civil Rights and Charitable Trust, Natural Resources, Environmental Law, Antitrust, Land Law, and Consumer Law.

The law enforcement support program has an authorized staff of approximately 1,750 positions and is the largest of the department's divisions. It (1) provides investigative assistance to local law enforcement agencies, (2) operates a system of criminalistics laboratories throughout the state, (3) maintains centralized criminal history records and fingerprint files, and (4) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

The department is authorized a total of 3,028.1 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of \$138,042,000 from the General Fund and various special funds for support of the Department of Justice in 1985-86. This is an increase of \$10,575,000, or 8.3 percent, over estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

The proposed General Fund appropriations for the department in 1985-86 total \$116,471,000. This is \$9,404,000, or 8.8 percent, more than estimated expenditures in 1984-85.

When expenditures from special funds, federal funds, and reimbursements are added to those financed by the General Fund, total expenditures from all sources reach \$168,651,000, which is \$11,633,000, or 7.4 percent, more than estimated total expenditures in 1984-85.

Table 1 summarizes the department's funding proposal for 1985-86, by source and Table 2 presents a summary of the department's total expenditures, by program.

Table 1
Department of Justice
Funding Source Summary
1983-84 through 1985-86
(dollars in thousands)

| | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 | Change From 1984-85 to 1985-86 | |
|---|-------------------|----------------------|---------------------|--------------------------------------|-------------|
| | | | | Amount | Percent |
| 1. General Fund | \$88,092 | \$107,067 | \$116,471 | \$9,404 | 8.8% |
| 2. Attorney General's Anti-Trust Account (General Fund) | 476 | 403 | 403 | — | — |
| 3. Hazardous Waste Control Account (General Fund) | — | — | 200 | 200 | 100.0 |
| 4. Fingerprint Fees (General Fund) | 5,626 | 6,954 | 7,193 | 239 | 3.4 |
| 5. Motor Vehicle Account (State Transportation Fund) | 10,270 | 11,559 | 12,307 | 748 | 6.5 |
| 6. Hazardous Substance Account (General Fund) | — | — | 230 | 230 | 100.0 |
| 7. Dealer's Record of Sales Account (General Fund) | 632 | 781 | 803 | 22 | 2.8 |
| 8. Gaming Registration Fee Account (General Fund) | — | 426 | 435 | 9 | 2.1 |
| 9. Reimbursements | 20,526 | 23,770 | 23,829 | 59 | 0.2 |
| 10. Federal Trust Funds | 5,079 | 5,781 | 6,500 | 719 | 12.4 |
| 11. Political Reform Act | 248 | 277 | 280 | 3 | 1.1 |
| Total Funding | \$130,949 | \$157,018 | \$168,651 | \$11,633 | 7.4% |

Table 2
Department of Justice
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

| Program | Personnel-Years | | | Expenditures | | |
|--|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 |
| Executive/Administration ^a | 557.3 | 603.5 | 615.5 | (\$27,396) | (\$33,580) | (\$35,900) |
| Special Programs | 49.5 | 49.4 | 51.4 | 4,220 | 4,815 | 5,455 |
| Civil Law | 202.2 | 207.9 | 212.9 | 20,170 | 23,473 | 24,624 |
| Criminal Law | 252.3 | 288.9 | 300.6 | 19,501 | 24,912 | 27,190 |
| Public Rights | 123.2 | 135.2 | 139.6 | 12,195 | 14,191 | 15,564 |
| Law Enforcement | 1,694.7 | 1,743.2 | 1,710.0 | 74,863 | 89,627 | 95,818 |
| Totals | 2,879.2 | 3,028.1 | 3,030.0 | \$130,949 | \$157,018 | \$168,651 |

^a Amounts in parenthesis are distributed to other programs.

DEPARTMENT OF JUSTICE—Continued

Table 3 identifies (by funding source) the changes in expenditure levels proposed for 1985-86.

Table 3
Department of Justice
Proposed 1985-86 Budget Changes
(dollars in thousands)

| | General Fund | Special Funds ^a | Federal Funds | Reimburse- ments | Total |
|--|-----------------|-------------------------------|------------------|---------------------|-----------|
| 1984-85 Expenditures (Revised) | \$107,344 | \$20,123 | \$5,781 | \$23,770 | \$157,018 |
| Proposed Changes: | | | | | |
| A. Workload Changes: | | | | | |
| 1. Civil Law | 137 | — | — | 511 | 648 |
| 2. Appeals, Writs and Trials | 369 | — | — | — | 369 |
| 3. Civil Rights Enforcement | 82 | — | — | — | 82 |
| 4. Natural Resources | — | — | — | 157 | 157 |
| 5. Toxic Substance Enforcement | — | 430 | — | — | 430 |
| 6. Special Prosecutions—Organized Crime | 168 | — | — | — | 168 |
| 7. Personnel Transactions and Exams.. | 58 | — | — | — | 58 |
| 8. Sex Offenders and Missing Persons Records | 64 | — | — | — | 64 |
| 9. One-Time Costs/Limited Term Pro- grams | -1,906 | -1,552 | -200 | -1,480 | -5,138 |
| B. Cost Adjustments | | | | | |
| 1. Employee Compensation | 629 | 90 | 30 | 155 | 904 |
| 2. Merit Salary Increases | 903 | 113 | 46 | 232 | 1,294 |
| 3. Inflation Adjustments | 1,088 | 387 | 58 | 209 | 1,742 |
| 4. Administrative Charges and Techni- cal Adjustments | -265 | 426 | 94 | 2 | 257 |
| 5. Facilities Lease Costs | 783 | 69 | 39 | -41 | 850 |
| 6. Expert Witness Contracts | — | — | — | 311 | 311 |
| 7. Special Prosecutions Equipment | 35 | — | — | — | 35 |
| 8. Agent Overtime | 264 | — | — | — | 264 |
| 9. Data Processing Contracts | 187 | 229 | — | — | 416 |
| C. Program Adjustments | | | | | |
| 1. CAL-ID | 1,421 | 1,536 | — | — | 2,957 |
| 2. Integrated Office Systems | 1,392 | — | — | — | 1,392 |
| 3. Child Abuse Automation | 41 | — | — | — | 41 |
| 4. Criminalistics Laboratory | 742 | — | — | — | 742 |
| 5. Marijuana Records Purge | 1,102 | — | — | — | 1,102 |
| 6. Automate Parent Locator System | — | — | — | 45 | 45 |
| 7. Management and Narcotics Train- ing | 142 | — | — | 38 | 180 |
| 8. Medi-Cal Fraud | 218 | — | 652 | — | 870 |
| 9. Crime Prevention | 260 | — | — | — | 260 |
| 10. Antitrust Unit | — | — | — | 163 | 163 |
| 11. Charitable Trust Enforcement | 82 | — | — | — | 82 |
| 12. Helicopter Expense—Marijuana Eradication | 800 | — | — | — | 800 |
| 13. Community and Consumer Affairs | 16 | — | — | — | 16 |
| 14. Research Consultants | 40 | — | — | — | 40 |
| 15. Security Guards | 32 | — | — | — | 32 |
| 16. Land Law—Fund Shift | 243 | — | — | -243 | — |
| 1985-86 Expenditures (Proposed) | \$116,471 | \$21,851 | \$6,500 | \$23,829 | \$168,651 |
| Change from 1984-85 | | | | | |
| Amount | \$9,127 | \$1,728 | \$719 | \$59 | \$11,633 |
| Percentage | 8.5% | 8.6% | 12.4% | 0.2% | 7.4% |

^a Includes special accounts in the General Fund.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant program changes, which are not discussed elsewhere in this analysis.

- An increase of \$800,000 from the General Fund for helicopter support to the Campaign Against Marijuana Planting (CAMP) project, in lieu of federal funds that will no longer be available for this purpose.
- Increased equipment purchases as part of a three-year program to upgrade the criminalistics laboratories, at a General Fund cost of \$742,000.
- Increased consulting services to prepare films, media announcements, program evaluations and studies for the Crime Prevention Center, at a General Fund cost of \$260,000.
- Third-year funding for 54 positions to purge specified marijuana data from criminal history records as required by a court order, at a General Fund cost of \$1.1 million.
- Second-year funding for the California Identification System (CAL-ID) project, which is automating and combining the existing name index, fingerprint file, and latent print data base into one system, at a cost of \$2.9 million (\$1.4 million from the General Fund and \$1.5 million from the Fingerprint Fee Account).

Medi-Cal Fraud Expansion

We recommend deletion of three new auditor positions and one new clerical position requested to comply with federal regulations because the department can achieve this objective by reallocating existing staff. (Reduce Item 0820-001-001 by \$38,000 and Item 0820-001-890 by \$115,000.)

The Bureau of Medi-Cal Fraud was established in accordance with federal requirements to act as the state's criminal enforcement agent for the federal Medicaid program. The objective of the program is to prevent fraud and abuse in the expenditure of state and federal funds for health care to eligible persons. The program receives federal funding assistance for 75 percent of eligible costs and the state is required to provide matching funds for the remaining 25 percent. The bureau currently is authorized 90 positions, including attorneys, investigators, and supporting staff. Current-year expenditures are estimated to be \$4.4 million.

The budget proposes an augmentation of \$870,000 for program maintenance and increased workload in the Bureau of Medi-Cal Fraud. Of this amount, \$218,000 is from the General Fund and \$652,000 is from federal funds. The request consists of two separate proposals. First, \$478,000 is requested for the purchase of additional vehicles, special investigative equipment, increased maintenance of vehicles and equipment, and increased travel expenses of investigators and attorneys. The department suggests that this augmentation would provide the existing staff of investigators with additional investigative tools so that it can operate more efficiently with greater productivity.

Second, \$392,000 is requested for nine new positions, including two attorneys, three auditors, one criminal intelligence specialist, and three clerical support positions. The purpose of this augmentation is to bring the bureau's staffing into compliance with federal regulations, enhance its

DEPARTMENT OF JUSTICE—Continued

fraud detection and investigation capability, and help eliminate the backlog.

Specifically, the three new auditor positions are proposed to comply with federal regulations that require state Medicaid fraud units to "employ sufficient professional . . . staff to carry out its duties and responsibilities in an effective and efficient manner. The staff must include . . . one or more experienced auditors capable of supervising the review of financial records and advising or assisting in the investigation of alleged fraud." The two new attorneys are requested to prosecute the additional criminal cases that are expected to be generated by the additional auditors. The Criminal Intelligence Specialists would provide staff support to both the investigation and prosecution function.

Our analysis indicates that the need to comply with federal regulations does not justify the addition of three new auditors, because the Legislature already has authorized a sufficient number of auditor positions to ensure compliance. In the 1980-81 budget, the Legislature approved a major staffing augmentation for the unit, increasing its staff from 56 positions to 90 positions. Among the 90 authorized positions were 8 auditor positions. The department advises that it had difficulties in filling the auditor positions and, rather than leave the positions vacant, management chose to convert all of the auditor positions to investigator positions. The effect of that management decision was to put the state out of compliance with federal regulations. To obtain compliance, management need only convert some of the added investigator positions back to auditors.

In addition, our analysis indicates that the management decision to convert auditors to investigators may have reduced the overall effectiveness of the investigative staff. For instance, investigators currently are required to perform pre-criminal investigation audits of Medi-Cal provider reimbursements to determine whether to proceed with a criminal investigation. Investigators must also obtain and copy billing records, conduct post-search warrant audits, and prepare overpayment schedules. The department advises that these activities are difficult and time consuming for investigators because they lack auditing expertise. The department estimates that this activity consumes one-third of the investigators' time.

We recommend that to both comply with federal requirements and utilize its Bureau of Medi-Cal Fraud staff more effectively, the department convert three existing investigator positions to auditors. This will eliminate the need for three proposed new auditor positions and one related clerical support position, and result in savings of \$153,000. (Reduce Item 0820-001-001 by \$38,000 from the General Fund and \$115,000 from federal funds.)

Legal Services for the Tahoe Conservancy

We recommend that legal services for the Tahoe Conservancy be financed by the conservancy from its designated funding source rather than from the General Fund, because state law requires special-funded agencies to be charged for these services (Reduce Item 0820-001-001 by \$100,000).

Traditionally, the costs of Attorney General legal services provided to agencies or programs which are supported by the General Fund are financed through direct General Fund appropriations to the Department of Justice. The Government Code (Section 11044), however, requires the

Attorney General to charge agencies and programs supported by sources other than the General Fund for the costs of any legal services provided to them.

Our review of the Attorney General's budget indicates that an estimated \$100,000 from the General Fund is requested to provide legal services related to the California Tahoe Conservancy in 1985-86. The conservancy was statutorily established as the lead agency to implement the \$85 million Tahoe Bond Act, which provides funds to acquire environmentally sensitive and other undeveloped lands in the Lake Tahoe Basin.

Our analysis indicates that the cost of any Attorney General legal services relating to conservancy matters should be charged to the Lake Tahoe Acquisitions Fund, rather than the General Fund, in accordance with the policy established in Government Code Section 11044. This is consistent with the budget's proposal to finance the conservancy's personnel and operating costs from the Lake Tahoe Acquisition Fund and eliminate all General Fund support. (In the current year, personnel and operating costs for the conservancy are being financed from appropriations from the General Fund and the Lake Tahoe Acquisition Fund.)

Because state law requires the Attorney General to charge special-funded agencies for legal services, we recommend that the department's General Fund appropriation be reduced by \$100,000 and that reimbursements be increased by \$100,000. In our analysis of the California Tahoe Conservancy (please see Item 3125), we recommend that the appropriation to the conservancy from the Lake Tahoe Acquisition Fund be increased by \$100,000 to pay for these services.

Legal Services for the Department of Corrections

We recommend that legal services provided to the Department of Corrections be financed from the General Fund, rather than from reimbursements, to conform to current funding policy. (Augment Item 0820-001-001 by \$110,000 from the General Fund and reduce reimbursements by \$110,000).

In July 1984, the Director of Finance notified the Legislature that it would approve a \$100,000 increase in the Department of Justice's expenditures during the current year, with the increase to be funded with reimbursements from the Department of Corrections. The Department of Justice used these funds to add one attorney and 0.7 clerical support positions to provide increased legal services for work related to new prison construction, particularly in regard to site selection. The Governor's Budget proposes to continue these positions in 1985-86, at a cost of \$110,000 to be paid by the Department of Corrections.

In the previous section, we noted that state law requires the Attorney General to charge agencies and programs supported by funds other than the General Fund for the cost of legal services provided to them. In order to avoid the administrative costs incurred when one General Fund agency bills another General Fund agency for services, traditionally, the Legislature has appropriated directly to the Department of Justice General Fund money to finance legal services provided to such agencies.

Our review indicates that the Department of Corrections is supported primarily by the General Fund. Because General Fund-supported departments typically are not required to reimburse the Department of Justice for legal services, we recommend that the department's General Fund appropriation be increased by \$110,000 (Item 0820-001-001) and that reimbursements be reduced by \$110,000. In our analysis of the Department of

DEPARTMENT OF JUSTICE—Continued

Corrections (please see Item 5240), we are recommending a reduction in the General Fund appropriation provided to reimburse the Department of Justice for these services.

Report on Paralegal Productivity in Progress

In 1979, the Auditor General released a study in which it concluded that a significant portion of the department's legal duties could be delegated to paralegals in order to relieve attorneys of routine legal work and allow them to devote a greater portion of their time to more complex legal matters. Since that time, the department has increased the number of legal assistants and legal analysts it employs from 3 to 43. Because of concerns about the productivity of paralegals relative to attorneys, the Legislature in the *Supplemental Report of the 1984 Budget Act* directed the Departments of Justice and Finance to submit an evaluation of the paralegal positions. The report will address paralegal productivity and discuss the potential for and constraints on increased utilization of paralegals within the department.

The department advises that the study is in progress and the report will be submitted to the Legislature by March 1, 1985.

Eliminate Duplicate Word Processing Equipment

We recommend a reduction of \$438,000 requested for word processing equipment because the equipment needs can be met within the department's Integrated Office Systems project. (Reduce Item 0820-001-001 by \$305,000 from the General Fund and \$133,000 from various funds.)

The department proposes to implement the second year of a four-year Integrated Office Systems project in 1985-86. One of the goals of this project is to standardize the department's data processing and word processing equipment, and to provide more efficient and expanded word processing services. Prior to implementation of the project, the department had over 100 data processing and word processing units, made by 13 different vendors.

In the current year, the department is adding 130 new terminals and will spend \$942,000 on the project. In the budget year, the department proposes to add 150 more terminals and will spend \$1,928,000 on the project. When the project is completed in 1987-88, or 1988-89 at the latest, the department will have added 525 terminals, of which 155 will be devoted to word processing. The department projects that the total cost of the project over the four-year period will reach \$8 million.

Our review of the proposed equipment budget for 1985-86 indicates that in addition to the funds requested for the automation project, the department also is seeking \$438,000 to replace, upgrade, or expand existing word processing systems. Our analysis indicates that this proposal duplicates the function of the Integrated Office Systems project, which is to replace existing data processing and word processing equipment with standardized equipment departmentwide.

The department explains that the funds for upgrading this equipment were budgeted before the final decision on second-year funding for the Integrated Office Systems project was made. The department further advises that if the project proceeds on schedule, the budgeted equipment may not be necessary. If the funds are not needed for this equipment, the department suggests that it would redirect the \$438,000 to purchase a

variety of peripheral equipment which is not proposed for funding in the budget.

We have no reason to believe that, if properly managed, the Integrated Office Systems project will not proceed on schedule. Accordingly, we find no need for the funds requested to upgrade equipment that is scheduled to be replaced, and therefore recommend a reduction of \$438,000 in the amount requested for equipment (\$305,000 from the General Fund and \$133,000 from various funds).

Eliminate General Fund Subsidy for Special Fund Programs

We recommend that the Legislature eliminate the General Fund subsidy for various special fund programs by (1) reducing the General Fund appropriation in Item 0820-001-001 by \$499,000, and (2) increasing various special fund and federal fund appropriations and reimbursements by the same amount.

The budget requests \$1,599,000 from the General Fund to meet increased workload and expand services in various programs that serve department-wide interests. For instance, \$1,392,000 is proposed to continue the Integrated Office Systems Project, which is designed to improve the productivity and efficiency of the entire department through the acquisition of office automation technology. Other proposed increases serving department-wide interests include (1) staffing for personnel transactions (\$33,000), (2) consulting services to assist with civil service examinations (\$25,000), (3) training for department-wide managers and supervisors (\$117,000), and (4) increased security for the administration building (\$32,000).

The budget proposes that these services be financed entirely from the General Fund, even though many of the programs that will receive benefits from these activities are financed from special funds, federal funds, and reimbursements. Our analysis indicates that the failure to finance an appropriate share of the costs of these services from special funds, federal funds and reimbursements, in effect, results in a General Fund subsidy for these funds totaling \$499,000.

We can find no basis for providing a General Fund appropriation of this magnitude to special fund and federally funded programs. Accordingly, we recommend that the General Fund appropriation in Item 0820-001-001 be reduced by \$499,000 and that appropriations from various special funds and federal funds, as well as reimbursements, be increased by the same amount. If our recommendation is approved, there would be no reduction in budgeted programs or services.

Developing Rapport With Local Agencies

We recommend a reduction of \$221,000 requested from the General Fund for four field representative positions and one clerical support position because other authorized positions can provide the desired service more effectively (Item 0820-001-001).

The Division of Law Enforcement provides a variety of law enforcement services including the identification of persons and property, criminalistics services, technical and investigative training, statistical and communication services and selected investigations. The executive office of the division plans, organizes, directs, and coordinates the activities of the division. Included within the executive office is a Field Services Section consisting of 12 positions at a cost of \$560,000 in the budget year.

This unit originally was established in 1970, using funds from a federal

DEPARTMENT OF JUSTICE—Continued

grant, and was located in the Law Enforcement Data Center. The purpose of the grant was to assist the Department of Justice in implementing the Criminal Justice Information System by supporting the establishment of 10 field representative positions. When the federal grant terminated, the source of support for the positions was shifted to the General Fund. In 1975 the department transferred the section to the director's office and gave it the mission of representing all division programs to local law enforcement agencies.

In 1979, the department divided the state into 12 zones and assigned a field representative to each zone. During the past five years, however, the division has administratively reduced the staff of the section and transferred four of the positions to other parts of the division. As a result, there are only eight field representatives today, and all but one work out of the Sacramento office.

Our review of the duty statements for the field representatives indicates that they have two primary duties. First, they act in a liaison capacity by "establishing communication between local law enforcement and the Division of Law Enforcement through regular field visits and developing rapport with department administrators." Second, they perform training activities by (1) teaching regularly at criminal justice regional training centers, police academies, and at individual agencies within the criminal justice system and (2) training criminal justice agency personnel in the use of the Criminal Justice Information System and the California Law Enforcement Telecommunication Network. We estimate that the liaison function accounts for about 50 percent of the field representatives' time.

Our analysis indicates that the use of field representatives for liaison activities on behalf of the entire division is not justified, for several reasons.

First, maintaining a liaison function out of Sacramento is not as effective as using positions located in the field. Personnel from various bureaus within the division, including the Bureau of Narcotic Enforcement, Investigation, Organized Crime and Criminal Intelligence and Forensic Services, are assigned to offices located throughout the state and maintain regular contact with local law enforcement personnel. Hence, they are in a better position to represent their programs to local agency personnel than a staff member who can only make an occasional visit from Sacramento to an individual agency.

Second, program specialists are better equipped to assist agencies with problems than are generalist positions, such as the field representatives, regardless of their geographical location. For instance, a Reporting Evaluation and Analysis Program Unit has been created in the Criminal Identification and Information Branch (CIIB). One of the responsibilities of the unit is to "serve as liaison between branch programs and criminal justice agencies." This liaison is directed specifically at correcting reporting problems dealing with arrest and disposition records which are the primary source of data to CIIB programs. This duty was not given to the field representatives because the complexities of reporting arrest and disposition data requires specialists, rather than generalists to perform the job.

Third, the department itself appears to have placed a low priority on this liaison function, as evidenced by the department's decision to administratively reduce the number of field representatives from 12 to 8 positions between 1979 and 1984.

Because of the questionable value of the liaison activities performed by

field services representatives, we recommend that such activities be discontinued. We estimate that half of the field representatives' time is spent on liaison activities. Accordingly, we recommend the deletion of four field representative positions and one related clerical support position, for a General Fund savings of \$221,000.

Technical Recommendations

We recommend that the General Fund appropriation be reduced by \$433,000 (Item 0820-001-001) and that various other appropriations be reduced by \$95,000 to eliminate overbudgeting, as follows:

- When the department determined its legal service workload needs, it undercounted by 2.5 positions the number of attorneys already authorized to perform the work. This resulted in overbudgeting of 2.5 new attorney positions and 1.7 clerical support positions, at a cost of \$212,000 from the General Fund.
- The amount budgeted for rent at the Sacramento Law Enforcement building exceeds the amount allowed in the Department of General Services' price book by \$316,000 and the department has provided no information to justify the higher amount.

DEPARTMENT OF JUSTICE—CAPITAL OUTLAY

Item 0820-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. LJE 72

| | |
|-----------------------------|-----------|
| Requested 1985-86 | \$321,000 |
| Recommended approval | 134,000 |
| Recommended reduction | 187,000 |

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay Program Reductions

We recommend that Item 0820-301-036 be reduced by \$187,000 in order to (1) reduce the amount proposed for alterations to the Fresno forensic laboratory (\$60,000) and (2) delete funds for minor capital outlay projects in leased facilities (\$127,000).

The budget requests \$321,000 for seven minor capital outlay projects (\$200,000 or less per project) for the Department of Justice. The request includes funds for:

- Installation of a backup generator at the Sacramento headquarters (\$74,000)
- Construction of an addition to the Fresno forensic laboratory building (\$120,000)
- Alterations to five forensic laboratories throughout the state (\$127,000)

Sacramento headquarters. A backup generator, which the department moved from another location, is needed to serve the department's new automated fingerprint identification system. The estimated cost is reasonable and we recommend approval.

Fresno Laboratory. We recommend that the \$120,000 requested to

DEPARTMENT OF JUSTICE—CAPITAL OUTLAY—Continued

construct an addition to the Fresno laboratory be reduced to \$60,000. This request includes construction of a 1,200 foot addition to the existing laboratory building constructed in 1974. The addition would increase the lab support area, including refrigeration and freezer capacity for specimens, provide an additional office, and make available a large library/conference room.

Our analysis indicates that the original plans for this laboratory included space for a library/conference room. The department has not demonstrated that assigned staff cannot be accommodated in the existing facility, thus warranting construction of the additional library/conference room. On this basis, we recommend that funding for this project be reduced by \$60,000.

Forensic Laboratories—Statewide. The budget requests \$127,000 for alterations to forensic laboratory facilities in Redding, San Luis Obispo, Salinas, Modesto and San Rafael. The majority of the alterations involve the addition of laboratory benches, the installation of suspended ceilings, and other minor improvements. Our analysis indicates that these proposed improvements should be paid for by the lessor and amortized through the lease payments, rather than financed through state appropriation of capital outlay funds. Moreover, we suggest that the department investigate the use of modular laboratory furniture, similar to that installed at several University of California campuses, so that these items can be purchased with funds budgeted for equipment and removed from leased quarters if the state vacates this space. In any event, capital outlay funds should not be used to make permanent improvements to leased facilities and for these reasons we recommend that the \$127,000 budgeted for these projects be deleted.

STATE CONTROLLER

Item 0840 from the General

Fund and various other funds

Budget p. LJE 73

| | |
|--|--------------|
| Requested 1985-86 | \$50,254,000 |
| Estimated 1984-85 | 49,807,000 |
| Actual 1983-84 | 44,213,000 |
| Requested increase (excluding amount for salary increases) \$447,000 (+0.9 percent) | |
| Total recommended reduction | 2,368,000 |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|--|---|--------------|
| 0840-001-001—State Controller, Support | General | \$47,034,000 |
| 0840-001-041—State Controller, Support | Aeronautics Account, State Transportation | 248,000 |
| 0840-001-061—State Controller, Support | Motor Vehicle Fuel Ac- count, Transportation Tax | 2,377,000 |
| 0840-001-739—State Controller, Support | State School Building Aid | 329,000 |
| 0840-001-890—State Controller, Support | Federal Trust | (1,121,000) |
| 0840-001-903—State Controller, Support | Assessment | 124,000 |
| 0840-001-988—State Controller, Support | Retail Sales Tax | 142,000 |
| Total | | \$50,254,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. **Technical Recommendations. Reduce Item 0840-001-001 by \$616,000.** Recommend reduction to eliminate over-budgeting for equipment (\$317,000) and health benefit costs (\$299,000). 81
2. **Schedule of Reimbursements.** Withhold recommendation on \$3,300,000 in proposed expenditures financed by reimbursements. Recommend that the Legislature request the Controller and Department of Finance to provide a revised schedule of reimbursements for the Controller's budget which is consistent with the amounts to be appropriated for the reimbursements in the budgets of other state agencies. 81
3. **State Mandate Audits Program. Reduce Item 0840-001-001 by \$1,063,000.** Recommend elimination of 24 positions which will not be needed given the proposed change in the method of providing state-mandated local program reimbursements. Further recommend that 3.0 mandated cost field audit positions be designated as one-year limited term. 81
4. **Oil and Gas Royalty Audits Program. Reduce Item 0840-001-001 by \$400,000 and increase Item 0840-001-890 by \$400,000.** Recommend that the budget be amended to reflect full federal reimbursement of oil and gas royalty audit costs, for a net General Fund savings of \$400,000. 83
5. **Mail Inserting Machine. Reduce Item 0840-001-001 by \$163,000.** Recommend that funding for one mail inserting machine be eliminated because the machine is not needed. 84
6. **Los Angeles Office. Reduce Item 0840-001-001 by \$26,000.** Recommend the elimination of partial-year funding for the Los Angeles office, consistent with the language in the 1984 Budget Act. Further recommend adoption of Budget bill language prohibiting the use of any funds appropriated for administration of the inheritance and gift tax program in Los Angeles during the budget year. 85
7. **Estate Tax Program.** Recommend approval of 23 permanent positions for administration of the state estate tax program. 87
8. **Howard Hughes Case. Reduce Item 0840-001-001 by \$100,000.** Recommend the elimination of three positions assigned to the Howard Hughes case which do not appear to be warranted on a workload basis. Further recommend the Controller submit, prior to budget hearings, a detailed summary of all funds expended for the Hughes inheritance tax case in the prior, current and budget years. 87

GENERAL PROGRAM STATEMENT

The State Controller is a constitutional officer whose responsibilities include those expressed in the Constitution, those implied by the nature of his office, and those assigned to him by statute. Specifically, the State Controller is responsible for (1) the receipt and disbursement of public

STATE CONTROLLER—Continued

funds, (2) reporting on the financial condition of the state and local governments, (3) administering certain tax laws and collecting amounts due the state, and (4) enforcing the unclaimed property laws. The Controller also is a member of various boards and commissions, including the Board of Equalization, the Franchise Tax Board, the Board of Control, the Commission on State Mandates, the State Lands Commission, the Pooled Money Investment Board, and assorted bond finance committees.

The Controller has 1,252.4 authorized positions in the current year. In addition, the Controller has administratively established 18.8 positions during the current year, bringing the total number of positions to 1,271.2.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$50,254,000 from the General Fund and various special funds to support the Controller's office in 1985-86. This is an increase of \$447,000 or 0.9 percent, above current-year expenditures as estimated in the budget. The increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

The Controller also expects to receive and spend \$11,842,000 in reimbursements and \$1,121,000 in federal funds during 1985-86, resulting in total budget-year expenditures of \$63,217,000. This is \$1,481,000, or 2.4 percent, more than estimated 1984-85 expenditures from all funding sources. Table 1 identifies the proposed level of expenditures and personnel-years for each of the major programs administered by the Controller's office in the prior, current and budget years.

Table 1
State Controller's Office
Program Summary
(dollars in thousands)

| Program | Personnel-Years | | | Expenditures | | |
|--|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 | Actual 1983-84 | Estimated 1984-85 | Proposed 1985-86 |
| Fiscal Control | 931.0 | 943.2 | 958.0 | 40,911 | 46,435 | 49,601 |
| Tax Administration | 87.4 | 87.7 | 72.5 | 5,901 | 6,277 | 3,222 |
| Administration | | | | | | |
| Distributed to Other Pro- grams | (56.5) | (58.9) | (56.5) | (1,856) | (1,966) | (1,977) |
| Undistributed | 127.9 | 177.7 | 166.9 | 7,357 | 9,024 | 10,594 |
| Unallocated Reduction | — | — | — | — | — | —\$200 |
| Totals | 1,146.3 | 1,208.6 | 1,197.4 | \$54,169 | \$61,736 | \$63,217 |
| Reimbursements | — | — | — | -9,337 | -10,989 | -11,842 |
| Federal Funds | — | — | — | -619 | -940 | -1,121 |
| Net Program Totals | 1,146.3 | 1,208.6 | 1,197.4 | \$44,213 | \$49,807 | \$50,254 |

Table 2 identifies the significant changes in the Controller's budget proposed for 1985-86.

The budget proposes the establishment of 86.5 new positions in 1985-86. Of these, 64.0 are currently filled and are either limited term positions scheduled to expire on June 30, 1985 or positions that were administratively established during the current year. The Controller requests that 42.0 of the 86.5 new positions be established on a limited-term basis; the remaining 44.5 are to be established permanently.

Table 2
State Controller's Office
Proposed 1985-86 Budget Changes
(dollars in thousands)

| | <i>General Fund</i> | <i>All Other Funds</i> | <i>Reimburse- ments</i> | <i>Total</i> |
|---|-------------------------|--------------------------------|-----------------------------|--------------|
| 1984-85 Expenditures (Revised) | \$46,708 | \$4,039 | \$10,989 | \$61,736 |
| 1. Fiscal Control | | | | |
| a. Expiration of limited term positions | -899 | — | — | -899 |
| b. Mandated cost program audit workload | 205 | — | — | 205 |
| c. Staff for education oversight audit program (Ch 268/84) | 331 | — | — | 331 |
| d. Staff for Title XX IHSS audits | — | — | 127 | 127 |
| e. Title XX third party welfare audits workload | — | — | 192 | 192 |
| f. Mailing and computer equipment replace- ment | 977 | — | — | 977 |
| 2. Tax Administration | | | | |
| a. Expiration of 18.0 limited term Inheritance and Gift Tax positions due to declining work- load | -3,277 | — | — | -3,277 |
| b. Tax refund offset program (Ch 450/84) | — | — | 100 | 100 |
| 3. Administration | | | | |
| a. Office expansion and rental increase | 681 | — | — | 681 |
| b. Office automation | 1,012 | — | — | 1,012 |
| c. Information security workload | 104 | — | — | 104 |
| Baseline and miscellaneous changes | 1,192 | 302 | 434 | 1,928 |
| Total, 1985-86 expenditures (proposed) | \$47,034 | \$4,341 | \$11,842 | \$63,217 |
| Change from 1984-85 | | | | |
| Amount | \$326 | \$302 | \$853 | \$1,481 |
| Percent | 0.7% | 7.5% | 7.8% | 2.4% |

The new positions are concentrated primarily in the Audits and Tax Administration divisions as follows:

Audits

- Three expiring positions are proposed for continuation on a permanent basis for court audits,
- 13 expiring positions are proposed for continuation on a limited term basis for oil and gas royalty audits,
- 16.5 new positions (11.5 permanent and 5.0 limited term) are proposed to continue or enlarge several audit programs.

Tax Administration

- 19 expiring positions are proposed for continuation on a limited term basis for the Inheritance and Gift Tax program.
- 21 expiring positions are proposed for continuation on a permanent basis, along with two new positions, for the Estate Tax program.
- Two new positions are proposed on a limited term basis for the state income tax refund offset program.

The remaining 10.0 positions are allocated among the Accounting, Local Government Fiscal Affairs, Personnel/Payroll Services, and Administration divisions.

The budget proposal includes a \$200,000 unallocated General Fund reduction in operating expenses. Presumably, any shortfall in operating expenses resulting from this reduction will be financed by diverting funds budgeted for other purposes.

STATE CONTROLLER—Continued**ANALYSIS AND RECOMMENDATIONS**

We recommend approval of the following program changes proposed for 1985-86 which are not discussed elsewhere in this analysis:

- **Office Automation.** The budget proposes a General Fund increase of \$1,012,000 for an integrated office automation system. These funds, supplemented by \$320,000 in redirected funds, will be used for second-year development costs of the project, which has been approved by the Office of Information Technology within the Department of Finance.
- **Office Space.** The budget proposes an increase of \$681,000 from the General Fund for costs associated with the renewal of expiring leases and the acquisition of new space.
- **Information Security.** The budget proposes a \$104,000 General Fund increase and two positions to expand the Controller's information security operations.
- **Court Audit Program.** The budget requests an increase of \$124,000 from the state Assessment Fund and three positions for the Controller's expanded court audit program authorized by Ch 980/84 (AB 3052).
- **Assembly Bill 2727 Offsets.** The budget proposes an increase of \$100,000 in reimbursements and two positions for administration of the multiple tax offset program authorized by Ch 1581/84 (AB 2727), in conjunction with the Franchise Tax Board. State law allows the Controller to offset any amount owed a state agency by an individual or entity against any amount owed to the individual or entity by a state agency. To fund the offset program, the Controller bills state agencies which participate in the program. These agencies in turn, add the amount charged by the Controller to the original amount due the agency.
- **Management Compensation Incentive Program (MCIP).** The budget proposes an increase of \$39,000 in reimbursements and 2.0 positions for additional payroll and disbursement workload associated with the MCIP, an employee benefit program (life insurance) available to all state managerial and supervisory (approximately 21,500) employees. Costs for the MCIP are recouped by a service charge on insurance providers.
- **Education Audit Review Program.** The budget proposes a \$331,000 General Fund increase and 7.5 positions to establish a new program to review and report on financial and compliance audits of school districts and county offices of the superintendent of schools. Responsibility for education audits oversight was transferred from the Department of Finance to the Controller's office by Ch 268/84 (SB 1379, the 1984 "trailer bill").
- **IHSS Audit.** The budget proposes an increase of \$127,000 in reimbursements and 2.0 position for audits of the In-Home Supportive Services program, to be performed under an Interagency Agreement with the Department of Social Services.
- **Federal Disaster Assistance Audits.** The budget proposes an increase of \$87,000 in reimbursements and 2.0 limited term positions to reduce the backlog of unaudited federal disaster assistance grants. The Controller's office performs these audits under a contract with the State Office of Emergency Services.

Technical Recommendations

We recommend that the General Fund appropriation to the Controller be reduced by \$616,000 to eliminate overbudgeting for:

- 1. Equipment purchases to upgrade the existing computer printing system, due to a lack of a sufficient justification (\$317,000), and*
- 2. Health benefit costs, as the budget year request is based on overstated current-year expenditures resulting from the failure to reflect reductions required by the 1984 Budget Act (\$299,000).*

Schedule of Reimbursements Does Not Agree With Governor's Budget

We withhold recommendation on \$3,300,000 in proposed expenditures to be financed from reimbursements, pending receipt of further information on these reimbursements. We recommend that the Legislature request the Department of Finance to reconcile the amount of reimbursements identified in the budget for the Controller's office with the amounts included in other portions of the Governor's Budget.

The Department of Health Services' budget (Item 4260-001-890) proposes \$2,062,000 to reimburse the Controller's office for disbursement services related to the Medi-Cal program. The Controller's budget reflects reimbursements of \$1,958,000 for these services, a difference of \$104,000. Similarly, the Department of Social Services' budget (Item 5180-001-001) proposes \$324,000 to reimburse the Controller for audits of federal Title XX third party welfare contracts. The Controller's budget reflects reimbursements of \$192,000 for these audits, a difference of \$132,000.

Given these and two other similar discrepancies in the schedule of reimbursements, we cannot recommend approval of the \$11,842,000 in expenditures from reimbursements proposed in the budget for the Controller's office, at this time. Specifically, we withhold recommendation on \$3,300,000 of the \$11,842,000, pending the receipt of a revised schedule from the Department of Finance which reconciles the amounts proposed for payment to the Controller for reimbursable services in other items of the Governor's Budget with the amounts expected to be received by the Controller.

State Mandated Costs Audit Program

We recommend that Item 0840-001-001 be reduced by \$1,063,000 to eliminate 24 desk (15.0) and field (9.0) audit positions that are no longer needed, due to changes in the method of providing reimbursements for state-mandated local costs. We further recommend that 3.0 of the remaining 5.0 mandated cost field audit positions be designated as one-year limited term.

Background. Chapter 1406, Statutes of 1972 (SB 90), first established the statutory requirement that the state reimburse units of local government for all costs mandated by the state. Such costs may result from either legislative acts or executive regulations which impose a new program or require an increased level of service in an existing program. Existing state law also requires the state to reimburse local governments for any revenue losses resulting from legislation which either exempts certain property from taxation or reclassifies such property and thereby reduces sales, use or property tax revenue.

The voters' approval of Proposition 4 at the November 6, 1979 election elevated the reimbursement of state-mandated costs to a constitutional

STATE CONTROLLER—Continued

requirement by incorporating this concept in Article XIII B of the State Constitution. (The Constitution however, does not require that the state reimburse local governments for revenue losses they experience as a result of state law.) Reimbursements to local governments and school districts for state mandated costs are budgeted at more than \$95 million for 1985-86.

Local government claims for reimbursement of actual costs incurred in prior years and costs estimated to be incurred in the current year must be filed no later than November 30 of each year. At the time this analysis was prepared, the Controller's office had not yet finished counting the number of claims which had been filed in 1984 by the November 30 deadline.

The Controller's office has two functions with respect to payment of mandated cost claims. First, the Mandated Cost Unit within the Accounting Division receives reimbursement claims from local governments and conducts a desk audit of these claims before recommending payment of the claims. In 1983-84, the desk audit process disallowed \$20.7 million of the \$105 million claimed by local governments. Second, after payment has been made, the Field Audit Bureau within the Audits Division selectively audits local governments to verify the validity of amounts claimed. Historically, the field audit process has resulted in recoveries averaging approximately 20 percent of the funds actually audited.

Mandated Cost Desk Audits. In the current year, 18.0 positions are authorized for mandated cost desk audits to be performed by the Mandated Cost Unit. Of these, 15.0 are permanent positions and 3.0 are one-year limited term positions. The three limited term positions were provided to handle the increase in workload associated with newly chaptered legislation which resulted in reimbursement claims being filed for the first time in 1984-85. The vast majority of this increased workload is attributable to Ch 96/84 (AB 504, the "local government claims bill") which funded 16 new mandates, at a cost of over \$21.9 million.

The budget proposes to reestablish the 3.0 expiring limited term positions on a permanent basis, at a General Fund cost of \$107,000 in 1985-86. According to the Controller's office, these positions are necessary because of the continuing workload associated with AB 504 and other mandates funded for the first time in 1984-85.

Mandated Cost Field Audits. During the current year, 12 audit positions are authorized for mandated cost field audits. The budget requests \$98,000 from the General Fund to establish two additional auditor positions in 1985-86. These positions are requested for the new audit workload resulting from AB 504.

SMA Proposal Should Reduce Workload. The Governor's Budget proposes to establish a new system of "state mandate apportionments" (SMA) to replace the existing "actual cost" claims process for many mandated programs. This system is discussed in our analysis of Item 9680, State Mandated Local Programs. Under the SMA proposal, the Controller would automatically subvene funds to local governments, based upon their actual claims for the prior year adjusted for inflation and the addition or repeal of mandates. Only mandates funded on an actual cost basis for three years would be included in the SMA.

Under the proposed apportionment system, the audit workload of the Controller would be limited in the budget year to:

- a. pre-payment desk audits of claims resulting from mandates which are not included in the SMA,

- b. post-payment field audits of claims for mandates not included in the SMA, and
- c. post-payment field audits of claims filed for the actual cost incurred in 1984-85 of mandates included in the SMA.

Our analysis indicates that implementation of the apportionment program would result in the filing of 1,698 claims for those mandates which would continue to be reimbursed on an actual cost basis (that is, for those programs which would not be included in the SMA). This is 26,783 claims, or 94 percent, less than the estimated number of claims used in preparation of the Controller's budget request for mandated cost desk audits.

Based on this drastic reduction in the number of claims to be filed, our analysis indicates that no more than three positions can be justified on a workload basis for desk audit activity in 1985-86. Therefore, we recommend that Item 0840-001-001 be reduced by \$598,000 to eliminate 15 mandated cost desk audit positions that are not justified on a workload basis.

Similarly, implementation of the mandate apportionment system would reduce the number of mandated cost field audits required. Given the Controller's (a) historical audit target of 10 percent of the actual cost claims filed, and (b) workload standard of 26.4 claims audited per auditor each year, our analysis indicates that two auditor positions will be required to perform field audits of newly-funded mandates each year.

Finally, our analysis indicates that an additional three limited term positions are required to handle the audit workload for the final year of actual cost claims associated with those mandates which are proposed for inclusion in the apportionment system. These claims, covering the 1984-85 fiscal year, must be filed by November 30, 1985.

On this basis, we recommend that Item 0840-001-001 be reduced by \$465,000 to eliminate nine unnecessary mandated cost field audit positions. We further recommend that three of the remaining five mandated cost field audit positions be designated as one-year limited term.

Oil and Gas Royalty Audits

We recommend that Item 0840-001-001 be reduced by \$400,000, and that Item 0840-001-890 be increased by \$400,000, in order to reflect the fact that full federal funding will be provided for the Controller's oil and gas royalty audits program.

Under the terms of an agreement with the U.S. Department of Interior (DOI), the Controller has been empowered to audit federal oil and gas royalties paid by companies with leases in California. California is entitled to 50 percent of these royalties under federal law. Pursuant to its agreement with DOI and the federal Minerals Act of 1982, the Controller is entitled to federal reimbursement for 50 percent of the direct costs of the royalty audits, and the state is entitled to receive 50 percent of all collections resulting from the audits.

The Legislature included language in the *Supplemental Report of the 1984 Budget Act* requiring the Controller to report on the increases in revenues due the state as a result of the oil and gas royalty audits. The report was issued in November 1984. According to the report and updated information provided by the Controller's Division of Audits, the state has already recovered over \$1.35 million in the current year, and can be expected to receive at least another \$450,000 prior to June 30, 1985. An additional \$4.1 million (the state's share) in audit findings is expected to be turned over to DOI for collection by the end of the current fiscal year.

STATE CONTROLLER—Continued

In his report to the Legislature, the Controller indicated that, in addition to these audit findings, which are related to errors in the reporting and submittal of royalty payments, exceptions related to the value placed on oil and gas for royalty payment purposes have been identified. The Controller's office estimates that as a result of valuation errors, the state was underpaid between \$16.5 and \$30 million for the period 1977-78 through 1982-83.

Steps to collect these funds were being taken at the time this analysis was prepared. Collection of amounts related to these valuation findings will be a lengthy process, according to the Controller, because the collections must be pursued through the DOI administrative hearing process and, it is likely, through the courts as well.

Federal Reimbursement Share Increases. The budget proposes reestablishment of the 13.0 limited-term positions for oil and gas royalty audits in 1985-86, at a cost of \$799,000. In line with the state's existing agreement with DOI, the budget proposes to split the funding of these positions between the General Fund and the Federal Trust Fund.

As this analysis was being prepared, however, the Controller's office informed us that DOI has agreed to grant a "delegation of audit authority" to the Controller's office, beginning February 1, 1985. Under the terms of the 1982 Minerals Act, a delegation of audit authority allows for *full federal reimbursement of direct audit costs*. Current year General Fund savings resulting from the increased federal reimbursement rate will be redirected toward other oil and gas royalty audit activity *not* covered by the DOI agreement, according to staff of the Controller's office.

As a result of the increase in the federal reimbursement rate, state funds will not be needed to support the 13 limited-term positions. Accordingly, we recommend that (a) the General Fund appropriation to the Controller be reduced by \$400,000 and (b) the appropriation from the Federal Trust Fund be increased by \$400,000, for a General Fund savings of \$400,000.

Delete One Inserter

We recommend that Item 0840-001-001 be reduced by \$163,000 to eliminate funding for one mail inserting machine that is not needed.

The budget requests \$327,000 from the General Fund to replace two mail inserting machines in the Disbursements Division of the Controller's office. These machines are used to insert approximately 20 million warrants, "no pay" notices and other items of mail, annually. The division currently utilizes four inserting machines, ranging in age from one to eight years, to handle this workload.

According to the Controller's office, the newest machine (one year old) handles approximately 8 million pieces per year. Two others, each six years old, handle the remaining 12 million pieces per year, with the oldest machine (eight years old) used almost exclusively as a backup during the personal income tax refund season.

The budget proposes to replace the two six-year old inserters which the Controller's office indicates are nearing the end of their useful lives. Information provided by the Controller's office indicates that the industry standard for the useful life of an inserting machine is 60 million pieces. The machines proposed for replacement will have inserted approximately 49 million pieces each by the end of the current year.

Based on the expected useful life of the machines and the inserting

requirements of the Disbursements Division, our analysis indicates that a more prudent course of action would be to purchase *one* new inserter to replace the oldest (backup) inserter, rather than two machines to replace both six-year old machines. This would (a) provide the division with total inserting capacity of 28 million pieces per year (40 percent in excess of present workload), (b) provide more reliable backup machinery (the two six-year old inserters), and (c) permit a General Fund reduction of \$163,000.

Consequently, we recommend that funds for one of the proposed new inserting machines and associated maintenance costs be eliminated and the General Fund appropriation be reduced by \$163,000.

Inheritance and Gift Tax Program Staffing

Proposition 6 on the June 1982 ballot abolished the state's Inheritance and Gift Tax laws and established the new California Estate Tax. The Estate Tax is a "pickup" tax which simply transfers a portion of the federal government's estate tax revenues to California. It does not increase the taxpayer's total tax liability.

The Controller's Division of Tax Administration was restructured in the 1983 Budget Act, in order to reflect the impact of Proposition 6. Specifically, the 1983 Budget Act:

1. Eliminated 195.3 positions in the Inheritance and Gift Tax program;
2. Established 51 limited term positions (2 years) to:
 - a. process outstanding inheritance and gift tax cases (20 positions);
 - b. begin development of the new Estate Tax program (21 positions);
 - and
 - c. administer the Howard Hughes inheritance tax case (10 positions).

The budget proposes to reestablish 14.0 limited term positions in the budget year, at a cost of \$549,000 to the General Fund, to handle inheritance and gift tax cases filed under the old Inheritance and Gift Tax laws. The Administration estimates that the state will receive over \$34 million in 1985-86 from cases processed under the old law.

Although the number of new inheritance and gift tax cases is declining, the Controller is unable to predict when the carry-over of workload from the old laws will be exhausted. For this reason, the Department of Finance proposes that the 14.0 positions be established on a limited term basis.

Given the necessity of (a) resolving the current inventory of inheritance and gift tax cases and (b) processing new cases projected in the budget year, our analysis indicates that the continuation of these positions is warranted, and that the limited-term designation is appropriate.

Governor's Budget Reflects Closing of Los Angeles Office

We recommend that Item 0840-001-001 be reduced by \$26,000 to eliminate partial-year funding for the Los Angeles office in 1985-86. We further recommend that the Legislature adopt Budget Bill language precluding the Controller from spending any funds on inheritance and gift tax administration activities in Los Angeles in the budget year.

In accordance with the provisions of the 1983 Budget Act, the Controller closed the San Francisco regional office, shifted some of its staff to Sacramento, and reduced staffing levels at the Los Angeles office. Subsequently, in December 1983, the Controller issued a report, as required by the *Supplemental Report of the 1983 Budget Act*, which estimated the fiscal

STATE CONTROLLER—Continued

impact of consolidating the Los Angeles office with the Sacramento office at various points in time. The feasibility study concluded that the benefits of maintaining the Los Angeles office would outweigh the costs through the 1984-85 fiscal year. Beyond 1984-85, however, the report found that the maintenance of a Los Angeles office would not be cost-effective.

In our *Analysis of the 1984 Budget Bill*, we recommended that the Legislature adopt Budget Bill language requiring the Controller to close the Los Angeles office by June 30, 1985. This recommendation was based on the findings of the Controller's feasibility study, as well as on our own analysis which indicated that there would not be sufficient workload beyond 1984-85 to justify the costs of maintaining the office. In response to our recommendation, the Legislature adopted the following Budget Bill language in the 1984 Budget Act:

"The Controller shall consolidate all inheritance and gift tax administration activities in the Sacramento office as of June 30, 1985."

The budget requests \$26,000 to support the Los Angeles office during the first three months of 1985-86. These funds were provided, according to the Department of Finance, to allow the Controller additional time to relocate the inheritance and gift tax files and to completely vacate the space leased in the current year. In accordance with the language contained in the 1984 Budget Act, the Governor's Budget does not include any funds for ongoing inheritance and gift tax administration activities in Los Angeles in 1985-86.

The Controller's office has indicated, however, that it intends to locate at least 10 of the 14 positions proposed for the gift and inheritance tax program in the Controller's existing office space located in downtown Los Angeles. According to staff of the Controller's office, the decision not to consolidate all inheritance and gift tax activities in Sacramento was based on the unwillingness of some current inheritance and gift tax staff in Los Angeles to move to Sacramento. They contend that this decision is not contrary to the 1984 Budget Act language because the Los Angeles office will not be *open to the public* beyond June 30, 1985. Full-year funding for the costs of operating the Los Angeles office will be sought in a Department of Finance letter, according to the Controller's office.

No new information has been presented which would warrant a change in the Legislature's earlier decision. The available evidence still indicates that conducting these activities in Sacramento is the most cost-effective way to perform them. The fact that some current employees of the Los Angeles staff are unwilling to move to Sacramento in no way justifies adopting a less cost-effective approach, at the taxpayers' expense.

In sum, given the Legislature's clear directive in the 1984 Budget Act and the Controller's own finding that continued operation of the Los Angeles office is not cost-effective, we recommend that Item 0840-001-001 be reduced by \$26,000 to eliminate funding for the partial-year costs of the Los Angeles office. We further recommend that the Legislature adopt the following Budget Bill language in Item 0840-001-001 precluding the Controller from spending any of the funds provided for administration of the inheritance and gift tax program in 1985-86 for facilities operations in Los Angeles.

"None of the funds provided in this item shall be expended to support the cost of facilities operations associated with inheritance and gift tax program activities in any location other than Sacramento."

Estate Tax Program***We recommend approval.***

The budget is proposing to permanently reestablish 21.0 expiring limited term positions and add 2.0 additional permanent positions to administer the California Estate Tax, at a total General Fund cost of \$836,000.

Under the federal Estate Tax Law, a taxpayer can reduce his or her federal tax liability, up to a certain level, by the amount of the taxpayer's state death tax liability. Thus, the state's estate tax is primarily a federal tax with the state "picking up" a portion of the tax revenues. The Administration estimates net estate tax revenues of \$159 million in 1985-86. Because the estate tax is self-assessed, and oversight is largely the responsibility of the Internal Revenue Service (IRS), a large administrative staff is not needed for this tax.

The majority of staff requested for the estate tax program will perform collection and clerical functions, although some state audit and legal staff will be necessary for enforcement actions related to the domicile of certain estates.

Based on the estate tax workload data provided by the Controller, we believe that the staffing level proposed in the budget, though significantly less than that formerly required to administer the Inheritance and Gift Tax, is sufficient to administer the estate tax. Therefore, we recommend approval of \$836,000 requested in Item 0840-001-001 for 23 positions to administer the estate tax.

Howard Hughes Inheritance Tax Case

We recommend a General Fund reduction of \$100,000 and elimination of three positions proposed to administer the Hughes Estate Settlement in 1985-86 because there is not adequate workload to support the request. We further recommend that the Controller prepare, prior to budget hearings, a detailed summary of funds expended for the Hughes inheritance tax case in the prior, current and budget years.

The budget includes \$265,000 to reestablish five of the 10 positions assigned to the Howard Hughes Inheritance Tax Case in the current year. In the past, these positions performed legal and valuation research in support of the state's position in the Hughes case.

Out-of-Court Settlement. The Hughes case was scheduled to go to trial in June of 1984. Prior to that time, however, the Controller, the State of Texas, and the Hughes Estate Administrators negotiated an out-of-court settlement of the case. This settlement agreement, signed in August, was approved by the Los Angeles Superior Court (probate court) in December 1984.

Under the terms of the agreement, in return for releasing the Hughes estate from the state's inheritance tax claim, the state:

- a. received \$44 million in December 1984, and
- b. will receive either \$75 million or a valuable piece of commercial and residential property in Playa del Rey (north of Los Angeles International Airport) between August 31, 1986, and February 29, 1988.

Settlement Reduces Current-Year Workload. Because the Hughes case was settled early in the year, the workload anticipated for the case has largely failed to materialize. As a result, the Controller's office has indicated that six of the 10 positions authorized for the current year have been redirected to other activities within the office, such as staff training support and the development of the Controller's responsibilities with re-

STATE CONTROLLER—Continued

spect to the State Lottery Act (Proposition 37, which was enacted at the November 1984 general election).

In addition, at the time this analysis was prepared, approximately \$1.7 million of General Fund money originally budgeted for consultant costs related to the Hughes case in the current year remained unencumbered. These funds were provided for outside legal and professional services in anticipation of the Hughes case going to trial. Staff of the Controller's office have indicated that they intend to redirect at least \$1.5 million of this \$1.7 million toward other activities in the current year. Any such redirection would appear to require legislative notification pursuant to Section 6.5 of the 1984 Budget Act.

According to the Controller's office, the remaining \$200,000 is to be used for activities related to the Hughes settlement during the remainder of the fiscal year.

Given the significant amount of unencumbered funds proposed for redirection in the current year, we recommend that, prior to budget hearings, the Controller provide a detailed summary by object of all funds appropriated for the Hughes case in the prior, current and budget years. This summary should display the unencumbered balance in each object as of the preparation date, and should specify the amount and purpose of any funds redirected or proposed for redirection to other programs in the current year.

Budget Year Workload Uncertain. Under the terms of the settlement agreement, the Summa Corporation (part of the Hughes estate) is required to make certain on-site and off-site improvements to the Playa del Rey property between December 1984 and February 1988. These improvements are to be made in order to maximize the market value of the property, which is being held in trust for the state.

At any time between September 1986 and February 1988, the state may elect to sell the property for *not less than* \$75 million. If the value of the property should fall below \$75 million during this period, the state could return the property to the Summa Corporation for \$75 million.

According to the Controller's office, the five positions proposed for the budget year are needed to monitor the Summa Corporation's compliance with the terms of the settlement agreement, and to audit Summa's expenditure of funds from a special \$6.8 million "improvements account" which it was required to establish in order to cover the costs of improvements to the property.

It is evident that some monitoring and audit activities associated with the Hughes case settlement agreement will be necessary in 1985-86. Based on the information provided by the Controller, however, we do not believe that these audit and monitoring responsibilities will require five positions. Our analysis indicates that a senior auditor and staff counsel should be sufficient to protect the interests of the state under the terms of the settlement agreement in the budget year.

Therefore, we recommend a reduction of \$100,000 requested from the General Fund in Item 0840-001-001 to eliminate three positions which will not be needed for audit or monitoring activities related to the settlement agreement in the Hughes inheritance tax case.

STATE BOARD OF EQUALIZATION

Item 0860 from the General
Fund and various funds

Budget p. LJE 88

| | |
|--|--------------|
| Requested 1985-86 | \$90,851,000 |
| Estimated 1984-85..... | 87,519,000 |
| Actual 1983-84 | 74,939,000 |
| Requested increase (excluding amount for salary increases) \$3,332,000 (+3.8 percent) | |
| Total recommended reduction | 1,022,000 |
| Recommendation pending | 3,482,000 |

1985-86 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|----------------------|---|--------------|
| 0860-001-001—Support | General | \$83,177,000 |
| 0860-001-022—Support | Emergency Telephone Special Account, General | 91,000 |
| 0860-001-061—Support | Motor Vehicle Account, Transportation Tax | 4,183,000 |
| 0860-001-064—Support | Motor Vehicle License Fee Account, Transportation Tax | 1,292,000 |
| 0860-001-415—Support | Universal Telephone Service | 100,000 |
| 0860-001-465—Support | Energy Resources Programs Account, General | 69,000 |
| 0860-001-965—Support | Timber Tax | 1,939,000 |
| Total | | \$90,851,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. **Unallocated General Fund Reduction. Augment Item 0860-001-001 by \$296,000.** Recommend augmentation to provide for expected increases in the cost of travel because the additional revenue that would be made possible by this augmentation exceeds the cost (Revenue Gain: \$934,000). 93
2. **Computer Replacement Project.** Withhold recommendation on \$3.1 million requested for first-year of proposed five-year computer replacement project, pending receipt of revised cost data. 94
3. **Delinquent Tax Collections.** Recommend adoption of supplemental report language requiring a study of alternatives to increase productivity in collection activity associated with delinquent accounts. 95
4. **Sales Tax Reimbursements. Reduce Item 0860-001-001 by \$1,250,097.** Recommend reduction to correct for underbudgeting of reimbursements for administration of sales and use taxes. 97
5. **Hazardous Substance Tax.** Withhold recommendation on 8.6 positions and \$382,000 requested for administration of the two hazardous waste taxes, pending resolution of issues regarding the board's responsibilities under this program. 98

STATE BOARD OF EQUALIZATION—Continued

6. *Technical Budget Issues. Reduce Item 0860-001-001 by \$68,000.* 98
 Recommend reduction because budget does not fully reflect the savings to be realized from the reduction in administrative support positions.

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

About 92 percent of the board's staff is devoted to the administration of the state and local sales tax and several other business taxes. Activities involved in the administration of these taxes include registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration of local property taxes, and about 8 percent of its staff is engaged in those activities. The board's various responsibilities are described below.

Administration of Business Taxes. The board administers and collects the state's 4.75 percent sales and use tax, the local 1.25 percent sales and use tax, and a 0.5 percent transactions and use tax for seven local transit districts. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax), and (5) the insurance tax. The board also administers (1) the private car tax, which is imposed on privately-owned railroad cars, (2) the surcharge on the consumption of electricity, (3) a telephone surcharge, which is used to fund the 911 emergency telephone systems program, (4) a pair of taxes on the generation and disposal of hazardous substances, and (5) a tax on suppliers of telephone services, which provides funding for the Universal Telephone Service program.

Local Property Taxes. The board surveys the operation of county assessor's offices, issues rules governing assessment practices, trains property appraisers, and provides technical assistance and handbooks to county assessors' staffs. The board also determines the value of public utility property and allocates assessed value to each local taxing jurisdiction in which such property is located. Finally, the board administers the timber yield tax.

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

The board has 2,855.4 authorized positions in the current year.

Revenues Administered by the Board

Table 1 shows estimated state and local revenue collections from programs administered by the board. Total revenues from these programs in 1985-86 are estimated at \$16.4 billion, which is 6.9 percent above the estimated current-year level.

Table 1
State and Local Revenues
Collected by the Board of Equalization
 (dollars in millions) ^a

| | Actual 1983-84 | Estimated 1984-85 | Projected 1985-86 | Change | |
|---|-------------------|----------------------|----------------------|----------------|---------|
| | | | | Amount | Percent |
| State sales and use tax..... | \$8,797 | \$9,830 | \$10,618 | \$788 | 8.0% |
| Local sales and use tax..... | 2,762 | 3,086 | 3,334 | 247 | 8.0 |
| Alcoholic beverage tax..... | 137 | 137 | 140 | 3 | 2.2 |
| State cigarette tax..... | 263 | 261 | 257 | -4 | -1.5 |
| Local cigarette tax..... | 79 | 78 | 77 | -1 | -1.5 |
| Motor vehicle fuel tax (gasoline)..... | 1,987 | 1,020 | 1,020 | — ^b | — |
| Use fuel tax (diesel)..... | 126 | 125 | 129 | 4 | 3.2 |
| Energy resources surcharge..... | 32 | 33 | 33 | — | — |
| Emergency telephone users surcharge.... | 25 | 30 | 32 | 2 | 6.7 |
| Hazardous substance taxes..... | 20 | 24 | 32 | 8 | 33.3 |
| Insurance tax..... | 457 | 635 | 675 | 40 | 6.3 |
| Timber yield tax..... | 13 | 13 | 13 | — | — |
| Private railroad car tax..... | — | 4 | 4 | — ^b | — |
| Universal telephone service..... | — | 69 | 36 | -33 | -47.8 |
| Totals..... | \$13,798 | \$15,346 | \$16,400 | \$1,054 | 6.9% |

^a Sources: Department of Finance and Board of Equalization.

^b Change of less than \$500,000

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of \$90,851,000 from various funds to support the State Board of Equalization in 1985-86. This is an increase of \$3,332,000, or 3.8 percent, above estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

Total expenditures, including expenditures financed through reimbursements, are proposed at \$122,881,000. This is an increase of \$4,870,000, or 4.1 percent, above estimated current-year expenditures.

The budget requests a total of 2,860.4 authorized *positions* in 1985-86, an increase of 5 positions above the number *authorized* in the current year. The budget proposes a total of 2,755.6 *personnel-years* in 1985-86, a decrease of 25.3 below the number authorized in the current year (*personnel-years* equal authorized positions minus salary savings.) The decrease in *personnel-years* for the budget year largely reflects the elimination of 51 positions administratively established in the current year to handle the workload associated with the Tax Amnesty program.

The budget proposal does not include any funds for inflation adjustments for certain operating expenses (\$337,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 2 summarizes the *personnel-years* and expenditures associated with each of the board's programs in the prior, current and budget years.

STATE BOARD OF EQUALIZATION—Continued

Table 2
Board of Equalization
Budget Summary
1983-84 through 1984-85
(dollars in thousands)

| | <i>Personnel-Years</i> | | | <i>Expenditures</i> | | |
|---|---------------------------|------------------------------|-----------------------------|---------------------------|------------------------------|-----------------------------|
| | <i>Actual 1983-84</i> | <i>Estimated 1984-85</i> | <i>Proposed 1985-86</i> | <i>Actual 1983-84</i> | <i>Estimated 1984-85</i> | <i>Proposed 1985-86</i> |
| County Assessment Standards | 89.4 | 88.5 | 88.3 | \$4,157 | \$4,565 | \$4,673 |
| State Assessed Property | 95.1 | 92.1 | 92.1 | 4,037 | 4,506 | 4,629 |
| Timber Tax | 36.6 | 38.4 | 38.4 | 1,687 | 1,885 | 1,939 |
| Sales and Use Tax | 2,277.3 | 2,391.0 | 2,365.9 | 85,286 | 98,480 | 103,163 |
| Hazardous Substance Tax | 8.2 | 8.6 | 8.6 | 331 | 372 | 382 |
| Alcoholic Beverage Tax | 23.1 | 23.2 | 23.2 | 716 | 831 | 853 |
| Cigarette Tax | 11.1 | 11.1 | 11.1 | 1,663 | 1,704 | 1,791 |
| Motor Vehicle Fuel License Tax | 12.2 | 12.1 | 12.1 | 534 | 571 | 584 |
| Use Fuel Tax | 86.5 | 89.5 | 89.5 | 3,158 | 3,516 | 3,599 |
| Energy Resources Surcharge | 1.9 | 2.0 | 2.0 | 79 | 70 | 69 |
| Emergency Telephone Users Surcharge | 2.4 | 2.6 | 2.6 | 84 | 89 | 91 |
| Insurance Tax | 1.8 | 1.8 | 1.8 | 84 | 97 | 100 |
| Universal Telephone Service Tax | — | 2.4 | 2.4 | — | 97 | 100 |
| Appeals from other Govern- mental Programs | 17.5 | 17.6 | 17.6 | 869 | 990 | 1,017 |
| Administration (undistribut- ed) | 3.5 | — | — | 272 | 238 | 228 |
| Unallocated Reduction | — | — | — | — | — | -337 |
| Totals | 2,666.6 | 2,780.9 | 2,755.6 | \$102,957 | \$118,011 | \$122,881 |
| Reimbursements | — | — | — | -23,018 | -30,492 | -32,030 |
| Net Totals | 2,666.6 | 2,780.9 | 2,755.6 | \$74,939 | \$87,519 | \$90,851 |

Significant Budget Changes

Table 3 shows the proposed changes in the board's budget for 1985-86.

Table 3
Board of Equalization
Proposed 1985-86 Budget Changes
(dollars in thousands)

| | <i>Changes</i> | <i>Totals</i> |
|--|----------------|---------------|
| 1984-85 Expenditures (Revised) | | \$87,519 |
| A. Changes to Maintain Current Program: | | |
| 1. Full year funding of salary increase | \$358 | |
| 2. Merit salary adjustments | 1,254 | |
| 3. Staff benefits | 497 | |
| 4. Inflation adjustment to operating expenses | 1,035 | |
| 5. Registration of taxpayers | 350 | |
| 6. Increased reimbursements | -1,538 | |
| 7. Unallocated General Fund reduction | -337 | |
| Total | | \$1,619 |
| B. Limited-term activities: | | |
| 1. Transit district taxes | -294 | |
| 2. Tax amnesty (AB 3230) | -1,079 | |
| 3. COD program | -10 | |
| Total | | -\$1,383 |

C. Budget Change Proposals:

| | | |
|--|-------|-------|
| 1. Replacement of obsolete computer equipment..... | 3,100 | |
| 2. Word processing and photocomposition equipment..... | 123 | |
| 3. Reduction of support positions | -127 | |
| Total..... | | 3,096 |

1985-86 Expenditures (Proposed) \$90,851

Change from 1984-85:

| | |
|--------------|---------|
| Amount..... | \$3,332 |
| Percent..... | 3.8% |

ANALYSIS AND RECOMMENDATIONS

SALES AND USE TAX PROGRAM

The budget proposes expenditures of \$103.2 million for administering the sales and use tax program, which includes registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. This is \$4.7 million, or 4.8 percent, more than estimated current-year expenditures for this purpose. These expenditures represent 84 percent of the board's proposed budget, and support 86 percent of its personnel-years. Within this program, the 4.75 percent state sales and use tax, the 1.25 percent local sales and use tax and the 0.5 percent sales and use tax for local transit districts are collected and monitored.

Effect of the Unallocated General Fund Reduction

We recommend an augmentation of \$296,000 to meet the cost of expected price increases for in-state and out-of-state travel expenses because the expected revenue exceeds the cost. (Revenue Gain: \$934,000).

The budget request for the board does not reflect the reduction in funding for merit salary adjustments that appears in the budgets for other state agencies. According to the Department of Finance, the board is a "revenue agency," and such a reduction could harm revenue collection efforts. The budget, however, does propose to eliminate funding for price increases associated with travel and discretionary general expenses. Of the \$337,000 in the scheduled reduction, \$296,000 (88 percent) is to come from travel expenses and \$41,000 is to come from general expense.

In order to finance the general expense reduction, the board expects to delay normally scheduled replacement of equipment and maintenance. This reduction does not seem likely to handicap budget-year revenue collection efforts and may be justified as a one-time budget reduction. The travel expense reduction, however, could have a significant adverse effect on revenues. The board estimates that approximately 90 percent of the amount originally budgeted for travel is directly tied to in-the-field audits of taxpayer accounts. A high percentage of the remaining amount pays for training in improved collections techniques.

Typically, when a sales and use tax account is selected for audit, an auditor must visit the place of business in order to verify the levels of reported activity. Without this on-site verification, the potential for detection of tax deficiencies is limited.

Rather than directly reducing its travel expenses by cutting back on the amount of travel required of its employees, the board proposes to implement the funding reduction by redirecting money away from other funded activities. Because registration of new taxpayers and return processing are mandatory, money cannot (and should not) be shifted from these activities. Consequently, the travel reduction will have to be absorbed by

STATE BOARD OF EQUALIZATION—Continued

reducing the board's discretionary activities—primarily sales and use tax audits. At the time this analysis was prepared, the board indicated that it would eliminate funding for 8.3 Auditor II positions in order to make up for the budgetary shortfall.

Auditing returns ensures uniform compliance with tax laws, thereby protecting the revenue base. When auditing staff is reduced, more productive accounts are left unchecked and the state loses revenue which it otherwise would collect. A reduction of 8.3 Auditor II positions can be expected to decrease General Fund revenues by approximately \$934,000. Consequently, elimination of the auditors *results in a net loss to the state General Fund of \$638,000*. On this basis, we recommend that \$296,000 of the scheduled \$337,000 unallocated price reduction be restored.

Computer Replacement Project

We withhold recommendation on \$3.1 million requested for the first year of a proposed five-year computer replacement project, pending receipt of sufficient detail on the project.

Currently, the board leases two Sperry 90/80 Central Processing Units (CPUs) which are in operation 24 hours a day, five days a week. These primarily support interactive programming for the Business Taxes Consolidated Information System (BTCIS) and batch workloads. The contract for this equipment expires in April 1985. Since the leased equipment cannot meet current workload demands, it cannot respond quickly to special legislative or administrative requests for information. Moreover, because the system is obsolete, parts, software enhancements and trained maintenance staff will become increasingly more difficult to obtain.

The conversion process cannot be completed in the budget year for three reasons. First, because the new system will be moved into the same limited space that the current computers occupy, withdrawal of the old system and installation of the new one must be coordinated and accomplished incrementally. In addition, the staff must be trained to use the new system. Most importantly, the old system must be kept on-line to provide basic services until the new system is ready to provide reliable service. For these reasons, our analysis indicates that not more than 80–85 percent of the system can be effectively installed during the first year of the project. The conversion will be completed in later years as space permits and workload requires. At the time this analysis was prepared, the board was unable to detail when the individual pieces of the system would be delivered.

The proposal reflected in the Governor's Budget assumes that the equipment will be acquired and installed in equal increments over a five-year period, which is clearly inconsistent with the board's needs. Even from a purely financial perspective, the proposed schedule of expenditures is unrealistic, and fails to provide any reasonable basis for evaluating the level of funding required for this project in 1985–86. Accordingly, we withhold recommendation on the \$3.1 million requested for this project, pending receipt of a revised schedule of expenditures which reflects a realistic implementation schedule.

Personnel for Mandatory Registration Services Increased*We recommend approval.*

The number of new business accounts processed by the board has been increasing for the last several years. Over the last three years, the average annual rate of increase has been 4.3 percent. Although productivity has risen over that time period, it has not kept pace with the growth in workload.

The board expects workload to increase by 9,600 new accounts over the estimated 1984-85 level, with the number of new accounts outstripping current registration personnel's ability to process the resulting workload. The budget requests 17 positions to address the increased workload. Our analysis indicates that the request is justified, and accordingly, we recommend that it be approved.

Collecting Taxes Receivable Program

We recommend adoption of supplemental report language directing the board to report to the Legislature by December 1, 1985, regarding the potential for increasing productivity of the board's collection activities.

Language adopted in the *Supplemental Report of the 1984 Budget Act* directed the Board of Equalization to submit to the Joint Legislative Budget Committee (JLBC) by December 1, 1984, a report concerning collection activities related to delinquent accounts. The language directed the board to evaluate the effectiveness of 26 limited-term positions added to the budget by the Legislature in (1) reducing the backlog of delinquencies, (2) reducing the value of accounts receivable and (3) reducing the account write-offs. The Governor vetoed the 26 positions from the budget; thus, no report has been prepared.

Scope of the Problem. As we have noted in the last two *Analyses*, excessive growth in the inventory of delinquent sales tax accounts has a significant adverse fiscal impact on the state. The state loses revenues it otherwise would receive because these delinquent accounts become uncollectible and have to be written off. An increasing backlog also delays the receipt of taxes that are eventually collected. Taxpayers are charged interest at current prime lending rates on delinquent payments. Thus, the delay, itself, does not result in a significant revenue loss to the state unless it results in the accounts becoming uncollectible. The delay does, however, deny the Legislature the use of tax revenues on a timely basis and may increase the state's short-term borrowing needs. Moreover, the longer the board delays in collecting delinquencies, the more likely it is that an overdue tax will become uncollectible.

Delinquent Tax Collections Inventories Continue to Increase. As shown in Table 4, the board expects the backlog of accounts to grow from 34,401 accounts at the beginning of 1981-82 to an estimated 51,583 accounts at the end of the current year. In the same period, the dollar amount of delinquent taxes owed the state is projected to grow by 92 percent, from \$77,211,000 to \$148,244,000. As can be seen from the table, the board's estimates of additions, deletions, and write-offs for the current and budget year reflect its actual experience during 1983-84. While the number of accounts in each category is assumed to remain constant, the dollar value of those accounts has been increased by 5 percent in each year, to reflect inflation. The growth in the ending inventory is therefore attributable to the difference between accounts added to inventory and those removed, and the growth in value of the outstanding accounts.

STATE BOARD OF EQUALIZATION—Continued

Table 4
Board of Equalization
Sales Tax Compliance Program
Delinquent Tax Collections
1981-82 through 1985-86
(dollars in thousands)

| | <i>Actual</i> 1981-82 | <i>Actual</i> 1982-83 | <i>Actual</i> 1983-84 | <i>Estimated</i> 1984-85 | <i>Proposed</i> 1985-86 |
|----------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|----------------------------|
| Beginning Inventory | | | | | |
| Revenues | \$77,211 | \$97,198 | \$117,173 | \$132,142 | \$148,244 |
| (Accounts) | 34,401 | 41,612 | 45,400 | 48,483 | 51,583 |
| Additions: | | | | | |
| Revenues | \$173,054 | \$166,062 | \$183,119 | \$192,318 | \$201,894 |
| (Accounts) | 114,736 | 118,014 | 113,983 | 114,000 | 114,000 |
| Deletions: | | | | | |
| Accounts Paid | | | | | |
| Revenues | -\$143,973 | -\$135,029 | -\$162,085 | -\$170,150 | -\$178,680 |
| (Accounts) | (-104,109) | (-108,443) | (-109,351) | (-109,351) | (-109,351) |
| Account Write-offs | | | | | |
| Revenues | -\$9,094 | -\$11,058 | -\$6,066 | -\$6,066 | -\$6,066 |
| (Accounts) | (-3,416) | (-5,783) | (-1,549) | (-1,549) | (-1,549) |
| Ending Inventory | | | | | |
| Revenues | \$97,198 | \$117,173 | \$132,141 | \$148,244 | \$165,392 |
| (Accounts) | 41,612 | 45,400 | 48,483 | 51,583 | 54,683 |

Source: Board of Equalization.

What is unclear from Table 4 is the true value of these accounts, and the extent to which collection efforts for the currently inventoried accounts are in fact cost-effective. Certainly, not all of the estimated \$165,000,000 inventory projected for June 30, 1985-86 is equally likely to be collected.

We believe that factors such as the age of the account, type of business, expected net dollar value of final collection and the taxpayer's previous compliance records could be used to evaluate more systematically which accounts should be targeted for collection. To be sure, until better evaluative techniques become available, personnel cannot be used as productively as they might otherwise be.

We also believe the proposed introduction of the new computer may help increase collection productivity through automation. The board's Feasibility Study Report documents that the system is designed to have excess capacity beyond the board's current needs. Some of this capacity might be productively committed to increasing the productivity of collection efforts, if the means to do so can be developed.

In order to evaluate the potential for increasing the productivity of the board's collection efforts, we recommend that the Legislature require the board's compliance division to prepare a study addressing the potential for increased productivity in its efforts to collect delinquent accounts. This study should address two issues: (1) the potential for improving collections of delinquent accounts through gains in automation using the new computer, and (2) the potential for refining its methods of selecting the more productive inventoried accounts for attention. Specifically, we recommend that the Legislature adopt the following supplemental report language:

"The board shall report to the chairpersons of the Joint Legislative Budget Committee and fiscal committees of each house regarding the potential for implementing a program for increased productivity in collection activities. The report, to be submitted no later than December 1, 1985, shall consider the possibility of (1) further automation, and (2) means for improving the selection of those delinquent taxpayer accounts on which collection efforts are to be made."

Local Reimbursements are Underestimated

We recommend a reduction of \$1,250,000 in order to correct for under-budgeting of reimbursements that will be available to finance the administration of the local sales and use tax.

In addition to administering the 4.75 percent state sales and use tax, the board administers the 1.25 percent local sales tax for cities and counties and the optional 0.5 percent transactions and use tax for local transit districts. Before the board subvenes these revenues to local agencies, it deducts an amount to cover a portion of its administrative costs. This amount is equal to a fixed percentage of the revenues that local agencies receive. Revenue and Taxation Code Section 7204.3 requires the board to charge cities and counties an amount equal to 0.82 percent of local sales and use tax revenues. Similarly, Revenue and Taxation Code Section 7273 requires the board to charge local transit districts an amount equal to 1.64 percent of transactions and use tax revenues.

The budget estimates that the amount of local revenues withheld from local agencies (reflected as a reimbursement in the board's budget) will total \$31,319,000. This figure is based on the Department of Finance's June 1984 estimate of budget-year sales tax revenues. A more recent estimate, based on the department's January budget forecast, indicates that the board will receive an additional \$92,000 in reimbursements from local agencies. Because these estimates will be revised as part of the May revision, we make no recommendation to correct for this overbudgeting at this time. Rather, at the time of the May revision, we will provide a supplemental analysis recommending the necessary adjustments to the board's budget.

We do, however, recommend that a reduction of \$1,250,000 be made to reflect the action taken by local voters in the November 1984 election. Voters in Santa Clara County approved a one-half cent sales tax increase for transportation funding, and as a result, the board now expects to receive an additional \$1,250,000 in reimbursements. Although the board will be collecting taxes for the Santa Clara district in 1985-86, and consequently collecting its reimbursements, the budget request does not account for the receipt of these funds.

Because the board uses money from reimbursements to offset its costs for administering the sales and use tax program, its reliance on the General Fund should decrease directly with the expected increase in reimbursements due to the new Santa Clara tax collections. We recommend, therefore, that Item 0860-001-001 be reduced by \$1,250,000 to accurately reflect the level of reimbursements anticipated in the budget year.

STATE BOARD OF EQUALIZATION—Continued**HAZARDOUS SUBSTANCES TAX PROGRAM****Hazardous Substance Tax Unfunded—Future of Tax Uncertain**

We withhold recommendation on \$382,000 and 8.6 positions requested for the Hazardous Substances Tax Program, pending determination of the board's responsibilities for the budget year.

The board's budget includes \$382,000 for the collection of two taxes under the Hazardous Substances Tax program in 1985-86. In addition to a monthly fee collected from the operators of dumpsites, the board currently collects an annual tax (known as "the superfund" tax) from individuals and firms who generate hazardous wastes. In 1984, the Legislature changed the law (Ch 268/84) to require that, beginning in April of 1985, the monthly tax on *dumpsites* be replaced by a monthly tax on *waste generators*. This tax is in addition to the annual superfund tax imposed on the generators.

As a result of this law change, the board's workload will increase. Instead of collecting monthly fees from 135 dumpsite operators, the board will need to collect monthly taxes from an estimated 20,000 waste generators. The Governor's Budget, however, does not fund this increased level of activity. In fact, the budget proposes that funding be approved at a level consistent with the administrative costs incurred prior to passage of Chapter 268. This funding level, however, is approximately \$926,000 less than the estimated cost of implementing Chapter 268's requirements.

At the time this analysis was prepared, representatives of the industry, the Department of Finance and the Legislature were discussing the appropriateness of uniform monthly reporting, and the potential reductions in administrative costs associated with less frequent reporting. These discussions may lead to changes in the program, and thus, changes in the amount of funding required during the budget year. Pending resolution of this issue, we withhold recommendation on \$382,000 in funding requested for this program.

Technical Budget Issue

We recommend that Item 0860-001-001 be reduced by \$68,000 because the budget does not fully reflect the savings to be realized from the proposed reduction in administrative support positions.

The budget proposes the deletion of five administrative support positions for a savings of \$172,000. The budget proposes that \$45,000 of the expected savings be redirected toward the purchase of four microcomputers and support equipment. The board justifies the proposed use of these funds on the basis that it will offset, in part, the loss of productivity resulting from the staff reduction. The board, however, has provided no evidence concerning the magnitude of productivity that will be lost when these positions are eliminated. Nor has the board either detailed the potential uses of the equipment to be purchased or documented its claim that the productivity of remaining staff members will increase. Lacking such evidence, we cannot recommend approval of the \$45,000 augmentation for equipment purchases.

Moreover, four of the five positions eliminated were taken out at the minimum step of the salary range. Our analysis indicates that the level of funds actually budgeted for these positions exceeds the amount removed from the budget. In order to reflect the actual cost of the positions, we recommend an additional reduction of \$23,000 to correct for this over-budgeting.

STATE BOARD OF EQUALIZATION—CAPITAL OUTLAY

Item 0860-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. LJE 112

| | |
|----------------------------|----------|
| Requested 1985-86 | \$87,000 |
| Recommended approval | 87,000 |

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay

We recommend approval.

The budget includes \$87,000 under Item 0860-301-036 for three minor capital outlay projects (\$200,000 or less per project) for the Board of Equalization. The requested projects, include:

- Installation of a security control system at the Sacramento headquarters computer center (\$54,000).
- Modifications to the electrical and air conditioning systems at the Sacramento headquarters, which are needed to accommodate a computer system scheduled to be installed in August 1985 (\$14,000).
- Alterations to the Orange County field office, (Santa Ana State Building), to improve supervision, expand file space, and enlarge the reception area (\$19,000).

The proposed projects and associated costs are reasonable, and we recommend approval.

SECRETARY OF STATE

Item 0890 from the General
Fund

Budget p. LJE 113

| | |
|--|--------------|
| Requested 1985-86 | \$15,636,000 |
| Estimated 1984-85..... | 16,295,000 |
| Actual 1983-84 | 11,402,000 |
| Requested decrease (excluding amount for salary increases) \$659,000 (-4.0 percent) | |
| Total recommended reduction | 532,000 |
| Recommendation pending | 4,539,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Uniform Commercial Code Program. Reduce Item 0890-001-001 by \$46,000 and two positions.* Recommend reduction because projected workload has been overstated. 102
2. *Reimbursements. Reduce Item 0890-001-001 by \$66,000.* Recommend reduction to correct for underbudgeting of reimbursements. 103

SECRETARY OF STATE—Continued

3. *Operating Expenses. Reduce Item 0890-001-001 by \$386,000.* 104
Recommend reduction to correct for various overbudgeted operating expenses and equipment.
4. *Staff Benefits. Reduce Item 0890-001-001 by \$34,000.* 104
Recommend reduction to correct for overbudgeted staff benefits.
5. *Limited Partnership Program.* Recommend adoption of 105
supplemental report language requiring the Secretary of State to submit quarterly reports regarding processing workload and General Fund revenue collections.
6. *Printing and Postage.* Withhold recommendation on re- 106
quest for \$3,746,000 for voter registration card and state ballot pamphlet printing and mailing expenses pending further substantiation.
7. *Chapter 704, Statutes of 1975.* Withhold recommenda- 107
tion on request for \$793,000 to reimburse counties for their costs of conducting voter outreach programs, pending analysis of additional information to be provided by the Secretary of State.

GENERAL PROGRAM STATEMENT

The Secretary of State has statutory responsibility for examining and filing for public record specified financial statements and corporate-related documents. The Secretary also administers and enforces election laws, and campaign disclosure requirements. In addition, the Secretary appoints notaries public and manages the state archival function. The activities necessary to carry out these responsibilities are conducted in seven program units: (1) Corporate Filing, (2) Elections, (3) Political Reform, (4) Uniform Commercial Code, (5) Notary Public, (6) Archives, and (7) Limited Partnerships.

The Secretary of State is authorized to have 348.7 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$15,636,000 from the General Fund to support the office of the Secretary of State in 1985-86. This is \$659,000, or 4.0 percent, less than estimated General Fund expenditures in the current year. (The estimate for the current year includes \$1,240,000 in expenditures from a deficiency appropriation requested to cover the cost of the printing and postage for additional election materials made necessary by the record-breaking voter registrations in 1984.) The reduction, however, will be wholly or partially offset by the cost of any salary or staff benefit increase approved for the budget year.

In addition to the amount requested in this item, the Secretary of State anticipates receiving reimbursements of \$1,569,000 from special handling fees and \$580,000 under the Political Reform Act. Thus, the Secretary of State proposes total expenditures of \$17,785,000 for 1985-86. This is \$7,000, or 0.4 percent, above the current-year level. Table 1 displays the Secretary of State's actual, estimated, and budgeted funding and staffing for the three-year period, 1983-84 through 1985-86.

The decrease in General Fund expenditures is attributable to increases in personal services and operating expenses for 10.5 additional personnel-years (\$542,000), higher operating expenses due to inflation (\$157,000), merit salary adjustments (\$123,000), special items of expense related to

Table 1
Secretary of State
Staffing and Expenditures, by Program
1983-84 through 1985-86
(dollars in thousands)

| Program | Staffing | | | | Expenditures | | | |
|--|-------------------|---------------------------|--------------------------|------------------------------------|-------------------|---------------------------|--------------------------|------------------------------------|
| | Actual 1983-84 | Esti- mated 1984-85 | Bud- geted 1985-86 | Percent Change to 1984-85 | Actual 1983-84 | Esti- mated 1984-85 | Bud- geted 1985-86 | Percent Change to 1984-85 |
| Corporate filing | 105.0 | 110.9 | 114.0 | 2.8% | \$3,978 | \$4,693 | \$4,918 | 4.8% |
| Limited partnership | 8.2 | 29.9 | 29.9 | — | 600 | 1,296 | 1,376 | 6.2 |
| Elections | 12.7 | 13.2 | 13.2 | — | 3,691 | 5,551 | 4,672 | -15.8 |
| Political Reform | 15.5 | 15.8 | 15.8 | — | 557 | 574 | 595 | 3.7 |
| Uniform Commercial Code | 47.6 | 57.8 | 59.7 | 3.3 | 1,834 | 2,321 | 2,526 | 8.8 |
| Notary Public | 13.1 | 14.2 | 14.2 | — | 893 | 993 | 1,020 | 2.7 |
| Archives | 16.1 | 16.8 | 17.3 | 3.0 | 666 | 890 | 935 | 8.8 |
| Administrative (undistributed) | 18.3 | 20.1 | 23.1 | 14.9 | 3,826 | 4,606 | 5,160 | 12.0 |
| Administrative (distributed) | 66.1 | 70.0 | 70.0 | — | -2,616 | -3,146 | -3,417 | 8.6 |
| Totals | 302.6 | 348.7 | 357.2 | 2.4% | \$13,429 | \$17,778 | \$17,785 | 0.4% |
| Reimbursements | | | | | -1,484 | -1,483 | -1,569 | 5.8 |
| Amount Payable from Political Reform Act | | | | | -543 | | | |
| Less Amount funded in Political Reform Act | | | | | | (560) | -580 | 3.6 |
| Net Totals, Programs | | | | | \$11,402 | \$16,295 | \$15,636 | -4.0% |

elections (\$397,000) and the full-year costs of 1984-85 employee compensation adjustments (\$22,000) that are more than offset by baseline adjustments which delete funds for a one-time archives storage space study (\$100,000), transferred from the Political Reform Act (\$560,000) and proposed as a current-year deficiency (\$1,240,000). Table 2 displays these changes.

Table 2
Secretary of State
Proposed Budget Changes
(dollars in thousands)

| | General Fund |
|---|-----------------|
| 1984-85 Expenditures (Budget Act) | \$13,562 |
| Adjustments: | |
| 1. Allocation for employee compensation | 833 |
| 2. Proposed deficiency appropriation | 1,240 |
| 3. Transfer from Political Reform Act | 560 |
| 4. Chapter 1519, Statutes of 1984—archives' storage space study | 100 |
| 1984-85 Expenditures (Revised) | \$16,295 |
| Baseline adjustments: | |
| 1. Delete proposed current-year deficiency appropriation | -1,240 |
| 2. Delete transfer from Political Reform Act | -560 |
| 3. Delete one-time funds for archives' storage space study | -100 |
| 4. Merit salary adjustments | 123 |
| 5. Increase to compensate for inflation | 157 |
| 6. Special items of expense related to elections | 397 |
| 7. Full-year cost of 1984-85 employee compensation adjustments | 22 |
| Program change proposals, total | 542 |
| Proposed Budget, 1985-86 | \$15,636 |
| Change from 84-85: | |
| Amount | \$659 |
| Percent | -4.0% |

SECRETARY OF STATE—Continued**ANALYSIS AND RECOMMENDATIONS****Uniform Commercial Code Backlog**

We recommend the Legislature delete \$46,000 requested for the Uniform Commercial Code program and 2.3 personnel-years to reflect a more reasonable estimate of projected workload. (Reduce Item 0890-001-001 by \$46,000)

The Secretary of State is required by the Uniform Commercial Code, the Government Code, the Code of Civil Procedures and the Uniform Federal Tax Lien Registration Act to accept, as a public record, various financing and tax documents which assure security interests in personal property. She performs this function through the Uniform Commercial Code (UCC) program which, for a fee, files, receives amendments to, and provides certifications and copies of financing statements (94 percent of total program workload). In addition, program staff file and provide information relating to notices of federal tax liens against partnerships and corporations, state tax liens and attachment liens against personal property, and judgment liens (the remaining 6 percent of total program workload).

The fees charged to provide these various services are set in statute, and generally range from 50 cents to \$5, depending on the type of request, type of document, and the number of pages.

In essence, the UCC program affords a secured creditor some protection against debtor bankruptcy, insolvency or default, and, in addition, provides a prospective lender or seller with the means to determine if there are any previously filed security interests involving certain personal property. Consequently, significant delays in filing and responding to information requests by the Secretary of State's office can and do have a material effect on business decisions.

In the current year, staffing for the Uniform Commercial Code program totals 57.8 personnel-years. For 1985-86, the budget proposes to increase staffing by 1.9 personnel-years, or 3.3 percent, at a cost of \$38,000.

The increase is due to a projected increase in workload. The Secretary of State indicates that these workload projections are based on the most recent level of document filing activity.

In an effort to determine whether the Secretary's workload projections are reasonable, we conducted a workload trend analysis using the Secretary's workload standards and actual workload data for the past seven years. Our analysis of this data indicates the Secretary of State has overstated by about 4.1 percent the workload that can reasonably be expected in 1985-86. Table 3 displays actual, estimated, and projected hours for the program, by division, for the period 1983-84 through 1985-86. It also compares the number of hours projected by the Secretary of State with the number of hours which our analysis indicates is needed for the budget year.

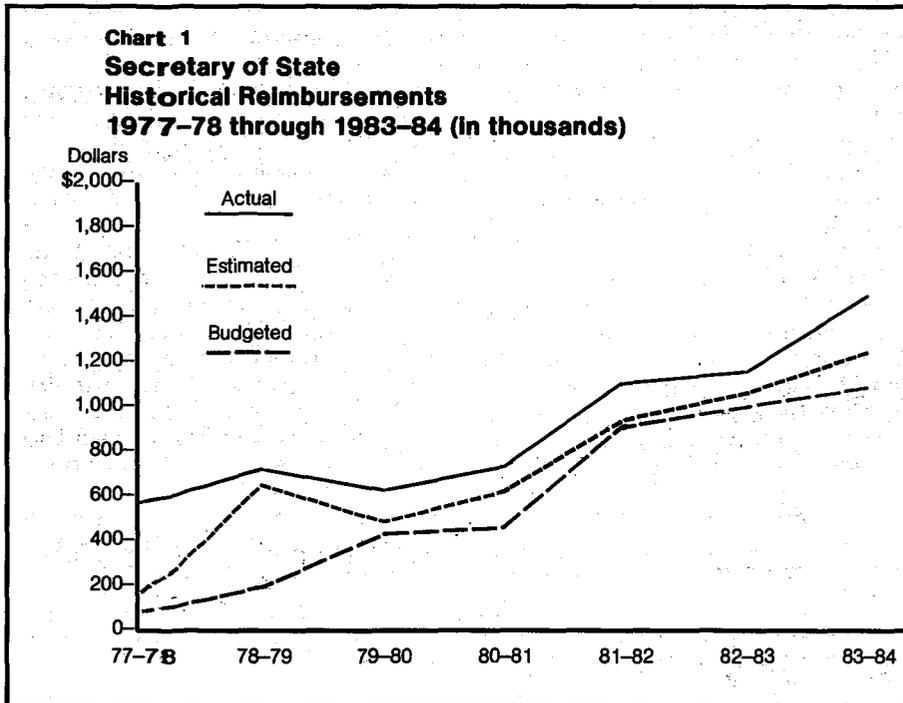
On this basis, we recommend a reduction of \$46,000 and 2.3 personnel-years in the Uniform Commercial Code program to reflect what we believe is a more realistic projection of workload in the budget year.

Table 3
Secretary of State
Uniform Commercial Code Program
Actual, Estimated and Projected Hours
1983-84 through 1985-86

| Division | Actual Hours 1983-84 | Estimated Hours 1984-85 | 1985-86 | | Difference |
|-----------------------|----------------------------|-------------------------------|---------------------------------------|---------------------------------|------------|
| | | | Hours Projected by Secretary | Hours Projected by LAO | |
| Document Review | 19,282 | 20,984 | 22,133 | 21,947 | -186 |
| Cashiering | 13,902 | 15,549 | 15,333 | 15,110 | -223 |
| Certification | 27,511 | 30,724 | 32,632 | 32,352 | -280 |
| Filing | 27,457 | 31,260 | 35,158 | 31,701 | -3,457 |
| Total Hours | 88,152 | 98,517 | 105,256 | 101,110 | -4,146 |
| PYs (direct) | 46.6 | 56.8 | 58.7 | 56.4 | -2.3 |
| Administration | 1.0 | 1.0 | 1.0 | 1.0 | NA |
| Totals | 47.6 | 57.8 | 59.7 | 57.4 | -2.3 |

Reimbursements are Underbudgeted

We recommend a reduction of \$66,000 in the amount requested from the General Fund to reflect additional reimbursements that are not included in the budget. (Reduce Item 0890-001-001 by \$66,000 and increase reimbursements by a corresponding amount)



SECRETARY OF STATE—Continued

The Secretary of State anticipates receiving \$1,569,000 in reimbursements during the budget year. These reimbursements are derived from special handling fees that the Secretary charges for filing documents and other public services. The projected level of reimbursements is \$86,000, or 5.8 percent, above the amount estimated in the current year.

Chart 1 shows budgeted, estimated and actual reimbursements for the period 1977-78 through 1983-84.

During this seven-year period, actual reimbursements consistently have exceeded both the amount initially budgeted by the Secretary of State and the revised estimate prepared after the budget is enacted. The additional reimbursements ranged from 16 percent of the amount budgeted to 532 percent. This same pattern is evident in the current year, for which the Secretary of State estimates that reimbursements will be \$1,483,000—\$214,000, or 16.9 percent, more than the amount originally budgeted.

By underestimating reimbursements, the budget overstates the amount from the General Fund needed to support the various programs operated by the Secretary of State. As a result, General Fund money is tied up unnecessarily, and is not available to the Legislature for use in meeting other priority needs.

Our analysis indicates that the Secretary has once again underbudgeted reimbursements. We find that reimbursements of \$1,635,000 reasonably can be expected in the budget year. This is \$66,000, or 4.2 percent, more than the amount budgeted. Consequently, we recommend a \$66,000 increase in budgeted reimbursements and a corresponding reduction in Item 0890-001-001.

Various Operating Expenses and Equipment are Overstated

We recommend a reduction of \$386,000 to correct for overbudgeted operating expenses and equipment. (Reduce Item 0890-001-001 by \$386,000)

The Governor's Budget proposes \$4,373,000 for operating expenses and equipment in the budget year. This amount is \$533,000, or 14 percent, more than estimated expenditures in the current year.

The Secretary of State has submitted adequate justification for \$147,000 of the proposed increase, and we recommend that this amount be approved. The balance of the request—\$386,000—has not been adequately justified. These funds would be used to increase expenditures for (1) general office expense, (2) general printing, (3) postage, (4) facilities operation and (5) miscellaneous equipment. This amount is significantly more than what is needed to adjust current-year expenditures to offset the effects of inflation. Lacking sufficient justification for these funds, we recommend that the General Fund request be reduced by \$386,000 to correct for overbudgeting.

Staff Benefits Are Excessive

We recommend a reduction of \$34,000 to correct for overbudgeting of staff benefits. (Reduce Item 0890-001-001 by \$34,000)

The budget for the Secretary of State's office requests \$2,492,000 for staff benefits in the budget year. This is \$105,000, or 4.4 percent, above estimated current-year expenditures for this purpose. Examination of supporting documentation provided by the Secretary of State's office indicates that only \$2,458,000 is needed for staff benefits in 1985-86. This is \$34,000

less than the amount included in the budget. We therefore recommend that the Legislature reduce this item to correct for overbudgeting.

Limited Partnership Program—Progress Report

We recommend that the Legislature adopt supplemental report language requiring the Secretary of State to submit quarterly reports to the Chairperson of the Joint Legislative Budget Committee (JLBC) and the fiscal committees of the Legislature regarding its progress in reducing the Limited Partnership Program's workload and in increasing General Fund revenue collections.

The budget proposes \$1,376,000 and 29.7 personnel-years to operate the Limited Partnership program in 1985-86. This amount is \$80,000, or 6.9 percent, above estimated expenditures for the program in the current year. The increase reflects baseline adjustments due to inflation.

The Limited Partnership program, which was established by Ch 807/81 (AB 362), was to have become operative on January 1, 1983. The start-up of the program was postponed by Ch 997/82 (AB 2544), pending resolution of certain tax issues by the Internal Revenue Service. Chapter 1223, Statutes of 1983 (AB 1184), again postponed the operative date of the program, and also deleted provisions which would have repealed the existing Uniform Partnership Act. Consequently, there are now *two laws* governing limited partnerships: (1) the Uniform Partnership Act, and (2) the California Limited Partnership Act.

In accordance with Chapter 1223, all existing and newly formed limited partnerships were required to file Certificates of Limited Partnership with the Secretary as of July 1, 1984, thereby creating a complete central file of California limited partnerships. Amendments and documents concerning the dissolution of partnerships must also be filed. According to the Secretary's office, existing limited partnerships which filed certificates and other related documents with various county recorders under the Uniform Partnership Act will have the option of operating under that law if they so choose, even though Ch 1223/83 requires that they refile with the Secretary no later than July 1, 1985.

Transitional Filing Activity. The Secretary of State estimates that there are 100,000 existing limited partnerships statewide. Of these, 11,715 refiled during the March 1 to June 30, 1984, transition period established by Chapter 1223. This is 63,285 filings *less* than the number which the Secretary estimated would be filed during this period. Furthermore, instead of the \$5.3 million in General Fund revenue which was expected to be collected during this period, only \$821,000 was collected. This is \$4,480,000 *less* than originally estimated.

Current-Year Filing Activity. In the current year, the Secretary projects that 132,000 documents will be processed and \$7,410,000 in General Fund revenues will be collected. During the period July through October of 1984, however, only 18,000 documents were processed and \$1,228,594 collected. This is well below what is needed to reach projected levels.

Budget-Year Filing Activity. For the budget year, the Secretary anticipates processing 47,000 documents and collecting \$1,460,000 in General Fund revenues. The lower level of document filing activity and collections is due to the Secretary of State's assumption that all existing limited partnerships will file by the July 1, 1985 deadline, and that only newly created limited partnerships or amendments to existing limited partnerships will be filed after that time.

SECRETARY OF STATE—Continued

Analyst's Recommendation. Given the difficulties in projecting workload and revenue collections under this program, we recommend the Legislature adopt the following supplemental report language requiring the Secretary of State to submit quarterly progress reports to the Legislature on its processing of workload and collections of revenues:

"The Secretary of State shall submit quarterly reports to the Joint Legislative Budget Committee (JLBC) and the fiscal committees on its progress in processing workload and collecting revenues under its Limited Partnership program. When preparing the report, the Secretary of State shall indicate the quantity of filings processed and the amount of revenue collected during the quarter by type."

Ballot Printing and Mailing Expenses Are Unsubstantiated

We withhold recommendation on \$3,746,000 requested for voter registration card and state ballot pamphlet printing and mailing expenses, pending receipt of additional information justifying the amount requested.

The Secretary of State, as the chief election officer of the state, is responsible for printing and mailing the state ballot pamphlet and voter registration cards. The costs associated with these activities fluctuate and tend to be greater in fiscal years containing a general election and lower in fiscal years containing a primary election. This is because of the greater public interest which normally surrounds a general election.

In the current year, which contained a general election, the Secretary estimates that \$4,666,000 will be spent for printing and mailing. This is \$1,240,000, or 27 percent, more than what was budgeted originally. The Secretary is proposing a deficiency appropriation in the current year to fund the additional cost, which can be attributed to record-breaking voter registrations.

For 1985-86, which has a primary election, the Governor's Budget proposes \$3,746,000 for printing and postage associated with voter registration cards and the state ballot pamphlet. This is \$920,000, or 20 percent, less than estimated current-year expenditures for this purpose. Table 4 displays actual, estimated and budgeted printing and mailing expenses for the period 1983-84 through 1985-86.

Table 4
Secretary of State
Special Items of Expense Related to Elections
Actual, Estimated, and Budgeted
(dollars in thousands)

| Special Item | Actual 1983-84 | Estimated 1984-85 | Budgeted 1985-86 | Change From 1984-85 to 1985-86 | |
|--------------------------------|-------------------|----------------------|---------------------|-----------------------------------|---------|
| | | | | Amount | Percent |
| Printing | | | | | |
| Voter registration cards | \$271 | \$310 | \$433 | \$123 | 39.7% |
| Ballot pamphlet..... | 957 | 1,988 | 1,307 | -681 | -34.3 |
| Postage | | | | | |
| Voter registration cards | 646 | 973 | 998 | 25 | 2.6 |
| Ballot pamphlet..... | 893 | 1,395 | 1,008 | -387 | -27.7 |
| Totals | \$2,767 | \$4,666 | \$3,746 | -\$920 | -19.7% |

We do not believe the Secretary of State has provided the Legislature with adequate supporting details to justify the request for printing and

postage costs. We, therefore, withhold recommendation on the \$3,746,000 requested for voter registration card and state ballot pamphlet printing and mailing expenses, pending receipt of additional justification for the request.

Voter Outreach Program

We withhold recommendation on \$793,000 requested to reimburse counties for the net cost of implementing Ch 704/75, pending receipt of specified information from the Secretary of State.

Chapter 704, Statutes of 1975, which established the Voter Outreach program, requires counties to provide for voter "self-registration" through the use of postage-paid registration cards. Chapter 704 also requires the Secretary of State to adopt regulations directing each county to design and implement programs for identifying and registering qualified electors who are not registered voters. Proposed budget-year funding for this state mandated program is \$793,000, the same amount that is expected to be spent in the current year.

Our preliminary analysis indicates that the formula adopted by the Secretary of State and the Controller does not accurately reflect the net costs incurred by counties conducting voter outreach programs. Thus, we believe the state may be providing reimbursements to counties which exceed the counties' actual net costs under this mandate.

We withhold recommendation on the \$793,000 requested from the General Fund to reimburse counties, pending analysis of additional information to be provided by the Secretary of State.

STATE TREASURER

Item 0950 from the General Fund

Budget p. LJE 119

| | |
|--|-------------|
| Requested 1985-86 | \$4,216,000 |
| Estimated 1984-85..... | 4,205,000 |
| Actual 1983-84 | 2,417,000 |
| Requested increase (excluding amount for salary increases) \$11,000 (+0.3 percent) | |
| Total recommended reduction | 64,000 |
| Recommendation pending | 850,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Bond Counsel. Reduce Item 0950-001-001 by \$64,000 and increase reimbursements by \$44,000. Recommend reduction because duties should be accomplished by state personnel and should be funded entirely through reimbursements.* 109
2. *Bond Registration. Withhold recommendation on \$850,000 requested for bond registration activities, pending review of the Department of Finance's report on the cost-effectiveness of this program.* 110

STATE TREASURER—Continued**GENERAL PROGRAM STATEMENT**

The State Treasurer has a number of different responsibilities. Specifically, he has the responsibility to:

1. Provide custody for all money and securities belonging to or held by the state;
2. Invest temporarily idle funds;
3. Pay warrants and checks drawn by the State Controller;
4. Prepare, sell, and redeem the state's general obligation and revenue bonds; and
5. Prevent the issuance of unsound securities by irrigation, water storage, and certain other districts.

The State Treasurer has 164.4 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$6,730,000 from the General Fund and reimbursements to support the State Treasurer's office in 1985-86. This is \$97,000, or 1.5 percent, more than estimated total expenditures for the current year. This increase will grow by the amount of any salary or staff benefits increase approved for the budget year.

The budget request consists of \$4,216,000 from the General Fund, which is \$11,000, or 0.3 percent, more than the estimated General Fund expenditures in the current year, and \$2,514,000 in reimbursements, which is \$86,000, or 3.4 percent, more than the amount of reimbursements anticipated for the current year.

The budget does not include any funds for the estimated amount of General Fund merit salary increases (\$43,000) or inflation adjustments for operating expenses and equipment (\$52,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1
State Treasurer Budget Summary
1983-84 through 1985-86
(dollars in thousands)

| Program | Personnel-Years | | | Expenditures | | |
|--|-----------------|-----------|----------|--------------|-----------|----------|
| | Actual | Estimated | Proposed | Actual | Estimated | Proposed |
| | 1983-84 | 1984-85 | 1985-86 | 1983-84 | 1984-85 | 1985-86 |
| Bond Sales and Services | 31.2 | 42.3 | 44.3 | \$1,149 | \$1,831 | \$1,872 |
| Investment Services | 9 | 8.3 | 8.3 | 652 | 764 | 773 |
| Paying and Receiving | 52 | 56.5 | 56.5 | 1,884 | 2,360 | 2,481 |
| Trust Services | 17.9 | 17.9 | 17.9 | 969 | 1,051 | 1,041 |
| District Securities Division | 7.1 | 6.5 | 6.5 | 340 | 402 | 413 |
| Administration (distributed to other programs) | — | — | — | (875) | (989) | (1104) |
| Administration (undistributed) | 22 | 21 | 21 | 224 | 225 | 245 |
| Unallocated Reduction | — | — | — | — | — | -95 |
| Totals | 139.2 | 152.5 | 154.5 | \$5,218 | \$6,633 | \$6,730 |
| General Fund | — | — | — | 2,417 | 4,205 | 4,216 |
| Reimbursements | — | — | — | 2,801 | 2,428 | 2,514 |

Table 1 identifies the level of expenditures and personnel-years for each of the major programs administered by the State Treasurer's office during the prior, current, and budget years. As the table shows, paying and receiving activities account for the largest single portion of the office's budget (37 percent of the budget request). These activities involve providing state agencies with banking services, which include depositing state funds, redeeming warrants, and keeping track of the state's daily cash position. The second largest program (27 percent of the budget request) involves selling and servicing the state's general obligation and revenue bonds. Expenditures for this program increased sharply between 1983-84 and 1984-85, because of a new federal requirement that tax-exempt bonds be issued in registered form. The remainder of the budget is accounted for by ongoing programs to invest the state's idle cash (Investment Services), to provide safekeeping for securities owned by or assigned to the state (Trust Services), and to evaluate securities issued by water and irrigation districts (District Securities Division).

ANALYSIS AND RECOMMENDATIONS

Legal Counsel Should be Provided In-House

We recommend that one additional staff counsel position be established within the Treasurer's office in lieu of using outside counsel for legal assistance on bond financing matters. We further recommend a reduction in the General Fund appropriation of \$64,000, and an increase in reimbursements of \$44,000 to support the position.

The State Treasurer is responsible for issuing, selling, servicing, and redeeming the state's general obligation and revenue bonds. During the budget year, the Treasurer plans to market \$4.6 billion worth of bonds.

The budget proposes total expenditures of \$1,872,000 for bond sales and services in 1985-86, which is \$41,000 more than the estimated level of expenditures for these activities during the current year. Most of the budget year request—\$1,075,000—will be funded from the General Fund, and the balance —\$797,000—will be funded with reimbursements from individual bond funds.

The marketing of the state's general obligation and revenue bonds depends on the combined efforts of the issuer, the state's financial advisors, and bond counsel. The State Treasurer normally performs the duties of the issuer and the financial consultant in connection with the state's debt marketing activities. The Treasurer uses the State Attorney General as his bond counsel, and also retains a private law firm with specialized knowledge and expertise. The bond counsel is responsible for rendering an opinion on the tax exempt status of the bonds issued under the Treasurer's auspices. The State Treasurer relies on in-house staff counsel to provide legal services to the nine bond financing authorities and commissions which operate under his supervision. Staff counsel also is used to prepare and review various legal documents to ensure that the bonds are issued in accordance with all applicable legal requirements.

Currently, the State Treasurer's office has one staff counsel position. This position was established in 1983-84, and is funded entirely from reimbursements. In recent years, the workload for the staff counsel has grown significantly, due to an increase in the number of bond programs and the volume of bond authorizations and sales. In fact, California voters approved an additional \$2.7 billion in general obligation bond authorizations in 1984, alone. To meet the increased workload, the budget proposes an additional \$75,000 for *outside* legal counsel services. Of this amount, the budget proposes that \$64,000 be provided from the General Fund and \$11,000 come from reimbursements.

STATE TREASURER—Continued

Our analysis indicates that it would be more cost-effective to use an additional *staff counsel* position to handle this workload, rather than contract for private counsel. According to the State Treasurer's office, outside legal counsel would cost approximately \$100 per hour (plus expenses). At this rate, the proposal to add \$75,000 would provide 750 hours of legal counsel services. In contrast, an additional staff counsel II position (the same level as the current position) would cost significantly less—approximately \$55,000. On a cost-per-hour basis, moreover, a staff counsel position is *70 percent less expensive* than outside counsel (\$30 per hour). Thus, by spending \$20,000 less than what the budget proposes, the State Treasurer could obtain *more than twice* the amount of legal services, if he used staff counsel instead of outside legal counsel. Doing so also would ensure that legal advice would be immediately available to the State Treasurer and his staff. It would also be provided by a person who is knowledgeable about the State Treasurer's operations and is responsible for representing his interests directly.

For these reasons, we recommend that the Legislature establish an additional staff counsel II position for the State Treasurer's office, instead of budgeting funds for outside counsel. Since Ch 112/82 (which gave the State Treasurer the authority to hire staff counsel) provides that such positions be funded from reimbursements, we recommend that (1) reimbursements be increased by \$44,000 (from \$11,000 to \$55,000) and (2) the General Fund appropriation be reduced by \$64,000.

Bond Registration Program

We withhold recommendation on \$850,000 requested for bond registration, pending review of the Department of Finance's report on the cost-effectiveness of the program.

Under a recent federal law, all tax-exempt bonds must be issued in registered form. This requires the State Treasurer to maintain a record of each bond owner and make interest payments directly to each of these individuals. For 1983-84 the State Treasurer's budget was increased by \$169,000 in reimbursements for bond registration activities. For the current year, the Legislature provided an additional \$644,000 for bond registration including \$483,000 from the General Fund and \$161,000 in reimbursements, due to workload increases. The proposed budget includes approximately \$850,000, consisting of \$550,000 from the General Fund and \$300,000 in reimbursements, to continue the program in 1985-86.

When the Legislature approved the additional funding for bond registration last year, it adopted language in the *Supplemental Report of the 1984 Budget Act* requesting the Department of Finance to report to the Legislature by December 31, 1984, on the cost effectiveness of the program. At the time this analysis was prepared, however, the department had not yet completed its report.

We believe the department's findings should provide a reasonable basis for evaluating the effectiveness and ongoing funding requirements of the bond registration program. Until we have had the opportunity to review the department's report, we withhold recommendation on the \$850,000 included in the Treasurer's budget request for this program.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0956 from the California
Debt Advisory Commission
Fund

Budget p. LJE 122

| | |
|--|-----------|
| Requested 1985-86 | \$766,000 |
| Estimated 1984-85..... | 690,000 |
| Actual 1983-84 | 472,000 |
| Requested increase (excluding amount for salary increases) \$76,000 (+11 percent) | |
| Total recommended reduction | 83,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Consultant Studies. Reduce Item 0956-001-171 by \$83,000.* 112
Recommend reduction because proposed augmentation for outside research activities should be accompanied by a reduction in funding for in-house research activities.

GENERAL PROGRAM STATEMENT

The California Debt Advisory Commission (CDAC) was established by Ch 1088/81 (AB 1192) to provide advisory assistance on bond issues to state agencies and local governments, and to provide other assistance to state and local governments in the general areas of financial and debt management. The commission has nine members, including the State Treasurer, who serves as chairperson, the Governor or Director of Finance, the Controller, two local government finance officers appointed by the State Treasurer, two members of the Assembly, and two members of the Senate.

The specific responsibilities of the commission include:

- Assisting the housing bond credit committee and all state financing authorities and commissions involved with bonding activities;
- Upon request, assisting any state or local government unit in the planning, preparation, marketing, and sale of new debt issues, with the goal of reducing debt costs and protecting the issuer's credit standing;
- Collecting, maintaining, and providing data on state and local debt authorizations;
- Improving the market for government debt issues by maintaining contact with state and local bond issuers, underwriters, credit rating agencies, and investors;
- Preparing studies on methods to reduce the costs and improve the credit ratings of state and local debt issues; and
- Recommending changes in state laws and local practices to improve the salability and servicing of state and local debt issues.

The commission is authorized to have 11 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$766,000 from the California Debt Advisory Commission Fund for support of the commission in 1985-86. This is an increase of \$76,000, or 11 percent, over estimated expendi-

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

tures for the current year. The increase in the commission's budget will grow by the cost of any salary or staff benefit increase approved for the budget year.

The commission's budget request includes an increase of \$52,000 for consultant studies and a deletion of \$19,000 in reimbursements. The reimbursements have been deleted because the CDAC has decided not to offer project-specific technical services to state and local jurisdictions, for which the commission could charge consultant fees in order to cover its costs.

The general activities of the commission are supported by notification fees paid from the proceeds of debt issues. Under the terms of Ch 293/83 (SB 146), the fees are paid by the lead underwriter or purchaser of the bonds. In the past, the fee amount was equal to one-fortieth of 1 percent of the principal amount of the bond issue, up to a maximum fee of \$5,000 per issue. However, in 1984 the commission *reduced* the fee to one eightieth of 1 percent of the principal amount, with a maximum amount of \$2,500. The commission also set a fixed fee of \$125 for short-term debt, and it exempted debt issues of less than \$1 million from the fee requirement. The CDAC took this action because the total amount of fee revenues had consistently exceeded its expenses, as we pointed out in last year's *Analysis*.

During the 1985-86 fiscal year, the commission projects that the fees will generate approximately \$600,000, the same amount estimated for the current year. These fees, together with an estimated \$150,000 in interest income from the CDAC fund, will provide the commission with \$750,000 in total revenues for 1985-86. This amount is \$16,000 less than CDAC's proposed expenditures. The budget proposes to fund this amount by using reserves in the CDAC fund, which amount to approximately \$2.1 million. If, however, the commission's estimate of fee revenues turns out to be low—as it has in the past—the commission could end the year with revenues significantly in excess of expenditures, and a higher fund balance as a result.

ANALYSIS AND RECOMMENDATIONS**Use of Consultants for Research Studies**

We recommend approval of the \$52,000 requested for consultant studies and a reduction of \$83,000 in the amount budgeted for personal services, in recognition of the fact that the commission is not able to carry out its research responsibilities using its own staff and must contract with outside consultants to obtain the necessary expertise.

The CDAC conducts or commissions research studies related to the issuance of public debt and the use of funds raised through debt issues. Over the past three years, the commission has undertaken studies on the technical assistance needs of local agencies, the bonding activities of redevelopment agencies, options for classifying and analyzing public debt, and infrastructure financing requirements in California. Except in the case of the fourth report, the commission has relied upon outside consultants to prepare these studies.

In the current year, the commission plans to spend \$31,000 to retain outside consultants for research studies. The budget proposes to increase the amount of funding for consultant studies in the budget year by \$52,000, bringing the total amount requested for this purpose to \$83,000. The commission plans to use these funds to study such topics as local government

cash management, the levels of indebtedness in California, and the private activity bond allocation system.

Our analysis indicates that the CDAC's budget also includes a substantial amount of funds for in-house research activities. When the commission was established in 1982-83, it was provided with enough resources—including sufficient staff—to undertake research studies as well as meet its other statutory responsibilities. We note that the initial funding provided to the CDAC for its first year of operation (1982-83) included \$65,000 for consultant studies. This amount, however, was included on a one-time basis to insure that the commission could meet a requirement to report to the Legislature on the state's bonded indebtedness.

Currently, the commission is authorized a total of 11 positions, as displayed in Table 1, and the budget requests \$414,000 for personal services costs in 1985-86. Because of the broad scope of the commission's responsibilities, it is difficult to develop workload indicators to compare the amount of resources currently available to CDAC with the amount needed to satisfactorily perform all of its mandated functions. Nonetheless, it appears that CDAC's staffing level—which includes seven professional positions—provides the commission with adequate resources to carry out its responsibilities on an ongoing basis. For example, its staff includes a systems manager, who is responsible for overseeing the commission's activities in collecting data on state and local debt and for disseminating this and other debt-related information through CDAC's *Debt Line* publication. A Treasury Program Manager and three program specialists also are available to assist with these efforts, as well as to provide advisory assistance on debt management to state and local agencies. In addition, the staff includes a policy advisor, whose duties include conducting research, analyzing policy issues, and preparing papers on issues related to public debt.

Even with these staff resources, the commission has had to rely on outside consultants to prepare studies on debt-management issues. Apparently, this is due, in part, to staff vacancies. For example, at the time this analysis was prepared, three of the commission's eleven positions were not filled. The commission's reliance on outside consultants may also reflect lack of in-house staff with sufficient experience and expertise to conduct in-depth research of debt-related policy issues.

To justify the additional funding requested for consultant studies, the commission indicates that it has neither the staff nor the research budget needed to undertake major policy studies each year. It also suggests that using additional full-time permanent staff would be less cost-effective than retaining consultants for this purpose.

Table 1
Staff Positions for
California Debt Advisory Commission

| <i>Position</i> | <i>Number of Positions</i> |
|---|----------------------------|
| Executive Secretary | 1 |
| Career Executive Assignment (System Manager and Policy Advisor) | 2 |
| Treasury Program Manager | 1 |
| Program Specialist | 3 |
| Office Technicians | 2 |
| Clerical Support | 2 |
| Total | 11 |

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

We agree that it probably will be necessary for the CDAC to rely on outside consultants, since the CDAC has not demonstrated that its own staff is able to conduct in-depth policy studies. At the same time, we conclude that the need for private consultants to perform these studies is an indication that CDAC's own staffing level is too high, given the research projects that it can or is likely to undertake.

Specifically, based on our analysis of the commission's staffing requirements and activities, we believe that two positions—the policy advisor and one program specialist—could be eliminated in order to provide funding for the outside research contracts. Accordingly, we recommend deletion of \$83,000 from the personal services request, for a corresponding savings to the CDAC fund. Approval of this recommendation would not reduce the commission's activities, but would help ensure that CDAC uses its available resources in a cost-effective manner to meet its mandated functions.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Item 0959 from the General Fund

Budget p. LJE 124

| | |
|---|-----------|
| Requested 1985–86 | \$121,000 |
| Estimated 1984–85..... | 79,000 |
| Actual 1983–84 | — |
| Requested increase (excluding amount for salary increases) \$42,000 (+53.2 percent) | |
| Total recommended reduction | 121,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Reduce Item 0959-001-001 by \$121,000.* Recommend deletion because need for funds to support the committee has not been established.

115

GENERAL PROGRAM STATEMENT

The California Debt Limit Allocation Committee (CDLAC) was established by the Governor in July 1984, in order to ensure the state's compliance with the federal Tax Reform Act of 1984. This act imposed limits on the amount of tax-exempt "private activity bonds" which may be issued in any year. "Private activity bonds" generally include bonds issued for private industrial development projects, for-profit hospital and educational facilities, and student loans. Under the Tax Reform Act, the volume of these bonds that may be issued is limited to \$150 per resident or \$200 million, whichever is greater. The CDLAC recently set the ceiling at \$3.8 billion for 1985, based on the state's population. The committee is responsible for allocating this amount amongst state and local agencies.

The CDLAC is composed of the State Treasurer (Chairman), the Governor (or, in his absence, the Director of Finance), and the State Controller. As specified in the Governor's proclamation creating the committee, the State Treasurer's office is to provide administrative support to the committee. However, the support for the committee's activities thus far

has come from the California Debt Advisory Commission, also chaired by the State Treasurer.

OVERVIEW OF THE BUDGET REQUEST

The 1984 Budget Act did not provide funds for this committee in 1984-85. The Governor's Budget proposes an appropriation of \$121,000 from the General Fund for support of CDLAC during 1985-86. This amount represents an increase of \$42,000, or 53.2 percent, over estimated expenditures for the current year. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The budget, however, indicates that \$79,000 will be requested through a deficiency appropriation to support the committee's activities during the current year. The \$79,000 consists of \$40,000 for two positions (an executive secretary and office technician) and \$39,000 for operating expenses and equipment.

ANALYSIS AND RECOMMENDATIONS

Budget Request is Premature

We recommend deletion of the \$121,000 proposed to support the California Debt Limit Allocation Committee, because the need for staff to support the committee on an ongoing basis has not been established.

The Governor's proclamation establishing the committee will remain in effect until it is superseded by legislative action. The administration proposes that the Legislature take no action other than to approve the committee's budget.

We believe that the Legislature needs to review the committee's purpose and scope, determine the appropriate source of funding for its activities, and evaluate other options for complying with the federal requirement before it decides whether or not ongoing funding to support the committee's activities is appropriate. On this basis, we believe that the Governor's request to fund the committee is premature, particularly given the fact that the need for the establishment of a new commission with full time staff has not been demonstrated.

Our analysis indicates that several questions, in particular, warrant legislative review. These questions are as follows:

Does the federal limit on private activity bonds pose problems for California's local jurisdictions? The CDLAC established a \$3.8 billion limit on private activity bonds for 1984. Under the Governor's proclamation, 50 percent of this amount (\$1.9 billion) is set aside for state bonds, 35 percent (\$1.3 billion) is earmarked for cities and counties (for unincorporated areas), and 15 percent (\$566 million) is intended for counties. The amount actually issued in 1984, however, is likely to be substantially lower than the ceiling for state and local jurisdictions set by the committee.

Based on information from the committee and the California Debt Advisory Commission (CDAC), we estimate that the volume of state and local private activity bonds issued in 1984 was in the range of \$900 million—or less than 25 percent of the maximum level. The state used an estimated 17 percent of its total allocation while local authorities as a whole issued bonds amounting to 30 percent of their limit.

We also note that existing state law *already* places limits on the volumes of certain types of private activity bonds. For example, the aggregate amount of industrial development bonds issued by local authorities cannot

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE—Continued

exceed \$250 million per year. Likewise, at the state level, the California Student Loan Authority is limited to \$300 million in bond issues, and the California Alternative Energy Financing Authority is limited to \$200 million.

Because of these existing limits, as well as evidence that the amount of private activity bonds issued is significantly below the ceiling, it does not appear that the new federal requirements present any major problems for most California jurisdictions. While some local agencies may have proposed bond issues that exceed their allocations (such as might be the case if a large industrial project is proposed for rural areas), the ceilings established pursuant to the federal limits still are likely to exceed the amount of private activity bonds that most local agencies issue on an ongoing basis.

Do the committee's responsibilities and workload justify a full-time staff? The CDLAC is responsible for overseeing the state's system for allocating the ceiling on issuance of private activity bonds. This involves calculating the ceiling amount for the state as a whole, and then using a formula to allocate portions of this amount to state agencies and local jurisdictions. The specific allocations—which need to be determined only once a year—are simple to calculate and can be done using data that are readily available. The other major activities involve (1) reviewing requests for transferring portions of the state's allocation to local authorities, and (2) reviewing applications by state agencies to receive an allocation from the state's portion of the bond limit. The ongoing workload and staffing needs for these activities are not known at this time, although by the end of 1984, the committee had considered 24 requests for transfer and six applications by state agencies. Transfer of allocations *between* local jurisdictions do not require review by the committee. Thus, we are not able to identify the potential for any *significant* amount of workload which would justify the establishment of a new commission.

Could existing commissions absorb CDLAC's workload? As we pointed out above, most of the committee's workload thus far has been handled by the California Debt Advisory Commission. The budget offers no justification as to why the committee's workload could not be absorbed by this commission or another existing agency with debt-management responsibilities, such as the California Industrial Development Financing Advisory Commission or the Mortgage Bond Allocation Committee. We believe such options should be fully examined by the Legislature before any funding is approved for another committee.

In sum, we believe that the need to provide funding to staff CDLAC on an ongoing basis has not been established. Accordingly, we recommend that the \$121,000 proposed for this purpose be deleted.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Item 0965 from the Industrial
Development Fund

Budget p. LJE 125

| | |
|---|-----------|
| Requested 1985-86 | \$305,000 |
| Estimated 1984-85..... | 286,000 |
| Actual 1983-84 | 194,000 |
| Requested increase (excluding amount for salary increases) \$19,000 (+6.6 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, and the proceeds of these bonds are used to assist private businesses 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 Commerce, and the Commissioner of Corporations. It has four authorized positions in the current year.

The commission's activities are funded from fees that are charged to the applicants which submit IDB issues for review. Currently, the fee is set at \$2,500 for each 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 \$500,000 in revenues to the Industrial Development Fund during the budget year.

Approximately 200 applications have been received by the commission since the program was enacted. These applications, if approved, would provide about \$525 million in tax-exempt financing for industrial development projects. As of December 1984, \$400 million of these bonds had been approved and issued.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$305,000 from the Industrial Development Fund for support of CIDFAC in 1985-86. This is an increase of \$19,000, or 6.6 percent, over estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The increase requested in the budget for the commission in 1985-86 is attributable to several significant factors. The budget requests an increase of \$35,000 for personal services, which will permit greater reliance on in-house staff, rather than on outside consultants, to review proposed IDB issues. This is accompanied by a reduction of \$23,000 for external consultants. The use of in-house staff in lieu of consultants also is reflected in the

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued

current-year budget, which shows that \$55,000 has been redirected from consultant services to fund staff positions.

Business, Transportation and Housing Agency

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE

Item 0968 from the General Fund, Mortgage Bond Allocation Fee Account

Budget p. LJE 127

| | |
|-----------------------------------|----------|
| Requested 1985-86 | \$15,000 |
| Estimated 1984-85..... | 15,000 |
| Actual 1983-84 | 2,000 |
| Requested increase: None | |
| Total recommended reduction | None |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

- 1. Fund Surplus. Recommend adoption of supplemental report language directing the committee to limit the fund surplus in the Mortgage Bond Allocation Fee Account. 119

GENERAL PROGRAM STATEMENT

The California Mortgage Bond Allocation Committee (CMBAC) was established by Ch 1097/81 in order to assure that the state complies with the requirements of the Federal Mortgage Subsidy Bond Tax Act of 1980. The CMBAC is responsible for allocating among state and local governmental 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 calendar year. During 1984, the ceiling for California was \$1.825 billion. Bonds with a face value of approximately \$1.798 billion, or 98.5 percent of the ceiling amount, were issued in 1984. For 1985, the committee anticipates that the state's ceiling will be approximately \$2.2 billion.

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 receives staff assistance from personnel in the Treasurer's office.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$15,000 from the Mortgage Bond Allocation Account in the General Fund for support of the committee in 1985-86. This is the same amount that CMBAC received for support of its activities in the last three fiscal years. To date, however, the committee has spent only a small portion of the amounts appropriated for it: \$5,000 in 1982-83 and \$2,000 in 1983-84.

The CMBAC budget is entirely supported by application fees deposited in the Mortgage Bond Allocation Fee Account. These fees, currently set at \$300 per application, are collected from the state and local bond-issuing entities which seek CMBAC authorization to sell bonds.

ANALYSIS AND RECOMMENDATIONS

Committee's Fund Surplus Is Far in Excess of Its Needs

We recommend that the Legislature adopt supplemental report language directing the committee to limit the fund surplus in the Mortgage Bond Allocation Fee Account (MBAFA).

As of June 30, 1984, the surplus in the MBAFA was \$30,000. Although the budget anticipates that this surplus will decrease to \$27,000 by the end of 1984-85, the committee's past spending patterns suggest that the surplus instead will continue to increase during the current year.

The surplus exists because the committee has set application fees at a level that exceeds what is necessary to support its costs.

We find no reason why the CMBAC should maintain a surplus that is six times the amount spent by the committee in any one year. Generally, an entity such as the CMBAC should not need to maintain a surplus that exceeds its annual expenditures. Accordingly, we recommend that the Legislature adopt the following supplemental report language to reduce the surplus:

It is in the intent of the Legislature that the California Mortgage Bond Allocation Committee limit the surplus in the Mortgage Bond Allocation Fee Account to an amount not to exceed actual prior-year expenditures.

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY

Item 0971 from the California
Alternative Energy Authority
Fund

Budget p. LJE 128

| | |
|--|-----------|
| Requested 1985-86 | \$135,000 |
| Estimated 1984-85..... | 102,000 |
| Actual 1983-84 | 88,000 |
| Requested increase (excluding amount for salary increases) \$33,000 (+32 percent) | |
| Total recommended reduction | None |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Subsidy to the authority. Recommend adoption of Budget Bill language directing the authority to reimburse the California Pollution Control Financing Authority for staff services provided to it.

121

**CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY—
Continued****GENERAL PROGRAM STATEMENT**

The California Alternative Energy Source Financing Authority was created by Ch 908/80 for the purpose of issuing up to \$200,000,000 of revenue bonds to finance alternative energy projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydroelectric projects, as well as energy conservation projects that will reduce the use of fossil and nuclear fuels.

The authority consists of five state officers: the State Treasurer, who is chairman, the Director of Finance, the Chairman of the Energy Commission, the President of the Public Utilities Commission, and the State Controller. The authority began operation in 1981 and has two authorized staff positions.

Chapter 908 appropriated to the authority \$200,000 from the Energy Resources Conservation and Development Special Account in the General Fund (which received its revenue from the surcharge on electricity sales) as a loan to cover the authority's initial start-up expenses. Ongoing support is provided from the California Alternative Energy Authority Fund (CAEAF), which derives its revenue from application and other fees paid to the authority by those businesses receiving funds from the authority.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$135,000 from the Alternative Energy Authority Fund for support of the authority in 1985-86. This is an increase of \$33,000, or 32 percent, over estimated current-year expenditures of \$102,000. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

ANALYSIS AND RECOMMENDATIONS**The Authority Continues to Experience Financial Problems**

For the first time since its inception, the California Alternative Energy Authority Fund probably will end the current year with a surplus. Rather than an indication of the fund's financial health, however, this surplus reflects the continuation of financial difficulties experienced by the authority. The authority found it necessary to eliminate funding for two authorized staff positions in June 1984 in order to avoid a deficit in 1984-85. Furthermore, the authority has no plans in 1984-85 or 1985-86 to repay any portion of the \$200,000 appropriated in 1980 as a start-up loan to the authority.

Still No Financial Plan

In our *Analysis of the 1983 Budget Bill*, we questioned whether the fees collected by the authority would be sufficient to cover its operating costs, as intended by the Legislature. In response, the Legislature adopted language in the *Supplemental Report of the 1983 Budget Act* requiring the authority to reevaluate the amount of bonds it expected to sell and to formulate a more accurate financial plan. The Legislature also required

the authority to determine the level of fees necessary to (1) cover operating costs, (2) establish a prudent reserve, and (3) repay the \$200,000 start-up loan over a reasonable time period. The authority was to adjust its fees based on the findings in its report.

As of January 1985, the authority had not complied with the Legislature's directive.

Subsidy from the California Pollution Control

We recommend the adoption of Budget Bill language directing the authority to reimburse the California Pollution Control Financing Authority (CPCFA) for the costs of services received from it.

The authority has not had any staff of its own since June 1984; instead the authority has used CPCFA staff to conduct its activities, but the CPCFA is not being reimbursed for the cost of these services. The Deputy Executive Secretary of the CPCFA estimates that he spends from one-quarter to one-third of his time on the Alternative Energy Source Financing Authority's affairs. In addition, CPCFA clerical staff also perform work for the Alternative Energy Source Financing Authority. In effect, CPCFA is subsidizing the Alternative Energy Source Financing Authority by providing these services on a nonreimbursable basis.

Chapter 908 specifies that all expenses incurred in carrying out the provision of the California Alternative Energy Source Financing Authority Act shall be "payable solely" from funds provided under the authority of this act. On this basis, we recommend that the Legislature adopt the following Budget Bill language in order to bring the authority into compliance with the law:

"The California Alternative Energy Source Financing Authority (CAESFA) shall reimburse any other agency, including the California Pollution Control Financing Authority, for any staff services provided to the CAESFA."

**State and Consumer Services Agency
MUSEUM OF SCIENCE AND INDUSTRY**

Item 1100 from the General
Fund

Budget p. SCS 1

| | |
|--|-------------|
| Requested 1985-86 | \$7,543,000 |
| Estimated 1984-85 | 7,288,000 |
| Actual 1983-84 | 4,525,000 |
| Requested increase (excluding amount for salary increases) \$255,000 (+3.5 percent) | |
| Total recommended reduction | 28,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Foundation Support. Recommend that prior to budget hearings, the museum and the Department of Finance provide the Legislature with information regarding the level of expenditures and revenues proposed by the California Museum Foundation for 1985-86. 124