

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

MUSEUM OF SCIENCE AND INDUSTRY—Continued

2. Compensation of Museum Staff. Recommend that the museum and the Department of Finance report on the status of the dual compensation arrangement for the museum's top administrators. 124
3. Exhibit Information Assistants. Recommend Budget Bill language controlling the expenditure of funds provided for exhibit information services. 125
4. *Contracts for Educational Services. Reduce Item 1100-001-001 by \$28,000.* Recommend that the Legislature (1) redirect to personal services \$90,000 budgeted for contracts, in order to support the hiring of "in-house" educational staff and (2) delete \$28,000 in contract funds because the funds will not be needed in the budget year. 126

GENERAL PROGRAM STATEMENT

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

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

Associated with the Museum of Science and Industry is the Museum of Afro-American History and Culture (MAHC). The MAHC was established by the Legislature to preserve, collect, and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports, and history of California and the nation. The MAHC is governed by a seven-member advisory board. The museum's exhibits first received state support in 1981-82, and it moved into its own state-built facility in Exposition Park during July 1984.

The museum has 154.9 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$7,543,000 from the General Fund to support the Museum of Science and Industry and the Museum of Afro-American History and Culture in 1985-86. This is \$255,000, or 3.5 percent, more than estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefits approved for the budget year.

The General Fund request includes \$1,091,000 for support of the Museum of Afro-American History and Culture (including the museum's share of administrative costs) in 1985-86. This is an increase of \$189,000, or 21 percent, over estimated current-year expenditures.

The budget proposal does not include funds to cover the estimated cost of inflation adjustments for General Fund supported operating expenses (\$124,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

In addition to the \$7.5 million requested from the General Fund, the museum proposes to spend in 1985-86 \$19,000 in reimbursements and an unspecified amount to be provided by the California Museum Foundation of Los Angeles. Table 1 shows the museum's expenditures for the past, current, and budget years.

Table 1
Museum of Science and Industry
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

Programs	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change, 1985-86 Over 1984-85	
				Amount	Percent
<i>Education:</i>					
Museum Operations	\$3,003	\$4,477	\$4,511	\$34	0.8%
Science Workshop	35	58	58	—	—
Aerospace Science Museum	92	300	398	98	32.7
Afro-American Museum	390	553	745	192	34.7
Hall of Economics and Finance	145	270	291	21	7.8
Subtotals, Education	(\$3,665)	(\$5,658)	(\$6,003)	(\$345)	(6.1%)
Administration	1,265	1,649	1,683	34	2.1
Unallocated Reduction for Operating Expenses	—	—	-\$124	-\$124	NA
Totals	\$4,930	\$7,307	\$7,562	\$255	3.5%
<i>Funding Sources</i>					
General Fund	\$4,525	\$7,288	\$7,543	\$255	3.5%
Reimbursements	405	19	19	—	—
Foundation	(1,031)	(995)	— ^a	—	—
Personnel-years	116.3	148.8	124.5	-24.3	-16.3%

^a Information not available.

The \$255,000 net increase in General Fund expenditures proposed for 1985-86 reflects several workload and program changes, as well as baseline adjustments needed to maintain the museum's current level of activity. These changes are detailed in Table 2.

The budget also proposes to reduce museum staff in 1985-86 by 24.3 personnel-years, or 16 percent, of the current-year level. The services currently performed by 21.3 of those personnel-years, however, would be obtained through contracts funded in the budget.

Table 2
Museum of Science and Industry
Proposed 1985-86 Budget Changes
(dollars in thousands)

1984-85 Expenditures (Revised)	\$7,288
<i>Baseline Adjustments</i>	
Salary Savings Adjustment	-54
Salary and Benefit Increases	18
Special Repairs and Equipment	-353
Subtotal, Baseline Adjustments	(-\$389)

MUSEUM OF SCIENCE AND INDUSTRY—Continued*Workload Changes*

Contract for Computer Maintenance and Graphics	66
Reduce Computer Systems and Graphics Staff (2 positions)	-66
Contract for Parking Lot Operations.....	265
Reduce Parking Lot Staff (11.8 positions)	-165
Reduce Temporary Help for Security	-12
Subtotal, Workload Changes.....	(\$88)

Program Changes

Contract for Exhibit Information and Interpretation	318
Reduce Exhibit Information Assistants (7.5 positions)	-100
Contracts for Exhibit and Plant Maintenance	220
Contract for Educational Programs	118
Subtotal, Program Changes.....	(\$556)
1985-86 Expenditures (Proposed)	\$7,543

ANALYSIS AND RECOMMENDATIONS**Museum Should Report on Foundation Support for Budget Year**

We recommend that prior to budget hearings, the museum and the Department of Finance present to the fiscal subcommittees information on the proposed 1985-86 expenditures, revenues, and budget of the California Museum Foundation.

Since 1979-80, the budget document has provided supplemental information on the California Museum Foundation's expenditures and revenues. The 1985-86 budget, however, does not include this information for the budget year. At the time this analysis was prepared, the museum advised us that the revenue and expenditure data for 1985-86 were not yet available.

We believe that the Legislature must have a comprehensive display of expenditures made by or on behalf of the museum if it is to conduct a meaningful review of the museum's budget. Accordingly, we recommend that prior to budget hearings, the museum and the Department of Finance provide information to the fiscal subcommittees on the expenditures and revenues proposed by the California Museum Foundation in 1985-86.

Dual Compensation Arrangement for Museum's Top Staff is Not Legal

We recommend that prior to budget hearings, the museum and the Department of Finance report to the Legislature on the status of the dual compensation arrangements for the museum's Executive Director and Chief Deputy Director that have been found to be in violation of existing law.

The Executive Director and Chief Deputy Director of the museum are also employed by the foundation. In this capacity, they receive as compensation an annual consultant fee and the use of a limited expense account.

During hearings on the 1984-85 budget, the Legislature questioned the appropriateness of this dual compensation arrangement, and adopted language in the *Supplemental Report of the 1984 Budget Act*, directing the Attorney General (AG) and the Department of Personnel Administration (DPA) to prepare written opinions on the propriety of the arrangement.

After independent investigations, the staffs of the two offices issued a joint legal opinion, dated December 3, 1984. This opinion held that the compensation arrangements for the Executive Director and the Chief

Deputy Director are in violation of Government Code Sections 18000 and 19990, respectively. These statutory provisions prohibit:

- A state officer from receiving any compensation above the salary fixed by law (Section 18000); and
- A state employee from engaging in any employment activity which is inconsistent, incompatible, in conflict with, or inimical to his or her duties (Section 19990).

We recommend that prior to the budget hearings, the museum and Department of Finance report to the Legislature on (1) the actions, if any, they have taken in response to the DPA/AG opinion, and (2) the status of the dual compensation arrangements.

Museum Proposes Major Expansion of Contract Services

The museum proposes to "contract out" several activities in 1985-86. Our analysis finds that most of these proposals appear to be warranted, including the proposals to contract for (1) parking lot operations, (2) exhibit and plant maintenance, and (3) computer graphics and maintenance. It is not clear, however, if two other proposed contracts are in the state's financial interest. These proposals are discussed below.

Potential Savings in Contract Proposals for Exhibit Information Assistants

We recommend that the Legislature adopt Budget Bill language controlling the expenditure of \$318,000 requested for Exhibit Information Assistants, in order to ensure that expenditures are limited to the amount needed to obtain these services.

Exhibit Information Assistants (EIAs) provide information to the public, control crowds, and monitor the condition of exhibits. The 1985-86 budget proposes to expand the use of EIAs through two separate contracts. Specifically, the budget proposes to:

- **Transfer** 7.5 temporary-help EIA positions to the California Museum Foundation, and contract with the foundation for the services of these EIAs, at a cost of \$119,000; and
- **Expand** the EIA program by contracting with universities and colleges for additional EIAs, at a cost of \$199,000 (this level of funding would support about 11.5 more EIAs).

A General Fund augmentation of \$218,000 is requested to implement these two proposals.

Our review indicates that the museum needs more EIAs. The way in which the budget proposes to obtain these EIAs, however, may not be cost-effective.

Our analysis indicates that the most cost-effective way for the museum to obtain the services it needs is to contract with universities for student assistants under the federal work-study program. "Work Study" is a federally subsidized student financial aid program that pays for up to 80 percent of the wages earned by student workers.

By participating in the Work-Study program, the museum could obtain the requested level of service *and* save a significant amount of state funds. The budget, however, makes no allowance for any savings that might be achieved by obtaining the student assistants through the Work-Study program.

There is no guarantee, though, that federal work-study funds will be available to support the needed positions. If these funds should *not* be available, our review indicates that the contracts proposed by the museum

MUSEUM OF SCIENCE AND INDUSTRY—Continued

would not be cost-effective. It appears from the information available to us that the state could provide the needed service "in-house" at the same—or less—cost.

Accordingly, we recommend that the Legislature approve the proposed expenditure of \$318,000 for the expansion of EIA services. We further recommend, however, that the funds be released to the museum only after the museum has shown the Legislature that the level of EIA services requested (approximately 19 positions) are being obtained in the most cost-effective manner. To accomplish this end, we recommend the enactment of the following Budget Bill language:

3. Of the funds appropriated in this item, \$318,000 shall be available for the provision of 19 Exhibit Information Assistant positions. These funds shall be expended no sooner than 30 days, or whatever lesser time the Chairperson of the Joint Legislative Budget Committee (JLBC) may determine, after the museum provides to the JLBC: (a) information on the feasibility of obtaining federal Work-Study funds to support the EIA positions and (b) evidence that the method of providing EIA services selected by the museum is the most cost-effective one.

Contracts for Educational Services are Questionable

We recommend the deletion of \$28,000 (General Fund) requested for contracts for educational services because state employees can provide these programs on a more cost-effective basis.

The budget requests an augmentation of \$118,000 to finance a contract for educational services to the aerospace science program and the Afro-American Museum in 1985-86.

Our review indicates that, given the recent expansion in museum facilities and programs, additional educational resources are needed. Nevertheless, our analysis indicates that it would be more expensive for the state to contract for these educational programs, as proposed by the budget, than to use state personnel.

The museum could hire an Education Administration Consultant for the aerospace science program and an Education Administration Assistant I for the Afro-American Museum, at a total cost of \$90,000. These positions could provide the services for which the museum proposes to spend \$118,000 in contract funds.

We, therefore, recommend that \$90,000 be shifted from operating expenses to personal services, so that the museum can hire needed educational staff. We further recommend that the balance of the \$118,000 request be deleted, for a General Fund savings of \$28,000.

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

Items 1110-1655 from various funds

Budget p. SCS 5

Requested 1985-86	\$105,023,000
Estimated 1984-85.....	102,145,000
Actual 1983-84	72,998,000
Requested increase (excluding amount for salary increases) \$2,878,000 (+2.8 percent)	
Total recommended increase	2,225,000
Recommendation pending	18,529,000

1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1110-401—Departmental Control Provision	—	0
1120-001-704—Board of Accountancy	Accountancy	\$2,401,000
1130-004-706—Board of Architectural Examiners	Architectural Examiners	1,587,000
1140-006-001—State Athletic Commission	General	531,000
1150-008-128—Bureau of Automotive Repair	Automotive Repair	6,556,000
1150-008-420—Bureau of Automotive Repair	Vehicle Inspection	25,447,000
1160-010-713—Board of Barber Examiners	Barber Examiners	687,000
1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	760,000
1180-014-717—Cemetery Board	Cemetery	277,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	536,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator and Adjustor	2,630,000
1230-020-735—Contractors' State License Board	Contractors' License	17,369,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	2,649,000
1260-024-741—Board of Dental Examiners	State Dentistry	2,142,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	592,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	1,057,000
1300-030-180—Bureau of Employment Agencies	Employment Agencies	607,000
1320-034-745—Board of Fabric Care	Fabric Care	905,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	509,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	186,000
1350-040-001—State Board of Guide Dogs for the Blind	General	26,000
1360-042-752—Bureau of Home Furnishings	Bureau of Home Furnishings	1,831,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	253,000
1390-046-758—Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality Assurance	13,167,000
1390-047-175—Board of Medical Quality Assurance	Dispensing Opticians	144,000
1400-048-108—Board of Medical Quality Assurance	Acupuncturists	426,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1410-050-208—Board of Medical Quality Assurance	Hearing Aid Dispensers	174,000
1420-052-759—Board of Medical Quality Assurance	Physical Therapy	302,000
1430-054-280—Board of Medical Quality Assurance	Physicians Assistant	285,000
1440-056-295—Board of Medical Quality Assurance	Podiatry	341,000
1450-058-310—Board of Medical Quality Assurance	Psychology	648,000
1455-059-319—Board of Medical Quality Assurance	Respiratory Care	491,000
1460-060-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	187,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	281,000
1480-064-763—Board of Optometry	State Optometry	354,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	2,435,000
1495-067-297—Polygraph Examiners Board	Polygraph Examiners	90,000
1500-068-770—Board of Registration for Professional Engineers	Professional Engineers	2,611,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	4,483,000
1520-072-771—Certified Shorthand Reporters Board	Certified Shorthand Reporters	220,000
1520-073-410—Certified Shorthand Reporters Board	Transcript Reimbursement	342,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	1,850,000
1530-074-399—Structural Pest Control Board	Structural Pest Control Education and Enforcement	102,000
1540-076-406—Tax Preparers Program	Tax Preparers	339,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	572,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	91,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	2,059,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	483,000
1640-086-001—Division of Consumer Services	General	1,170,000
1640-086-702—Division of Consumer Services	Distributed	(675,000)
1650-088-001—Consumer Advisory Council	General	92,000
1655-090-702—Administrative Services	Consumer Affairs	1,746,000
1655-090-702—Administrative Services	Distributed	(10,715,000)
Total State Funds Requested		\$105,023,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Division of Administration. Recommend that during budget hearings the Department of Consumer Affairs ex-

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- plain to the fiscal subcommittees why it did not fully respond to a legislative directive that it conduct a study of its organizational structure and centralized support services.
2. Division of Administration. Withhold recommendation on \$766,000 requested for data processing expenses and equipment (Item 1655-090-702), pending receipt of a feasibility study report and a revised budget proposal for implementing the departmentwide data processing system. 134
 3. *Division of Administration. Reduce Item 1655-090-702 by \$59,000.* Recommend reduction of funds and restoration of 29.4 personnel-years for proctor services, because contracting out for proctor services would be more costly than continuing to provide these services using state employees. 134
 4. Division of Investigation. Recommend that by March 15, 1985, the Department of Consumer Affairs submit a detailed plan to the fiscal subcommittees for implementing the recommendations in the department's report on its investigative, inspection, and audit functions. 135
 5. Various Boards and Bureaus. Recommend that by March 15, 1985, the Board of Dental Examiners, Bureau of Electronic and Appliance Repair, Board of Funeral Directors and Embalmers, Acupuncture Advisory Committee, and the Board of Registered Nursing submit to the fiscal subcommittees reports on what steps they are taking to eliminate the potential deficiencies in their funds. 138
 6. Tax Preparers Program and the Board of Vocational Nurse and Psychiatric Technician Examiners. Recommend that during budget hearings, the Tax Preparers Program and the Board of Vocational Nurse and Psychiatric Technician Examiners report to the fiscal subcommittees on their plans to reduce the reserves in their funds to more reasonable levels. 138
 7. *Bureau of Automotive Repair. Reduce Item 1150-008-128 by \$102,000.* Recommend a reduction of \$7,000 in equipment costs and \$95,000 in facility lease costs for the Automotive Repair program to correct for overbudgeting. 139
 8. Bureau of Automotive Repair. Recommend that the bureau submit to the fiscal subcommittees by March 15, 1985, a plan for improving its mechanics training and testing program for the Biennial Vehicle Inspection Program. 141
 9. *Bureau of Automotive Repair, BVIP Program. Reduce Item 3400-001-044 by \$1,885,000, Item 3400-001-420 by \$501,000, and augment Item 1150-008-420 by \$2,386,000.* Recommend that the source of funds for the Air Resources Board's vehicle inspection testing program be shifted from the Motor Vehicle Account to the Vehicle Inspection Fund because the Vehicle Inspection Fund was established to pay all costs of the BVIP program. 142
 10. Bureau of Automotive Repair. Withhold recommendation on \$300,000 (Item 1150-008-420) requested for a study to determine the feasibility of making diesel- and methanol-fueled vehicles subject to Biennial Vehicle Inspection Program inspections. Further recommend that by April 1, 142

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1985, the bureau submit to the fiscal subcommittees additional information on the proposed study and a plan for coordination of the study with the Air Resources Board and the South Coast Air Quality Management District.

11. Bureau of Automotive Repair. Recommend adoption of Budget Bill language directing the Bureau of Automotive Repair (BAR) to reduce the \$6 fee for the certificate of compliance to \$4, in order to reduce the reserve for economic uncertainties in the Vehicle Inspection Fund to a more reasonable level. 143
12. Contractors' State License Board. Withhold recommendation on \$17,369,000 requested for support of the Contractors' State License Board (Item 1230-020-735), pending receipt of the board's final proposed budget. 143
13. Board of Registration for Professional Engineers (Item 1500-068-770). Withhold recommendation on \$94,000 requested in the budget because the board is proposing a change in the request through a Department of Finance letter. 145

GENERAL PROGRAM STATEMENT

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

The department has four major components: (1) the 41 regulatory agencies, which include boards, bureaus, programs, committees and commissions; (2) the Division of Administration; (3) the Division of Investigation; and (4) the Division of Consumer Services. Each of the department's constituent licensing agencies is statutorily independent of the department's control. Only the five bureaus and one program are under the direct statutory control of the director.

Subject to the authority conferred upon the department director, each of the 41 agencies within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public from incompetency and fraudulent practices. Each entity seeks to accomplish its objective through licensure and the enforcement of laws, rules and regulations.

The Division of Administration provides, on a pro rata basis, centralized fiscal, personnel, legal, and building maintenance support services to all of the constituent agencies.

The Division of Investigation provides investigative and inspection services to most constituent agencies. A few boards and bureaus, however, have their own inspectors and investigators.

The Division of Consumer Services is responsible for statewide consumer protection activities, which include research and advertising compliance, representation and intervention, and consumer education and information. This division also prepares consumer protection legislation.

The department is authorized 1,685 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$105,023,000 from various funds for support of the department and its constituent agencies in 1985-86. This is \$2,878,000, or 2.8 percent, more than estimated expenditures from these funds in the current year. This increase will grow by the amount of any salary or benefit increase approved for the budget year.

Of the total \$105,023,000 requested for 1985-86, \$1,845,000 would be used to support the Division of Consumer Services, \$7,433,000 is for the Division of Administration, and \$3,517,000 is for the Division of Investigation. In addition, \$1,746,000 is requested for building and maintenance costs. The remaining \$90,482,000 is for support of the regulatory boards and bureaus.

The budget also proposes expenditures of \$1,628,000 from reimbursements, raising total proposed expenditures in 1985-86 to \$106,651,000. This is \$2,961,000, or 2.8 percent, more than estimated total expenditures from all sources in the current year.

The budget-year request is, in fact, approximately \$15.5 million more than *program* expenditures in 1984-85. This is because current-year expenditures include \$12.6 million for full payment of a loan (\$8.7 million) and accrued interest (\$3.9 million). This loan was made from the Motor Vehicle Account to the Bureau of Automotive Repair in 1982-83 to fund start-up of the Biennial Vehicle Inspection Program (BVIP). The current-year deficiency augmentation also provided \$1 million for increased operating costs for the department and its constituent boards and bureaus.

The \$15.5 million increase in program expenditures proposed for 1985-86 consists of \$4.5 million for the BVIP, approximately \$5 million in cost adjustments, and \$6 million for various other purposes. Among the increases in this latter category are (1) \$254,000 for the Board of Architectural Examiners to cover higher licensee examination costs, (2) \$298,000 for the Bureau of Home Furnishings' insulation testing program, (3) \$102,000 for the Structural Pest Control Board's pesticide enforcement program, (4) \$158,000 and \$53,000 for the drug diversion program for licensees operated by the Board of Registered Nursing and Board of Pharmacy, respectively, and (5) \$559,000 for various expenditures proposed by the Contractors State License Board.

In addition, the department requests \$317,000 in one-time funds for lighting improvements and roof repairs to its headquarters building in Sacramento.

Personnel-Year Reductions

The budget proposes 1,583 personnel-years for the department and its constituent agencies in 1985-86. This is 100 personnel-years, or 6 percent, less than the current-year estimated staffing level. Two proposed changes account for about two-thirds of the reduction. First, the department plans to contract with a private vendor for proctor services at examinations administered by the boards and bureaus, for a reduction of 29 personnel-years in the budget year. In addition, the budget proposes to reduce staffing in the Bureau of Automotive Repair's Biennial Vehicle Inspection Program (BVIP) by 37 personnel-years in 1985-86. Staff reductions proposed in other boards and bureaus account for reductions totaling 34 personnel-years.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**ANALYSIS AND RECOMMENDATIONS****DIVISION OF ADMINISTRATION****Report on the Division of Administration and Consumer Services**

We recommend that during budget hearings, the Department of Consumer Affairs explain to the fiscal subcommittees why it did not fully respond to the Legislature's directive that it study its organizational structure and centralized support services.

During hearings on the 1984-85 budget, the fiscal subcommittees identified a need for a comprehensive study relevant of the Department of Consumer Affairs' (DCA) organizational structure and the effectiveness of the centralized "umbrella" services provided by the Divisions of Administration and Consumer Services. As a consequence, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* which required the DCA, in conjunction with the Department of Finance and the Executive Officers' Council (which represents the department's boards and bureaus), and in cooperation with the Legislature, to conduct such a study. Specifically, the department was directed to evaluate the current organizational structure and services of the Divisions of Administration and Consumer Services of DCA to determine:

- Whether the Division of Administration, as it currently is constituted, is the most *economical, efficient and effective* organizational structure for providing support services to boards and bureaus of the department, or whether alternative organizational structures could be created which would better serve the public through more efficient operations of the boards.
- Whether the Division of Consumer Services, as it currently is constituted, is *effectively* providing consumer protection, or whether alternative organizational structures could be created which would better serve the public.

The department submitted a report on the findings and conclusions of the study to the Legislature in December 1984.

Existing Organizational Structure. In its report, the department described its existing organizational structure as an "umbrella agency" which provides limited program oversight to the constituent licensing agencies while providing them with central administrative services. The actual authority of the director over these agencies varies, depending on the specific terms of each licensing statute.

The most significant distinction, however, is between the board, committees, and commission, on the one hand, and the five bureaus on the other. The 35 boards, committees, and commission are virtually independent policymaking bodies whose decisions are only limited by statute, regulation, and the policies and procedures of state control agencies. In contrast, the five bureaus report to the director, pursuant to statute. Thus, the director is able to exercise far more authority over these agencies.

Report Findings and Conclusion. After surveying other states, consumer protection groups, the executive officers, and bureau chiefs (with the assistance of the State Personnel Board staff), the department reached the following conclusions about its organizational structure and the centralized services it provides:

- The department's current "umbrella" organization structure is the one most commonly used for licensing and regulatory purposes by other states.

- Nationally, the trend in *organizing* licensing and regulatory functions is toward more centralization, rather than less. Other states—notably Michigan, Florida, Wisconsin, and Virginia—recently have increased the authority of the central agency to provide more efficient and effective services to the public and the licensees.
- In terms of *funding* licensing and regulatory functions, the trend in other states has been away from individual special funds for the boards, toward a single funding source (either the state general fund or a single special fund).
- If given the choice, most (85 percent) of the licensing board executive officers would prefer that their boards be established as independent departments (53 percent) or independent boards using a central agency for minimum housekeeping matters only (32 percent).
- The majority of boards indicated that the current organizational structure has not had a negative impact on the level of services provided to the boards. The executive officers, however, indicated that there are major problems associated with departmental planning, communication, access to policy makers, and data processing services.
- The consumer protection groups perceived a need for increased legal actions on behalf of consumers, education, and liaison activities.
- A majority of the executive officers expressed dissatisfaction with the pro rata method for distributing the costs of centralized services to the various boards and bureaus.
- On an hourly basis, the costs of the department's centralized services appear to be lower than the cost of comparable services provided by the Department of General Services.

The department's report concludes that, based on the limited data available, it would be premature to alter the department's existing structure. Any such change should be made only after an organization completely independent from the department and its agencies has made a thorough study of program and cost effects of the change.

The department indicated that it is committed to implementing the suggestions implicit in the report, and that the key to making these improvements is increased dialogue and communication with the constituent agencies. The department also indicated that it is aggressively working to secure a data processing system with increased capability, and use the CALSTARS system in order to provide improved cost accounting methods for billing the boards and bureaus.

Comments. Our analysis indicates that, although the department has made a comprehensive survey of the state's licensing agencies, various consumer protection groups in California and regulatory agencies in other states the department's report is not fully responsive to the Legislature's directive as expressed in the supplemental report.

Specifically, the department has not determined whether the existing structures of the Divisions of Administration and Consumer Services are the most effective, efficient, and economical organizational structures to provide services to the boards and bureaus, or whether alternative organizational structures could be created to better serve consumers through more efficient and effective operations of the boards and bureaus. This information is essential to the Legislature in determining whether changes should be made in the department's organizational structure and licensing and regulatory functions in order to better serve the public.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Accordingly, we recommend that during budget hearings the Department of Consumer Affairs explain to the fiscal subcommittees why it did not fully respond to the requirements contained in the *Supplemental Report of the 1984 Budget Act*.

Upgrading of the Department's Information Processing System

We withhold recommendation on \$766,000 requested for data processing expenses and equipment (Item 1655-090-702), pending receipt of a feasibility study report and a revised budget proposal providing for implementation of the information processing system on a departmentwide basis.

In recent years, the department's ability to meet the information processing needs of its regulatory boards and bureaus has been limited. To overcome this deficiency, the Legislature provided \$440,000 in the 1983 Budget Act and \$452,000 and 10 positions in the 1984 Budget Act for the department to use in conducting an office automation and information processing feasibility study and procuring office automation equipment. The study is intended to determine the department's long-term office automation and data processing needs. The Legislature also included language in the *Supplemental Report of the 1984 Budget Act* directing the department to submit quarterly reports on the progress of the project.

On November 7, 1983, the department submitted a feasibility study report (FSR) for the office automation element of the project and began the process of procuring word processing equipment. Subsequently, in April 1984, the department revised the FSR and deferred the scheduled installation of the equipment until September 1984. Since then, the installation date has been delayed still further, until May 1985, in order to provide additional time to revise the technical specifications of the project, review the bids, and award the contract.

At the time this analysis was prepared, the Legislature had not received either the second quarterly report or the feasibility study report on the information processing system element of the project. Both of these reports were due January 1, 1985.

Without the information contained in these reports, we are not able to determine the department's funding requirements for office automation and information processing in the budget year. Accordingly, we withhold recommendation on the \$766,000 requested for EDP operating expenses and equipment, pending receipt of the feasibility study report and a revised budget proposal for departmentwide implementation of the information processing system.

Contracting for Proctor Services

We recommend that (1) 29.4 personnel-years proposed for deletion in the budget instead be restored and (2) the proposed augmentation of \$59,000 for contracting out proctor services (Item 1655-090-702), be deleted because contracting would be more costly than using state employees.

Most of the boards and bureaus administer examinations as part of their licensing program. Many of the examinations are national exams which require that specific procedures and policies be adhered to. Currently, each board and bureau has proctors on its staff who administer these licensing examinations. In the current year, 43.2 personnel-years and \$613,486 will be allocated for proctor services.

The budget proposes that the department begin contracting for proctor services in 1985-86. By the end of 1986-87, all of these services would be secured through a single contract administered by the Division of Administration. According to the department, contracting for proctor services will yield a number of advantages, including:

- A central pool of proctors;
- Greater consistency in training proctors; and
- Increased security for confidential examinations.

Reflecting the first year of this two-year effort, the budget requests an augmentation of \$59,000 for proctor services in 1985-86 and proposes a reduction of 29.4 personnel-years. The department anticipates a further increase in expenditures of \$25,000 in 1986-87 and a further reduction of 14.5 personnel-years. Our analysis indicates that the department has failed to demonstrate that contracting out this function is cost-effective. In fact, as the budget makes clear, the short-term effect of this proposal is to increase—not reduce—state costs.

Under these circumstances, we cannot recommend approval of the proposal to contract out proctor services. Accordingly, we recommend that the 29.4 personnel-years proposed for deletion be restored and that the \$59,000 augmentation for proctor services contracts be deleted. If the department is able to demonstrate that an alternative means of procuring these services is more cost-effective than the current approach, we will revise our recommendation on this issue.

DIVISION OF INVESTIGATION

We recommend that by March 15, 1985, the Department of Consumer Affairs submit to the fiscal subcommittees a detailed plan for implementing the recommendations contained in its report on the investigation, inspection and audit functions.

In order to address apparent problems in the department's audit, investigation and inspection functions, the Legislature included language in the *Supplemental Report of the 1984 Budget Act* requiring the department to report on the use of auditor, investigator, and inspector positions within the department. Additionally, the language required the department to determine (1) which of these positions could be transferred to the Division of Investigation (DOI) in the interest of greater cost-effectiveness and (2) which boards and bureaus warrant in-house enforcement staff on the basis of workload and cost-effectiveness.

In its report the department discusses the advantages and disadvantages of centralizing the audit, investigation, and inspection functions within the department. The report also contains the following major conclusions:

- *Audit* services should not be centralized within the DOI. These services should be provided on a decentralized basis within the various boards and bureaus, as they currently are.
- *Inspection* services for the Board of Fabric Care, the Board of Cosmetology, and the Bureau of Home Furnishings should be decentralized, for an annual savings of \$154,900.
- *Investigative* services should remain centralized within the DOI.

We believe the department's report on the provision of investigative, inspection, and audit services within the department adequately responds to the Legislature's directive. In addition, our review indicates that the report's findings and recommendations are well supported. The only thing missing is a plan to ensure the timely implementation of the recommend-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

ed actions so that the specified savings and improvements in services can be realized without undue delay.

Consequently, we recommend that by March 15, 1985, the department submit to the fiscal subcommittees a detailed plan for implementing the recommendations in the report.

CONSUMER ADVISORY COUNCIL

We recommend approval.

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

The budget proposes \$92,000 to support the council's activities in 1985-86, the same amount provided for the current year.

BOARDS AND BUREAUS**Boards, Bureaus and Committees Whose Budgets Contain No Significant Issues**

Our analysis indicates that the proposed 1985-86 budgets for a number of boards, bureaus, and committees contains no significant issues that warrant consideration by the Legislature. Many of these entities have requested increases that simply offset the effects of inflation on their current programs. Others have requested additional funding for program and workload increases which our review shows to be justified. Table 1 displays staffing and expenditures for those boards, bureaus, and committees whose budgets we recommend be approved as submitted.

The table indicates reductions exceeding 20 percent for two entities. In neither case, however, does the reduction signify a sizeable reduction in program. The *Podiatry Examining Committee's* budget shows a decrease of 20 percent from the current-year level. The committee has had a one-time increase in expenditures for enforcement during the current year, as a result of nine serious cases that are scheduled for hearings in 1984-85. The *Bureau of Collection and Investigative Services'* budget reflects a 20 percent decrease in expenditures primarily as the result of efficiency reductions in clerical staff and operating expenses and equipment proposed for the budget year. The table also indicates an increase of \$47,000, or 16 percent, in the Tax Preparers program. This \$47,000 increase consists primarily of \$41,000 for central administrative services.

Based on our review, we recommend approval of the proposed budgets for the boards, bureaus and committees listed in Table 1.

Table 1
Department of Consumer Affairs
Boards, Bureaus and Committees
Recommend Approval as Budgeted
(dollars in thousands)

Item	Personnel-Years				Expenditures			
	Esti- mated	Pro- posed	Change From Current Year		Esti- mated	Pro- posed	Change From Current Year	
			Amount	Percent			Amount	Percent
1120 Board of Accountancy.....	26.6	24.1	-2.5	-9.3%	\$2,348	\$2,401	\$53	2.2%
1130 Board of Architectural Examiners.....	15.9	13.4	-2.5	-15.7	1,436	1,587	151	10.5
1140 State Athletic Commission.....	13.3	9.9	-3.4	-25.5	544	531	-13	-2.3
1160 Board of Barber Examiners.....	13.7	13.4	-0.3	-2.1	731	687	-44	-6.0
1170 Board of Behavioral Science Examiners	15.2	12.3	-2.9	-19.0	778	760	-18	-2.3
1180 Cemetery Board.....	4.5	3.9	-0.6	-13.3	287	277	20	7.7
1200 Bureau of Collection and Investigative Services:								
(1) Collection agencies.....	12.3	10.3	-2.0	-16.2	671	536	-135	-20.1
(2) Private investigators.....	47.8	45.3	-2.5	-5.2	2,610	2,630	20	0.7
1240 Board of Cosmetology.....	39.5	37.6	-1.9	-4.8	2,721	2,649	-72	-2.6
1260 Board of Dental Examiners ^b	29.4	27.3	-2.1	-7.1	2,047	2,142	95	4.6
1270 Dental Auxiliary.....	8.4	8.1	-0.3	-3.5	563	592	29	5.1
1280 Bureau of Electronic and Appliance Re- pair ^b	15.5	14.5	-1.0	-6.4	1,074	1,057	-17	-1.5
1300 Bureau of Employment Agencies.....	7.3	7.3	—	—	575	607	32	5.5
1320 Board of Fabric Care.....	10.5	10.0	-0.5	-4.7	895	905	10	1.1
1330 Board of Funeral Directors and Em- balmers ^b	8.3	8.3	—	—	515	509	-6	-1.1
1340 Board of Registration for Geologists and Geophysicists.....	3.0	2.9	-0.1	-3.3	175	186	11	6.2
1350 State Board of Guide Dogs for the Blind	0.3	0.3	—	—	25	26	1	4.0
1360 Bureau of Home Furnishings.....	23.0	24.5	1.5	6.5	1,714	1,831	117	6.8
1370 Board of Landscape Architects.....	2.9	2.5	-0.4	-13.7	258	253	-5	-1.9
1390-046 Board of Medical Quality Assurance	174.4	166.5	-7.9	-4.5	12,616	13,167	551	4.3
1390-047 Dispensing Optician.....	1.0	1.0	—	—	128	144	16	12.5
1400 Acupuncturists ^b	9.6	7.5	-2.1	-21.8	413	426	13	3.1
1410 Hearing Aid Dispensers.....	2.0	1.9	-0.1	-5.0	167	174	7	4.1
1420 Physical Therapy.....	3.1	3.0	-0.1	-3.2	284	302	18	6.3
1430 Physicians Assistant.....	3.3	3.3	—	—	263	285	22	8.3
1440 Podiatry.....	3.8	3.6	-0.2	-5.2	430	341	-89	-20.6
1450 Psychology.....	7.7	7.4	-0.3	-3.8	654	648	-6	-0.9
1455 Respiratory care.....	7.9	7.9	—	—	439	491	52	11.8
1460 Speech Pathology and Audiology Exam- ining Committee.....	3.1	3.1	—	—	175	187	12	6.8
1470 Board of Examiners of Nursing Home Administrators.....	3.5	3.5	—	—	269	281	12	4.4
1490 Board of Pharmacy.....	34.3	33.1	-1.2	-3.4	2,434	2,435	1	— ^a
1480 Board of Optometry.....	4.5	4.4	-0.1	-2.2	307	354	47	15.3
1495 Polygraph Examiners Board.....	1.5	1.4	-0.1	-6.6	84	90	6	7.1
1510 Board of Registered Nursing ^b	57.2	58.9	1.7	2.9	4,309	4,483	174	4.0
1520-072 Certified Shorthand Reporters Board.....	3.7	3.3	-0.4	-10.8	490	562	72	14.6
1530 Structural Pest Control Board.....	26.1	26.3	0.2	0.7	1,920	1,952	32	1.6
1540 Tax Preparers Program ^c	5.2	5.2	—	—	292	339	47	16.0
1560 Board of Examiners in Veterinary Medi- cine:								
(1) Veterinarians.....	4.3	3.9	-0.4	-9.3	531	572	41	7.7
(2) Animal Health Technician.....	1.4	1.4	—	—	77	91	14	18.1
1590 Board of Vocational Nurse and Psychiat- ric Technician Examiners:								
Vocational Nurse ^c	26.2	23.7	-2.5	-9.5	2,025	2,059	34	1.6
Psychiatric Technician.....	3.9	3.5	-0.4	-10.2	456	483	27	5.9

^a Less than one percentage point.

^b The bureau and the board face potential deficits in their funds in 1985-86.

^c The program and board will have large surpluses in their funds in 1985-86.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**Boards and Bureaus With Potential Fund Deficiencies in 1985-86**

We recommend that by March 15, 1985, specified boards and bureaus report to the fiscal subcommittees on the steps they are taking to eliminate potential deficiencies in their funds.

Our analysis of the special funds managed by the various boards and bureaus indicates that some of these funds face potential deficits during 1985-86. In some cases, the boards and bureaus could avoid a deficit by increasing fees up to the statutory limit; in other cases, the fees already are at the statutory maximum allowed. Thus, in these latter cases, legislation may be needed to increase the fees in order to keep the funds solvent.

Table 2 indicates the fund conditions for those boards and bureaus faced with a potential deficiency.

Table 2
Department of Consumer Affairs
Boards and Bureaus With
Potential Fund Deficiencies in 1985-86
(dollars in thousands)

Item Number	Board/Bureau	Fund Balance ^a		Adjusted Fund Balance
		1984-85	1985-86	1985-86 ^{a, c}
1260-024-741	Dental examiners ^b	\$684	\$75	\$20
1280-028-325	Electronic and Appliance Repair	175	15	-20
1330-036-750	Funeral Directors and Embalmers	45	-150	-166
1400-048-108	Acupuncture Advisory	-67	-334	-345
1510-070-761	Registered Nursing ^b	333	-144	-242

^a As of June 30.

^b Currently, some of the board's fees are set at less than the statutory maximum.

^c Balance after 6 percent salary increase.

We recommend that the boards and bureaus listed in Table 2 report to the fiscal subcommittees by March 15, 1985 on the progress they are making in eliminating the potential for a deficit in their funds.

Boards and Bureaus With Rising Surplus

We recommend that during budget hearings the Tax PrePAYERS Program (Item 1540-076-406) and the Board of Vocational Nurse and Psychiatric Technician Examiners (Item 1590-082-779) report to the fiscal subcommittees on their plans for reducing the reserves in their funds to more reasonable levels.

Section 128.5 of the Business and Professions Code states that at the end of any fiscal year, no agency within the Department of Consumer Affairs shall have unencumbered funds in an amount which equals or exceeds the agency's operating budget for the next two fiscal years. Our analysis indicates that the following funds will have surpluses on June 30, 1986, which will equal or exceed projected disbursements for two years:

- The Tax Preparers Fund will have a surplus of about \$1 million which exceeds the maximum limit by \$350,000.
- The Vocational Nurses Account will have a surplus of about \$4 million, which is at the maximum limit.

Accordingly, we recommend that the Tax Preparers Program and Board of Vocational Nurse and Psychiatric Technician Examiners report to the fiscal subcommittees during budget hearings of their plans for reducing the reserves in their funds.

BUREAU OF AUTOMOTIVE REPAIR

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

Automotive Repair Program

We recommend a reduction of \$7,000 in the amount requested for equipment and \$95,000 requested for facility leases under the Automotive Repair program, in order to correct for overbudgeting (Item 1150-008-128).

The budget requests \$6,556,000 from the Automotive Repair Fund for support of the Automotive Repair program in 1985-86. This reflects a net increase of \$22,000, or 0.3 percent, above estimated current-year expenditures. The net increase reflects:

- a \$178,000 decrease in central administrative services;
- a \$238,000 increase in facility lease expenditures,
- a \$73,000 increase in data processing services, and
- a \$111,000 decrease in various other expenditure categories

Lease Costs. In reviewing the facility lease contracts with the Office of Space Management, Department of General Services, we found that the bureau's plan to lease 10,000 square feet of office and shop space in Orange County has since been reduced to 4,830 square feet. This would reduce lease costs at that location from \$168,000 to \$73,000 in 1985-86. Accordingly, we recommend a reduction of \$95,000 in the amount requested for facility leases, to correct for overbudgeting.

Equipment Costs. The Governor's Budget proposes \$197,000 for equipment purchases in 1985-86. Discussions with the bureau indicate that the initial estimates of equipment needs have been revised and a lesser amount of \$190,000 is now adequate to secure the needed equipment. Accordingly, we recommend a reduction of \$7,000 in funds budgeted for equipment expenditures. The bureau concurs with this reduction.

Biennial Vehicle Inspection Program (BVIP)

The Federal Clean Air Act of 1977 requires California to establish a *periodic* vehicle inspection program in "nonattainment areas" throughout the state—those areas in which federal air quality standards are not being met. In response, the Legislature enacted Ch 892/82 (SB 33), which authorized local air quality districts to request the Bureau of Automotive Repair to implement the Biennial Vehicle Inspection Program (BVIP) in their districts.

The act, which expires on January 1, 1990, requires that all vehicles less than 20 years old, with the exception of motorcycles, heavy-duty vehicles, and diesel-powered vehicles, be inspected upon initial registration, biennially and upon change of ownership. The inspections and repairs are to

DEPARTMENT OF CONSUMER AFFAIRS—Continued

be performed at privately operated test and repair stations by licensed mechanics. Upon satisfactory completion of the inspection, the motorist is charged an inspection fee, which is set by the private station, and a \$6 fee for the issuance of a state certificate of compliance. The act contains a ceiling of \$50 on the amount that a vehicle owner can be required to spend for low emissions repairs and adjustments, except that no ceiling applies in cases where emission controls are removed or are inoperative due to tampering.

The act requires the Department of Consumer Affairs to report to the Legislature no later than two years after the program has started, and annually thereafter, on the performance and cost-effectiveness of the program. The first report is due by March 20, 1986. In addition, the review committee, which was created by the act, is required to report no later than three years from the date the program was implemented on the effects of the program on vehicle emissions and air quality. The committee's report is due March 20, 1987.

The bureau proposes an appropriation of \$25,447,000 from the Vehicle Inspection Fund for support of the BVIP program in 1985-86. Excluding the \$12,531,000 spent during the current year in order to repay the Motor Vehicle Account for an advance of funds in 1982-83. The budget for 1985-86 requests an increase of \$4,509,000, or 21.5 percent, above estimated current-year expenditures.

Table 3 shows the changes in the bureau's budget that are proposed for 1985-86. The \$4,509,000 increase consists of (1) \$3,096,000 for contractual services and (2) \$1,413,000 for various cost adjustments.

Table 3
Bureau of Automotive Repair
Biennial Vehicle Inspection Program
Proposed Budget Changes
(dollars in thousands)

	<i>Vehicle Inspection Fund</i>
1984-85 Expenditures (Budget Act)	\$19,736
Adjustments	
1. Allocation for employee compensation	850
2. Increased data processing costs	352
1984-85 expenditures (revised)	\$20,938
Baseline Adjustments:	
1. Cost adjustments	1,413
2. Contractual agreements	3,096
1985-86 expenditures (proposed)	\$25,447
Change from 1984-85:	
Amount	\$4,509
Percent	21.5%

BVIP Successfully Implemented With High Public Acceptance

In the period since the BVIP was started on March 20, 1984, the bureau has licensed more than 6,774 inspection and repair stations and trained over 19,563 mechanics within the South Coast Air Basin (Los Angeles), San Francisco Bay Area, San Diego area, Sacramento area, Ventura-Santa

Barbara area, and Fresno County. Up to 20,500 vehicles per day are being inspected and the bureau estimates that up to 6.5 million inspections will be completed during the first full year of program operation. Of those vehicles inspected, about 68 percent are expected to pass and the remainder will fail and require adjustments or repairs. According to the bureau, the actual passing rate is higher than the 55 percent originally anticipated because motorists are making repairs and adjustments prior to having their cars inspected. In addition, many of the inspection and repair stations are making adjustments on the vehicles at the time of the inspection.

Our analysis indicates that, despite a slow start, the bureau has successfully implemented this important program. Moreover, public acceptance of the inspections has proven to be much greater than originally anticipated. While some problems still must be addressed, the bureau is to be commended for its success in getting the program off the ground.

Training of Mechanics is Inadequate

We recommend that by March 15, 1985, the bureau submit to the fiscal subcommittees a plan for improving its mechanics training and testing program.

Currently, the bureau conducts an eight-hour training course for BVIP mechanics. Mechanics taking the course must have previous emissions inspection training and be licensed as a Class A or C mechanic. Upon completion of the course, the mechanics must pass an examination in order to qualify for certification.

During hearings on the 1984-85 budget, we questioned the adequacy of the eight-hour training course in achieving mechanic proficiency in the operation of the complex computerized emissions analyzer unit. The bureau responded that although the eight-hour course would be short, it would be effective in training the mechanics.

According to the Air Resources Board, which spot checks the BVIP inspection stations using undercover cars, an eight-hour training course is not adequate to train many of the mechanics. This was clearly demonstrated by a recent series of tests in Los Angeles, which revealed that of 43 faulty test cars, 30 percent were passed and issued certificate of compliance by licensed mechanics. These cars should have failed the inspections.

The ARB has found that many mistakes are being made in the operation of the computerized analyzer units as well as in the under-hood functional checks of smog devices and ignition timing. The bureau acknowledges that the training course may not be long enough and indicates that consideration has been given to extending the training course to improve mechanic proficiency. At the time this analysis was prepared, no decision had been made to extend and improve the training course. The bureau is uncertain whether or not the performance of the mechanics will improve with experience and the refresher training which is provided by the firms supplying the computerized emission analyzer units.

We believe that the public creditability of the BVIP program depends greatly upon the integrity of the licensed mechanics and the quality of the inspections. In view of the ARB's findings, we recommend that by March 15, 1985, the bureau submit to the fiscal subcommittees a plan for improving the mechanics training program.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**Air Resources Board Reimbursement**

We recommend that the sources of funds for the Air Resources Board's vehicle inspection testing program be shifted from the Motor Vehicle Account to the Vehicle Inspection Fund (VIF) because the VIF was established to pay all costs associated with the BVIP. (Reduce Item 3400-001-044 by \$1,885,000 and Item 3400-001-420 by \$501,000 and augment Item 1150-008-420 by \$2,386,000).

The Air Resources Board (ARB) is responsible for establishing emission inspection standards and assisting the BAR in designing and evaluating the BVIP program on an ongoing basis.

Chapter 892 also established an independent review committee consisting of one representative from each of the air pollution control districts in which the motor vehicle inspection program has been implemented. The committee is required to report to the Legislature by March 1987 on the effects of the program on vehicle emissions and air quality.

The review committee has designed an 18-month vehicle testing program which will evaluate 1,600 test cars that undergo the biennial inspection program. The ARB has agreed to perform the testing by deferring 60 percent of its ongoing vehicle emissions testing programs. The cost to perform the vehicle testing in 1985-86 is estimated by ARB at \$2,386,000.

The Governor's Budget proposes to fund the ARB program from the Motor Vehicle Account. Our analysis indicates that this is not the appropriate funding source for activities related to the BVIP program.

Therefore, we recommend that Item 1150-008-420 be increased by \$2,386,000 in order to permit BAR to reimburse ARB its costs for conducting the testing program. Consistent with this action, Item 3400-001-044 should be reduced by \$1,885,000 and Item 3400-001-420 should be reduced by \$501,000 in the Air Resources Board's budget to reflect the increase in reimbursements.

Diesel Vehicles Not Subject to SMOG Inspections

We withhold recommendation on \$300,000 requested for a study to determine the feasibility of making diesel- and methanol-fueled vehicles subject to BVIP inspections. We further recommend that by April 1, 1985, the bureau submit to the fiscal subcommittees additional information on the proposed study and a plan for coordinating it with the Air Resources Board and the South Coast Air Quality Management District.

Diesel, methanol and propane-fueled vehicles currently are not required to have exhaust emission control devices and are exempt from inspection under the BVIP program. According to the South Coast Air Quality Management District, there is growing public concern about the emissions from diesel trucks, buses and automobiles. Moreover, the Environmental Protection Agency has found that diesels are responsible for a major portion of the particulates and NOX emissions in our heavily urbanized areas.

Recognizing that exhaust emissions from diesels constitute a serious health problem, the ARB has been testing particulate traps and other emissions control devices for diesel vehicles in its El Monte laboratory. Starting with the 1985 models, diesel cars, but not trucks or buses, will be required by law to have particulate traps. The South Coast Air Quality Management District has also given priority to developing increased con-

trols over diesel emissions through periodic inspections.

The bureau is requesting \$300,000 to study the feasibility of making diesel and methanol vehicles subject to emissions inspections. The proposal, however, is not specific and lacks sufficient justification for us to conclude that the study is warranted.

Moreover, the proposal does not indicate how the project would be coordinated with the ARB and the air quality district.

Accordingly, we withhold recommendation on the \$300,000 requested for the study, pending receipt of a complete study plan from the bureau which provides for coordination with the ARB and the South Coast Air Quality Management District. We recommend that the bureau submit such a plan to the fiscal subcommittees by April 1, 1985.

Rising Fund Reserve

We recommend adoption of Budget Bill language directing the Bureau of Automotive Repair to reduce from \$6 to \$4 the fee charged for the certificate of compliance, in order to reduce the reserve in the Vehicle Inspection Fund (Item 1150-008-420) to a more reasonable level.

Chapter 892 authorized the Bureau of Automotive Repair to charge motorists up to \$6 for the Certificate of Compliance issued under the BVIP program. The proceeds from these fees are to be deposited in the Vehicle Inspection Fund, which the bureau administers. Because of uncertainties regarding the level of program expenditures that would be necessary under the program, the bureau initially set the fee at the \$6 maximum limit.

In 1985-86, the bureau anticipates collecting about \$40.5 million from the issuance of over 6.8 million certificates. Other revenues and interest income will increase total program revenues to about \$42.7 million in the budget year. After covering disbursements of about \$27.1 million, the bureau will have a reserve of about \$22 million in the fund as of June 30, 1986.

This reserve would be sufficient to cover almost a full year's program expenditures. While such a reserve probably is reasonable, it can only grow larger in the future, since annual program revenues now exceed expenditures by 57 percent.

Clearly, there is a need to reduce the \$6 fee. If the fee were reduced to \$4, it would generate sufficient revenue (\$27.2 million) to cover expenditures of \$27.1 million and still leave a reasonable reserve in the fund.

For this reason, we recommend that the Legislature adopt the following Budget Bill language to reduce certificate fees:

"The Bureau of Automotive Repair is directed to reduce the \$6 fee to \$4 for the Certificate of Compliance in 1985-86."

CONTRACTORS STATE LICENSE BOARD

We withhold recommendation on \$17,369,000 requested for support of the Contractors State License Board, pending receipt of the board's revised budget (Item 1230-020-735).

The Governor's Budget requests \$17,369,000 from the Contractors License Fund for support of the board in 1985-86. This is \$559,000, or 3.3 percent, above estimated current-year expenditures.

Control language in the 1984 Budget Act directed the board, through the Department of Finance, to contract with a private consultant for a comprehensive management study of the board. The statute also required

DEPARTMENT OF CONSUMER AFFAIRS—Continued

that the consultant selected to conduct the study, recommend whether the board should adopt performance standards for individual employees or adopt organizational productivity goals. The Legislature approved \$217,000 to fund the study.

The consultant submitted his report to the board in December 1984. The report identifies several deficiencies in the board's policies, organization, programs and operating procedures. It also indicates that the board has not developed effective performance standards for individual employees. In order to correct these deficiencies, the consultant provided to the board a broad range of recommendations for improving the management and effectiveness of its (1) regulation program, (2) licensing program, and (3) administrative services program. The consultant also recommended improvements in workload and staffing standards.

We understand that the board presently is reviewing the consultant's findings and recommendations and intends to present implementation plans and a revised budget proposal to the fiscal subcommittees this spring. Accordingly, we withhold recommendation on the \$17,369,000 requested for the board under Item 1230-020-735, pending receipt of the implementation plans and a revised budget.

BOARD OF MEDICAL QUALITY ASSURANCE

Action by the Legislature to Establish a Special Continuing Education Program. The Legislature included \$1 million in the 1984-85 budget for the Board of Medical Quality Assurance to implement a special continuing education program for physicians. This program was intended to assure that physicians were aware of the significant changes in the Medi-Cal program and the system for delivering health care in California generally, including hospital contracting, health maintenance organizations, and preferred providers organizations.

The Legislature also included language in the budget trailer bill (Section 0.3, Ch. 268/84 [Senate Bill 1379]) directing the board to contract by September 1, 1984, for the design and implementation of an educational and technical assistance program and to permit the board to contract with the Joint Committee on Medi-Cal Oversight to assist the board in this effort. In addition, language in the *Supplemental Report of the 1984 Budget Act* directed the board to submit quarterly progress reports on the program.

Action by the Governor. In signing the *1984 Budget Act*, the Governor vetoed the \$1 million appropriation for the program and eliminated the provision in the trailer bill on the basis that it is not the board's responsibility to provide education and technical assistance to physicians.

Based upon the Governor's actions, the board notified the chairpersons of the Joint Legislative Budget committee and the fiscal committees on December 27, 1984, that the continuing education program was inoperative and that it had no plans to submit quarterly progress reports.

It is not apparent that the Governor has legal authority to eliminate statutory provisions placed by the Legislature in the budget trailer bill, Ch. 268/84. Accordingly, we intend to seek a formal opinion of the Legislative Counsel as to the legality of the Governor's actions and the board's decision to not implement the continuing education program. The opinion will be provided to the fiscal subcommittees at the time of budget hearings on the boards' budget.

BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS

We withhold recommendation on \$94,000 in the Board of Registration for Professional Engineers' proposed budget because the board is proposing a change in the request through a Department of Finance letter (Item 1500-068-770).

The Board of Registration for Professional Engineers is requesting \$94,000 for (1) one position for its examination program and (2) a contract to conduct validation and exam development studies. Our discussions with the board indicate that they will revise this request through a Department of Finance letter. Therefore, we withhold recommendation, pending receipt of the board's final budget proposal.

State and Consumer Services Agency

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General Fund and Federal Trust Fund	Budget p. SCS 80
Requested 1985-86	\$9,304,000
Estimated 1984-85.....	9,389,000
Actual 1983-84	8,446,000
Requested reduction (excluding amount for salary increases) \$85,000 (-0.9 percent)	
Total recommended reduction	109,000

1985-86 FUNDING BY ITEM AND SOURCE

Item-Description	Fund	Amount
1700-001-001-Support	General	\$9,304,000
1700-001-890-Support	Federal Trust	(2,066,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Slide Show Presentations. Reduce Item 1700-001-001 by \$20,000 from General Fund.* Recommend reduction to eliminate funding for the development of a slide show presentation, because the need for an augmentation to the department's training budget has not been established. 147
2. *Technical Recommendations. Reduce Item 1700-001-001 by \$89,000 from General Fund.* Recommend reduction to eliminate funding for overbudgeted items. 148

GENERAL PROGRAM STATEMENT

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

During the current year, the department consolidated its three program divisions into two divisions:

- *The Enforcement Division* is now responsible for investigating and

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

enforcing the state's anti-discrimination statutes relating to employment, housing and public accommodations.

- *The Administrative Services Division* now provides administrative support to the department, including accounting, budget, personnel and legal services. This division is also responsible for the development of policy, educational programs and legislative affairs.

The department has 255.3 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of \$9,304,000 from the General Fund for support of the Department of Fair Employment and Housing (DFEH) in 1985-86. This is \$85,000, or 0.9 percent, *less* than estimated current-year expenditures. This reduction, however, will be more than offset by the added cost of any salary or staff benefits increase that is likely to be approved for the budget year.

The budget proposes total expenditures from all sources, including federal funds and reimbursements, of \$11,370,000 in 1985-86, which is \$268,000, or 2.3 percent, less than estimated current-year expenditures. The budget proposal does not include any funds for the estimated cost of merit salary increases (\$58,000 in 1985-86) or inflation adjustments for operating expenses and equipment (\$95,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1 presents a summary of the department's expenditures, by program and funding source, for the three-year period ending June 30, 1986.

Table 1
Department of Fair Employment and Housing
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change, 1985-86</i> <i>Over 1984-85</i>	
				<i>Amount</i>	<i>Percent</i>
<i>Program Expenditures</i>					
Enforcement Division	\$9,294	\$9,682	\$9,611	-\$71	-0.7%
Administrative Services Division.....	1,199	1,956	1,912	-44	-2.2
Unallocated Reductions	—	—	-153	-153	—
Total Expenditures	\$10,493	\$11,638	\$11,370	-\$268	-2.3%
<i>Source of Funds</i>					
General Fund.....	\$8,446	\$9,389	\$9,304	-\$85	-0.9%
Federal Trust Fund	1,852	2,079	2,066	-13	-0.6
Reimbursements	195	170	—	-170	-100.0
Personnel-years	245.0	255.3	248.4	-6.9	-2.7

Table 1 indicates that the General Fund appropriation finances approximately 81 percent of the department's expenditures, while the Federal Trust Fund appropriation supports about 19 percent. This cost-sharing ratio has remained at approximately 80:20 (state General Fund-to-federal funds) since 1982-83. The federal support of the state's anti-discrimination activity is linked to an ongoing "work-sharing agreement" between DFEH and the federal Equal Employment Opportunity Commission (EEOC). Under this agreement, the federal government reimburses DFEH for processing cases which, although filed with the state, are also

subject to the jurisdiction of EEOC. The reimbursement covers only those cases which may be filed pursuant to federal law. In 1984-85, the reimbursement rate is \$422 per case for employment-related enforcement activities.

The department also maintains a similar work-sharing agreement with the federal Department of Housing and Urban Development (HUD) for enforcement of fair housing standards. In the current year, HUD provides reimbursements for housing-related enforcement at the rate of \$500 per case.

The budget proposes the following changes for 1985-86:

- The elimination of one staff manager position and associated support costs (-\$56,000), made possible by a reorganization which combined the functions of two small departmental units;
- An increase of \$58,000 in departmental salary savings; and
- A phase-out of the tasks of the Office of Statewide Compliance Coordination, resulting in a \$165,000 reduction in reimbursements. (Effective 1985-86, each state agency will be responsible for ensuring that its own facilities and programs do not unlawfully discriminate against persons with physical impairments.)

ANALYSIS AND RECOMMENDATIONS

Slide Show Cost Projections Are Fuzzy

We recommend a General Fund reduction of \$20,000 to delete funds requested for the development of a slide show presentation because the need to augment the department's training budget has not been established. (Reduce Item 1700-001-001 by \$20,000.)

The department proposes to spend \$20,000 in the budget year for the development of a slide show presentation. This presentation is designed to assist in the orientation and training of new DFEH staff.

The department's budget also includes \$9,000 for staff training. At the time this analysis was prepared, the department had not provided specific information documenting the need to augment this amount. Furthermore, DFEH had not justified the *level* of funding proposed for the development of a slide show. For these reasons, we cannot recommend approval of the request, and instead recommend a reduction of \$20,000 in Item 1700-001-001 (General Fund) to delete funds budgeted for the slide show presentation.

Department Begins Accepting Complaints Alleging Child-Related Housing Discrimination

During hearings on the 1984 Budget Bill, DFEH announced that it would begin accepting and investigating complaints alleging housing discrimination against families with children. In order to ensure that any *additional* caseload associated with these complaints was not handled at the expense of the department's existing enforcement efforts in other areas, the Legislature included a \$200,000 appropriation to be used specifically for the purpose of processing child-related housing discrimination complaints. This appropriation, however, was vetoed by the Governor.

In the fall of 1984, DFEH reversed its newly adopted policy on child-related housing discrimination complaints and announced that it would *not* accept or investigate these complaints, pending the outcome of *Department of Fair Employment and Housing v. Carefree Ranch Mobile Home Park*. This case, which was before the Fair Employment and Hous-

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

ing Commission (FEHC), raised the issue of whether DFEH and FEHC had jurisdiction over child-related housing discrimination under the Unruh Civil Rights Act and the Fair Employment and Housing Act.

In December 1984, the FEHC issued a decision in the *Carefree* case upholding the FEHC's and DFEH's jurisdiction over these complaints. In response to the decision, DFEH announced that it would immediately commence accepting these complaints. As of January 1985, 12 complaints alleging child-related housing discrimination have been filed with the department. All of these cases are under active investigation, and, pursuant to existing statutory requirements, they must be resolved by the department (either by the filing of a formal accusation or by closure) within one year of the date when the complaint was filed.

Technical Budgeting Issues

We recommend that the General Fund appropriation be reduced by \$89,000 in order to eliminate overbudgeting of unjustified expenditures, as follows:

- The department's request for Teale Data Center services (\$253,000) exceeds the estimate of current-year expenditures by \$50,000, despite the instructions of the Department of Finance (DOF) that departments budget for these expenses at the current year's level.
- The department is requesting \$10,000 for office relocation expenses (a 91 percent increase over the current-year amount) even though no plans currently exist to relocate any of its offices in 1985-86.
- The amount budgeted for intrastate per diem costs exceeds by \$8,000 the maximum amount allowed in the DOF price letter, and no information has been provided to justify the higher amount.
- The department proposes a 48 percent increase (\$5,000) in intrastate airfare expenditures, while our analysis indicates that these budget year costs will not increase over the current-year levels.
- The department's request for collective bargaining services by the Department of Personnel Administration (DPA) during 1985-86 is \$6,000 more than DPA's estimated allocation of costs to the department.
- The amounts requested in the Governor's Budget for various consulting expenses exceed by \$10,000 the amounts justified by DFEH in documents submitted to us.

State and Consumer Services Agency
FAIR EMPLOYMENT AND HOUSING COMMISSION

Item 1705 from the General

Fund	Budget p. SCS 82
Requested 1985-86	\$734,000
Estimated 1984-85.....	684,000
Actual 1983-84	591,000
Requested increase (excluding amount for salary increases) \$50,000 (+7.3 percent)	
Total recommended reduction	None
Recommendation pending	52,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
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|---|-----|
| 1. Attorney Staffing Changes. Withhold recommendation on proposals to reduce one staff attorney position and upgrade three others, pending receipt of caseload information. | 150 |
| 2. Establishment of Commission Hearing Officers. Recommend enactment of legislation authorizing commission to establish in-house hearing officers. | 151 |

GENERAL PROGRAM STATEMENT

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

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

- (1) **Adjudicatory Proceedings.** The commission hears, through the Office of Administrative Hearings, formal accusations filed by the Department of Fair Employment and Housing, and issues decisions in these cases.
- (2) **Judicial Reviews of Commission Decisions.** Commission staff assist the Attorney General when commission decisions are appealed to the superior and appellate courts.
- (3) **Investigation Hearings.** The commission conducts fact-finding hearings on selected matters involving illegal discriminatory activity.
- (4) **Regulatory Hearings.** Section 12935 of the Government Code authorizes the commission to promulgate regulations and standards to implement the state's anti-discrimination statutes.
- (5) **Amicus Curiae Activity.** The commission prepares and submits legal briefs in cases involving issues related to the commission's jurisdiction.

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

The commission has 13.5 authorized positions in the current year.

FAIR EMPLOYMENT AND HOUSING COMMISSION—Continued**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$734,000 from the General Fund to support the Fair Employment and Housing Commission (FEHC) in 1985-86. This is an increase of \$50,000, or 7.3 percent, over estimated current-year expenditures. This increase will grow by the cost of any additional salary or staff benefits increases approved for the budget year.

The major changes to the commission's budget proposed for 1985-86 are:

- A \$61,000 increase for operating expenses, one-half of which is due to a 97 percent increase for rent during 1985-86,
- The elimination of one staff attorney position, for a savings of \$32,000; and
- The upgrade of three staff attorney positions, at a cost of \$20,000.

ANALYSIS AND RECOMMENDATIONS**Jury Still Out on Attorney Staffing Changes**

We withhold recommendation on the budget's proposals to eliminate one staff attorney position and upgrade three others, pending receipt of caseload information from the commission.

The budget proposes to eliminate one of the commission's seven staff attorney positions and to offset this reduction by upgrading three other attorney positions, for a projected net savings of \$12,000 to the General Fund. The administration asserts that these actions will result in increased efficiencies.

The *Supplemental Report of the 1984 Budget Act* directs FEHC to submit a report to the fiscal committees and the Joint Legislative Budget Committee describing the implementation during 1983-84 and 1984-85 of its case-tracking system. The report is to include information relating to case-processing times, distribution of workload among staff, and administrative costs associated with case processing. At the time this analysis was prepared, commission staff indicated that the report was in the process of being completed, but not ready for official release.

We believe the Legislature needs this report in order to properly assess both the impact of a reduction in FEHC legal staff and the need to upgrade other staff positions. Accordingly, we withhold recommendation on these proposed changes to the commission's staff, pending receipt of the case-tracking report. If the report is submitted prior to the hearings on the FEHC budget, we will review it and present to the fiscal committees our recommendations relating to these proposed staffing changes.

THE ADMINISTRATIVE HEARINGS PROCESS UNDER THE FEHC**Background**

Under current law, once the Department of Fair Employment and Housing determines that a complaint alleging unlawful discrimination is valid and that attempts to resolve it through conference, conciliation, and persuasion have failed, the department issues a *formal accusation* against the party alleged to have committed unlawful discrimination. The Fair Employment and Housing Act authorizes the FEHC to hold hearings on these formal accusations.

Currently, a hearing officer (usually an administrative law judge) from the Office of Administrative Hearings (OAH) presides over every hear-

ing in a contested case. Upon completion of the hearing, the OAH hearing officer prepares a *proposed decision* for consideration by the commission. The proposed decision and the official hearing record are examined by FEHC staff attorneys, who prepare case summaries and make recommendations to the commission. Once a proposed decision is submitted, the commission has 100 days to adopt, modify, or reject the OAH ruling.

Current Hearings Process Results in Unnecessary Duplication

According to FEHC staff, up to 90 percent of the proposed decisions coming to the commission in recent years have been rejected by FEHC. This rejection rate contrasts dramatically with the rate at which OAH's proposed decisions are rejected by other agencies—a disapproval rate which OAH reports to be about 5 percent.

Commission staff cite three reasons for the unusually high rate of rejections by the FEHC.

First, the commission staff notes that OAH administrative law judges are *generalists* who adjudicate cases in many different subject areas. Consequently, they may not always be able to keep abreast of recent laws and court rulings relating to employment discrimination. Thus, in the opinion of the commission, proposed decisions tend to include substantive errors of law. When this happens, the commission's attorneys must devote time to rewriting the proposed decisions.

The second problem area cited by FEHC involves the commission's concern for legal consistency in its published decisions. Because these decisions set precedents for future cases, they must be framed in a manner that carefully details the commission's statutory policy-making authority in the area of employment and housing discrimination. The OAH's hearing officers cannot be expected to be aware of the FEHC's policy concerns. Consequently, the commissioners often request FEHC attorneys to redraft proposed decisions to address these policy matters.

Finally, the Administrative Procedure Act—which the commission must observe in conducting these hearings—limits FEHC's options in acting on proposed decisions. If, for example, the commission decides to make any changes to a proposed decision, generally the entire draft must be rewritten. This work is performed by the commission attorneys.

Based on these factors, the FEHC routinely has directed its staff attorneys to "rewrite" decisions so as to reflect the commission's opinion on the various cases coming before it. Our review found that this "rewriting" function now accounts for up to 75 percent of the FEHC staff attorneys' time (there are six attorneys currently on the staff). This "rewriting" of proposed decisions appears to result in an unnecessary and costly duplication of effort between the commission's staff attorneys and the OAH hearing officers presiding over the "formal accusation" proceedings.

The Commission Should be Authorized to Establish In-House Hearing Officers

We recommend the enactment of legislation authorizing the commission to establish in-house hearing officers to preside at "formal accusation" hearings on behalf of the commission.

Our analysis indicates that the most cost-effective way to eliminate the duplication of effort described above is to provide the commission with "in-house" hearing officers who can preside over formal accusation hearings in lieu of OAH personnel. Such a change would bring the commission's quasi-judicial operations more into line with the operations of state agencies like the Public Employment Relations Board, State Personnel

FAIR EMPLOYMENT AND HOUSING COMMISSION—Continued

Board, Workers' Compensation Appeals Board, and the Agricultural Labor Relations Board.

There would be two primary benefits from shifting the hearings responsibility to the commission. First, we estimate that the change would result in an annual *net* General Fund savings of approximately \$164,000. There would be an *increase* in the commission's budget of about \$36,000 annually for upgrading certain positions to hearing officers and for additional administrative costs. This increase, however, would be more than offset by the reduction of \$200,000 in OAH costs, which currently are funded in the budget of the Department of Fair Employment and Housing.

Second, the establishment of in-house hearing officers could result in a speedier disposition of cases because "formal accusation" hearings would no longer have to compete with other items on the OAH hearing officer's calendar. According to FEHC staff, in the past year the hearing for one case was delayed several months, due to scheduling problems involving the OAH hearing officer.

For these reasons, we recommend the enactment of legislation authorizing the commission to establish in-house hearing officers to preside at "formal accusation" hearings on behalf of the commission. In order to implement this recommendation, both the Administrative Procedure Act and the Fair Employment and Housing Act must be amended for the purpose of authorizing the commission to establish its own staff hearing officers to preside at formal accusation hearings.

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

Item 1710 from the General
Fund and various funds

Budget p. SCS 83

Requested 1985-86	\$5,712,000
Estimated 1984-85.....	5,597,000
Actual 1983-84	4,254,000
Requested increase (excluding amount for salary increases) \$115,000 (+2.1 percent)	
Total recommended reduction	11,000
Recommendation pending	370,000

1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1710-001-001—SFM, support	General	\$3,999,000
1710-001-198—SFM, support	California Fire Services	384,000
	Training and Education	
1710-001-199—SFM, support	California Fireworks Licens- ing	440,000
1710-001-209—SFM, support	Hazardous Liquid Pipeline Safety	889,000
Total		\$5,712,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
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|--|-----|
| 1. Fireworks Testing. Withhold recommendation on \$312,000, pending receipt of information substantiating (1) the cost of the fireworks program, (2) that the fireworks program will operate in accordance with current law, and (3) that contracting for the program with the private sector is cost effective. | 153 |
| 2. Building Materials Listing. Withhold recommendation on expansion of building materials listing contract, pending receipt of information, detailing (1) why current year funds are insufficient, and (2) the proposed use of the \$58,000 augmentation request. | 155 |
| 3. <i>Technical Recommendations. Reduce Item 1710-001-001 by \$11,000.</i> Recommend reduction to eliminate overbudgeting for equipment and the costs of the State Building Standards Commission. | 156 |

GENERAL PROGRAM STATEMENT

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

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

The office is authorized to have 149.9 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$5,712,000 for support of the Office of the State Fire Marshal in 1985-86. This is an increase of \$115,000 or 2.1 percent, over estimated current year expenditures. General Fund expenditures account for \$3,999,000 of the proposed budget, with the remaining \$1,713,000 coming from three special funds. Total expenditures including expenditures of reimbursements, are proposed at \$8,388,000 for 1985-86, as compared to \$8,120,000 in the current year, an increase of \$268,000 or 3.3 percent. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

The office plans to eliminate one vacant position in the budget year, in accordance with recommendations of the Governor's Management Task Force.

Table 1 summarizes the adjustments and proposed changes reflected in the budget.

ANALYSIS AND RECOMMENDATIONS**Changes and Delays in Fireworks Program Contract**

We withhold recommendation on \$312,000 requested from the California Fireworks Licensing Fund, pending receipt of information from the Fire Marshal to substantiate (1) the cost of the fireworks program, (2) that the fireworks program will be able to operate in accordance with current law, and (3) that it is cost effective to contract for this program with the private sector.

OFFICE OF THE STATE FIRE MARSHAL—Continued

Table 1
Office of the State Fire Marshal
Proposed 1985-86 Budget Changes
(dollars in thousands)

	General Fund	CFSTE ^a Fund	CFL ^b Fund	HLPS ^c Fund	Reimburse- ments	Total
1984-85 Expenditures (Revised)	\$3,965	\$369	\$427	\$836	\$2,523	\$8,120
Baseline Adjustments:						
Merit salary adjustment	30	1	1	6	27	65
Personal services adjustment	27	-1	-2	1	38	63
Increases to offset inflation	31	10	14	11	30	96
Pro rata adjustment	—	33	—	18	—	51
Equipment adjustment	-100	-28	—	17	—	-111
Proposed Program Changes:						
Indirect operations reduction	-18	—	—	—	—	-18
Augment interagency agreement with Building Standards Commission	64	—	—	—	—	64
Expansion of building materials	—	—	—	—	58	58
1985-86 Expenditures (Proposed)	\$3,999	\$384	\$440	\$889	\$2,676	\$8,388
Change from 1984-85						
Amount	\$34	\$15	\$13	\$53	\$153	\$268
Percent	0.9%	4.1%	3.0%	6.3%	6.1%	3.3%

^a California Fire Services Training and Education Fund.

^b California Fireworks Licensing Fund.

^c Hazardous Liquid Pipeline Safety Fund.

The Office of the State Fire Marshal (SFM) is required by statute to (1) license firms and individuals who manufacture, import, or sell fireworks and (2) persons who operate pyrotechnic displays. Firms and individuals are required to pay fees for these licenses. These fees offset the cost of the fireworks testing/inspection program. In addition, the Fire Marshal is required to examine and classify all fireworks and pyrotechnic devices before they are sold in California.

In the past, various aspects of this program were not implemented due to budget reductions and a redirection of staff effort. Because of this, the SFM proposed in 1984-85 to contract with a private firm to administer the fireworks program.

The budget requests \$312,000 from the California Fireworks Licensing Fund (CFLF) to continue contracting for this program. This amount is based on the estimated cost of contracting for administration of the *entire* fireworks program, as presented to and approved by the Legislature last year.

Our analysis indicates that the amount appropriated for the fireworks program in the current year is not sufficient, and as a result, the program has not been implemented in the manner originally presented to the Legislature. Thus, it is not clear that the amount requested will be sufficient to cover the actual costs of the fireworks program in 1985-86.

Background. In its proposal last year, the SFM proposed to have a private contractor accomplish the following tasks; (1) conduct all tests of fireworks, (2) classify fireworks using the standards established in statute

and by the State Fire Marshal, and (3) inspect fireworks manufacturers for safety violations. Under its proposal, the SFM would continue to issue licenses to firms and individuals. At the request of the Legislature, the SFM prepared and submitted a draft Request for Proposal (RFP), setting forth the tasks to be performed by the contractor. After reviewing the RFP, the Legislature appropriated the \$298,000 requested by the SFM for the proposed contract, based on the SFM's assurance that the program could be implemented fully within this amount.

The SFM indicates, however, that *no acceptable proposals* were received in response to the RFP. As a result, it revised the scope of the RFP to include only the testing and classification portions of the fireworks program. Following these revisions, a contract was awarded, and a separate contract was awarded to develop an enforcement program for inspection of fireworks manufacturers. It is not clear from the contract how the operation of the enforcement and inspection functions will be carried out.

These contracts were initiated on January 1, 1985, at a combined half-year cost of \$166,420 (classification/testing \$145,080 and program development \$21,340). On an annual basis, this amount is \$35,000 more than what the SFM indicated the fireworks program would cost last year. Given the workload distribution changes which have occurred in the implementation of this program, it may no longer be cost effective to contract for the program.

In view of these concerns, we withhold recommendation on the \$312,000 included for the fireworks program, pending receipt of a detailed written report from the SFM indicating that (1) the fireworks program will operate in accordance with existing law, and (2) it is cost-effective to contract for this program. This information should be provided to the Legislature prior to budget hearings.

Expansion of Building Materials Listing Program Needs Further Justification

We withhold recommendation on the \$58,000 augmentation proposed for the building materials listing program, pending receipt of additional information detailing (1) why current year funding is insufficient, and (2) the proposed use of the additional funds.

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

The State Fire Marshal proposed in the 1984 budget to contract with the private sector to provide the testing and listing of building materials. On July 1, 1984, the SFM entered into a one-year contract with the International Conference of Building Officials (ICBO) to perform these functions. The contract amount is approximately \$122,000 for its services.

The SFM is proposing in the budget year to augment the contract amount by \$58,000. The Governor's Budget indicates that these funds would be used to "computerize the tracking and recording of products that are submitted to the State Fire Marshal for inclusion on the Building Material Listing." The additional funds would be used for (1) provision of various computer hardware, (2) development of the necessary software for administration of the program, and (3) SFM staff management of the contract.

Computerization was part of the contractor's duties as described in the original Request for Proposal (RFP). The Fire Marshal indicates, howev-

OFFICE OF THE STATE FIRE MARSHAL—Continued

er, that the budget amount was inadequate to implement this portion of the approved program. Consequently, the SFM eliminated the computerization of product tracking and recording.

It is not clear why the funds provided for this contract in 1984-85 were not sufficient to fund the entire program, especially given that, according to the Fire Marshal, "the ICBO was willing to take over the program within the budgeted amount of \$122,000." The SFM has provided no explanation of why the ICBO or another consultant could no longer undertake the program for the \$122,000. Moreover, an estimate detailing how the requested \$58,000 augmentation will be used is not available. Finally, the SFM has provided no information documenting the deficiencies with the existing computer systems or demonstration of how the addition of hardware/software will permit more effective operation.

Accordingly, we withhold recommendation on the requested \$58,000 augmentation for the building material listing program contract, pending receipt of information described above.

Technical Recommendations

We recommend that the General Fund appropriation be reduced by \$11,000 in order to eliminate overbudgeting.

Our analysis indicates that the following items are overbudgeted:

- The budget includes \$6,000 for equipment which has previously been funded.
- A requested augmentation to pay for additional costs of the State Building Standards Commission is \$5,000 too high. (see *Analysis of Item 1710-001*).

FRANCHISE TAX BOARD

Item 1730 from the General

Fund and various funds	Budget p. SCS 87
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Requested 1985-86	\$117,822,000
Estimated 1984-85	110,547,000
Actual 1983-84	92,568,000
Requested increase (excluding amount for salary increases) \$7,275,000 (+6.6 percent)	
Total recommended increase	1,499,000
Recommendation pending	1,081,000
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1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1730-001-001—Support	General	\$117,739,000
1730-001-201—Support	Fish and Game Preservation	17,000
1730-001-800—Support	U.S. Olympic Committee	17,000
1730-001-803—Support	State Children's Trust	18,000
1730-001-905—Support	California Election Campaign	15,000
1730-001-983—Support	California Seniors	16,000
Total		<u>\$117,822,000</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
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| 1. Return Estimates. Withhold recommendation on \$1,081,000 requested to accommodate workload growth, pending review of revised estimates of return volumes. | 161 |
| 2. <i>Audit Positions. Augment Item 1730-001-001 by \$1,526,000.</i> Recommend addition of 49.5 personnel-years in order to perform cost-beneficial audits of tax returns. (Potential increase in General Fund revenues of \$13.4 million in 1985-86 and \$19.1 million annually thereafter). | 164 |
| 3. <i>Personnel Cost Savings from Office Automation. Reduce Item 1730-001-001 by \$27,000.</i> Recommend reduction because acquisition of office automation equipment by the legal division should result in personnel cost savings. | 166 |
| 4. Office Automation in Audit Division. Recommend adoption of Budget Bill language to make expenditures of \$342,500 for audit division office automation equipment contingent upon approval by the Department of Finance of the board's Feasibility Study Report. | 167 |
| 5. Personnel-Year Reduction. Recommend Franchise Tax Board report during budget hearings on its plans to implement proposed reduction of \$546,000 and 33 personnel-years. | 167 |

GENERAL PROGRAM STATEMENT

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

The board has 3,076.5 personnel-years authorized for the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$117,739,000 from the General Fund for support of the Franchise Tax Board in 1985-86. This is an increase of \$7,264,000, or 6.6 percent, over estimated General Fund expenditures for the current year. This increase will grow by the cost of any salary or staff benefits increase approved for the budget year.

During 1985-86, the board also expects to receive \$2,959,000 in reimbursements, \$998,000 from the Political Reform Act item, and \$83,000 from various special funds. Consequently, total expenditures by the board are projected at \$121,779,000 in the budget year—\$8,500,000, or 7.5 percent, more than current-year expenditures.

The budget request includes funding for 2,956.5 personnel-years in 1985-86, which is 120 personnel-years less than the number authorized in the current year.

The budget proposal does not include funds to cover approximately one-quarter of the increased General Fund costs for operating expenses and equipment (\$240,000) that is expected to result from inflation. Presumably, these costs will be financed by diverting funds budgeted for other purposes.

FRANCHISE TAX BOARD—Continued

Table 1 summarizes the level of expenditures and personnel-years for each of the board's major programs in the prior, current and budget years.

Table 1
Franchise Tax Board
Program 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
Personal Income Tax	1,833	1,877	1,777	\$65,332	\$70,139	\$76,449
Bank and Corporation Tax	661	837	817	25,662	37,535	39,308
Homeowners and Renters Assistance	48	49	49	1,697	1,905	2,371
Political Reform Act	86	90	90	762	974	998
Contract Work	17	17	17	2,481	2,726	2,893
Administration—Distributed	209	207	207	(7,603)	(8,160)	(8,375)
Unallocated	—	—	—	—	—	-240
Totals	2,855	3,076	2,957	\$95,934	\$113,279	\$121,779
<i>Funding Source</i>						
General Fund	2,747	2,982	2,845	\$92,404	\$110,475	\$117,739
Reimbursements	86	90	90	2,598	2,732	2,959
Political Reform Act	17	—	17	762	(974)	998
California Election Campaign Fund	1	1	1	41	19	15
U.S. Olympic Committee Fund	1	1	1	30	13	17
California Seniors Fund	1	1	1	30	13	16
Fish and Game Fund	1	1	1	32	13	17
State Children's Trust Fund	1	1	1	31	14	18
Federal Trust Fund	—	—	—	6	—	—

Source of Funds. The FTB receives direct support from the General Fund for the PIT, B&C, and Homeowners and Renters Assistance programs. The funding for the board's Political Reform Act activities is provided through a separate budget item, while contract expenditures are funded through reimbursements from other government agencies. In addition, the FTB's budget includes funding from the California Election Campaign Fund, the U.S. Olympic Committee Fund, the California Seniors Fund, the Fish and Game Fund, and the Children's Trust Fund. These funds are provided to FTB in order to cover its costs for processing voluntary contributions made by taxpayers to special programs supported by these funds.

General Fund Expenditures. Table 2 summarizes the General Fund expenditures proposed by FTB for the budget year. It shows that the PIT program accounts for almost two-thirds of what the FTB proposes to spend from the General Fund in 1985-86. Most of the remaining expenditures are attributable to the B&C tax program.

The table also shows how much FTB anticipates spending for various functions. About 36 percent of the board's budgeted General Fund expenditures is for processing returns and providing assistance to taxpayers, while 35 percent is for audits and 21 percent is for tax collection activities.

Table 2
Franchise Tax Board
Program Functions Supported by the General Fund
1985-86
(dollars in thousands)

<i>Function:</i>	<i>PIT Program</i>		<i>B&C Program</i>		<i>HRA Program</i>		<i>Total</i>	
	<i>Budgeted Expenditures</i>	<i>Percent of Total</i>						
Processing/Taxpayer Assistance	\$32,886	43.1%	\$7,080	18.0%	\$2,371	100.0%	\$42,337	35.9%
Audit	16,823	22.0	24,565	62.5	—	—	41,388	35.1
Collections	18,891	24.7	6,220	15.8	—	—	25,111	21.3
Filing Enforcement	7,766	10.2	657	1.7	—	—	8,423	7.1
Exempt Corporations	—	—	786	2.0	—	—	786	0.7
Administration	(5,496)	—	(2,535)	—	(148)	—	(8,179)	—
Totals	\$76,366	100.0%	\$39,308	100.0%	\$2,371	100.0%	\$118,045 ^a	100.0%
Percent of General Fund Expenditures....	64.7%		33.3%		2.0%		100.0%	

^a This amount is \$306,000 higher than total General Fund expenditures (\$117,739,000), because (1) it reflects \$66,000 in expenditures from reimbursements and (2) it does not reflect the unallocated General Fund reduction of \$240,000 for operating expenses.

Abbreviations:

PIT = Personal Income Tax

B&C = Bank and Corporation

HRA = Homeowners and Renters Assistance

FRANCHISE TAX BOARD—Continued

Finally, the table shows the relative importance of the various functions for each of the three major programs administered by FTB. For example, return processing and taxpayer assistance accounts for over 43 percent of total General Fund expenditures under the PIT program, but only 18 percent of expenditures under the B&C program. In contrast, audit activities account for 63 percent of expenditures under the B&C program and only 22 percent of expenditures under the PIT program.

Proposed Changes to the Budget. Table 3 identifies the changes proposed in the FTB's budget for 1985-86. As the table shows, the budget proposes \$1,816,000 in additional funding for *workload* changes, \$2,449,000 for *program* changes, and \$5,096,000 for *administrative* changes. These funding increases are offset by a decrease of \$861,000 in *baseline adjustments*, leaving a net total budget increase of \$8,500,000.

Table 3
Franchise Tax Board
Proposed 1985-86 Budget Changes
(dollars in thousands)

	General Fund	Reimburse- ments and Special Funds	Total
1984-85 Expenditures (Revised)	\$110,475	\$2,804	\$113,279
<i>Baseline Adjustments:</i>			
Personal Services	1,969	31	2,000
Operating Expenses and Equipment	761 ^a	30	791
Elimination of Limited-Term Positions	-91	—	-91
Legislative Changes	-3,442	-174	-3,616
Political Reform Act	-974	998	24
Other	16	15	31
Subtotal, Baseline Adjustments	-1,761	900	-861
<i>Workload Adjustments:</i>			
Processing and Taxpayer Assistance	1,816	—	1,816
<i>Program Changes:</i>			
Post Amnesty Enforcement	2,358	—	2,358
Refund Offset Processing	-100	191	91
Subtotal, Program Changes	2,258	191	2,449
<i>Administrative Changes:</i>			
New Office Facility	5,134	145	5,279
PIT Data Capture	-659	—	-659
Office Automation	803	—	803
Data Base Management System	250	—	250
Increased Efficiency	-31	—	-31
Personnel-Year Reduction	-546	—	-546
Subtotal, Workload Adjustments	4,951	145	5,096
1985-86 Expenditures (Proposed)	\$117,739	\$4,040	\$121,779
Change from 1984-85			
Amount	\$7,264	\$1,236	\$8,500
Percent	6.6%	44.1%	7.5%

^a This amount reflects the total cost of inflation adjustments \$1,001,000 less the unallocated General Fund reduction of \$240,000.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following proposed budget changes which are not discussed elsewhere in this analysis:

- Elimination of 50 positions and a corresponding reduction of \$659,000, made possible by a new system for collecting information from personal income tax returns.
- An increase of \$250,000 for procurement of a data base management system that will improve the board's ability to process transactions, maintain tax files, and access data, as set forth in the approved feasibility study report for the project.
- Elimination of three positions due to increased administrative efficiencies resulting from the acquisition and use of microcomputers, and a corresponding net budget reduction of \$31,000.
- An increase of \$191,000 in reimbursements, offset by a reduction of \$91,000 from the General Fund, to implement new provisions for "offsetting," or deducting, amounts from tax funds to collect money owed by a taxpayer to a state agency, as required by Ch 1581/84 (AB 2727).

Processing and Taxpayer Assistance Workload Estimates Need Updating

We withhold recommendation on \$1,081,000 requested to provide for workload growth, pending review of revised estimates for the volume of tax returns to be processed during the budget year.

About 35 percent of the board's General Fund budget is spent on processing tax returns and providing information and assistance to taxpayers. The FTB will spend \$40.4 million for these activities in the current year and \$42.3 million in the budget year.

The 1985-86 budget requests an increase of \$1,816,000 for return processing and taxpayer assistance activities. Of this amount, \$735,000 will be used to replace or upgrade data processing equipment and to cover the increased costs of rent for district offices and data storage facilities. The balance of the proposed amount—\$1,081,000—reflects the estimated increase in the volume of returns to be processed.

The amount that FTB is requesting for processing additional returns is estimated based on processing productivity as well as on the estimated volume of returns to be received and processed during the budget year. With regard to productivity, the board has indicated that the overall productivity rate has *declined*, mainly because of a disproportionate

Table 4
Franchise Tax Board
Tax Return Volumes
1983-84 to 1985-86
(number of returns in thousands)

Type of Returns:	Number of Returns			Change from 1984-85 to 1985-86	
	1983-84	1984-85	1985-86	Number	Percent
	Actual	Estimated	Projected		
Personal Income Tax	11,339	11,723	12,182	459	3.9%
Bank and Corporation	446	460	485	25	5.4
Homeowners and Renters.....	367	320	280	-40	-12.5
Totals	12,152	12,503	12,947	444	3.6%

FRANCHISE TAX BOARD—Continued

increase in the volume of "remittance returns." These are tax returns which are accompanied by additional payments. Remittance returns take longer for the board to process. With regard to return volumes, FTB projects that it will process approximately 12.9 million tax returns during 1985-86. As shown in Table 4, this represents an increase of 3.6 percent over the estimated volume for the current year.

The FTB's projections are based primarily on estimates of various economic variables that are believed to affect the total volume of returns filed by California taxpayers. Given the timing of the budget process, the board had to develop these projections using economic data available during July of 1983. Since then, however, the economic outlook has changed, and current projections for certain variables differ from those used by FTB to estimate tax return volume for 1985-86. Based on the economic forecast contained in the Governor's Budget, we believe the return volume could be as much as 120,000 greater than what FTB projected for 1985-86. There also have been recent increases in the number of late or amended returns filed by taxpayers, which are not reflected in its tax return projections.

The FTB has indicated that it plans to revise its estimates of return processing workload for 1985-86 to account for these changes. Until we have had the opportunity to review FTB's revised estimates of 1985-86 return volumes, we withhold recommendation on the \$1,081,000 included in the budget for workload growth.

Report on Telephone Information Center

The FTB's program for providing information and assistance to taxpayers mainly involves (1) telephone assistance provided on a toll-free basis from the Telephone Information Center in Sacramento, (2) written assistance from a correspondence unit (also in Sacramento), (3) and walk-in counter assistance at 16 district offices located throughout the state.

Over half of the requests for assistance are met through the Telephone Information Center. In 1983-84, the Center responded to approximately 1.6 million phone calls seeking answers to questions about the PIT, B&C, and HRA programs. The volume of phone calls answered, however, is below the number of calls actually placed. The board measures the level of service provided by the Center by calculating the percentage of calls answered, or "access rate." In recent years, the access rate has declined. For 1984-85, the Center is budgeted to operate at an access rate of 59 percent, compared to the normal rate of 65 percent. As a result, the number of calls for taxpayer assistance that will not be answered during the year is expected to increase by 187,000. The board indicates that its budget for 1985-86 would have to be increased by \$391,000 for it to operate at the previously budgeted level of 65 percent for all of 1985-86.

The access rate has fallen mainly because telephone rates have increased (primarily as a result of the AT&T divestiture) without a corresponding increase in funding. Last year, the board's telephone charges increased by \$716,000 but additional funding was not provided. While FTB was able to redirect some funds to cover part of the rate increase, most of the charges were "paid for" by reducing the number of staff assigned to take the calls and conduct other return processing and taxpayer assistance activities.

Chapter 1490, Statutes of 1984 (AB 3230) provided an additional \$250,000 to the board so that it could operate at a 70 percent access rate during the Tax Amnesty period (December 10, 1984 through March 15, 1985).

In last year's *Analysis*, we noted that the benefits both to the taxpayer and the state from the Information Center program justify its continued funding. We also suggested that deregulation of the telephone industry could provide opportunities for the board to operate the Information Center at *less* cost to the state.

Based on our recommendation, the Legislature included language in the *Supplemental Report of the 1984 Budget Act*, directing FTB to report on (1) alternatives for providing toll-free telephone assistance to taxpayers, and (2) the potential consequences of the decline in the access rate.

The FTB's report indicates that there is no currently viable alternative to the existing service operated by AT&T. While several new companies offer long-distance telephone service, none allows the party being called (that is, the FTB) to pay for the service. These companies also require the *caller* to have special access codes. Since all California taxpayers do not have these special access codes, they would not have equal access to the Information Center program if operation of the service were shifted to another telephone company.

The board's report also addresses the effects of the recent declines in the access rate. According to the report, the reduced level of access has caused the number of complaints received by the board regarding its service to increase. It has also encouraged taxpayers to seek assistance from the board in other ways. For example, a significant number of taxpayers have visited the FTB's district offices or have written letters requesting assistance because the telephone lines were busy. During 1982-83, when the level of access was at 64 percent, approximately 17 percent of the board's public assistance services were rendered through written correspondence and 20 percent was provided through contacts at district offices. Last year, when the telephone access rate fell to 59 percent, the percentages increased to 18 percent and 21 percent, respectively. Since the cost per contact through the Telephone Center is less than the cost per contact through other means, the average cost of providing taxpayer services has increased. Such increases, however, have been small, and the board is unable to identify a cause-and-effect relationship between the change in the access rate and the number of letters received or direct walk-in contacts made.

The FTB hopes to restore the Information Center access rate to 65 percent from savings through management and program efficiencies rather than through a separate budget increase.

We concur with the board's finding that the present AT&T service is the only feasible option at this time for providing taxpayer assistance on a toll-free basis. Consequently, it does not appear possible to significantly reduce the cost of providing this assistance. On the other hand, we are not able to document that an increase in funding for taxpayers assistance would have a significant enough effect on costs to justify the *additional* funding needed to restore the access rate to 65 percent. Nevertheless, the recent decline in the access rate has reduced the level of service provided to taxpayers.

Tax Amnesty Program

Chapter 1490, Statutes of 1984 (AB 3230), established a comprehensive tax penalty amnesty program for 1984-85 and contained provisions intended to enhance the tax compliance program administered by both the FTB and the State Board of Equalization. The measure appropriated a total of \$4,234,500 to FTB in 1984-85, both to administer the amnesty

FRANCHISE TAX BOARD—Continued

program and to increase its audit and tax collection efforts. However, nearly all of the funds for the latter activities—\$1,331,500—were eliminated by the Governor.

The board is using the remaining \$2,903,000 in additional funds provided for the current year to finance publicity, the printing of amnesty brochures and forms, the processing of amnesty applications, and the implementation of the specific new enforcement provisions established by Chapter 1490. The FTB has estimated that the tax amnesty program will generate additional tax collections of from \$26 million to \$64 million during 1984-85.

The budget proposes \$2,358,000 and 38.8 personnel years in 1985-86 for FTB to continue the stepped-up tax enforcement provisions following the tax amnesty program. As shown in Table 5, \$1,535,000 of this amount will be used to develop a filing enforcement system for self-employed individuals, administer a program for detecting unreported capital gains, enforce civil penalties for failing to file a return, and implement other new enforcement tools. The other \$823,000 is proposed for the False W-4 program. This program, which Chapter 1490 transferred from the Employment Development Department to FTB, is aimed at identifying individuals who avoid paying taxes by claiming a false number of exemptions for withholding purposes. As the table also shows, FTB estimates that the two programs will produce approximately \$55 million in additional revenues during 1985-86.

Table 5
Expenditures for Post-Amnesty
Tax Enforcement
1985-86

<i>Program</i>	<i>Personnel Years</i>	<i>Expenditures</i>	<i>Estimated Revenue Gain (dollars in millions)</i>
Chapter 1490 Enforcement Provisions.....	9.8 ^a	\$1,535,000	\$29.6 ^b
False W-4 Program	29.0	823,000	25.5
Totals.....	38.8	\$2,358,000	\$55.1

^a Does not include 40 personnel years that will be funded through decreased salary savings adjustments.

^b Represents midpoint of estimated \$25.1 to \$34.1 million range.

Additional Audit Resources A Good Investment

We recommend an augmentation of 50 personnel-years and \$1,526,000 to the FTB audit program, because the additional audits that would be conducted using these positions would produce tax revenues well in excess of what the positions would cost (estimated revenue gain: \$13.4 million in 1985-86).

Through the personal income and corporation tax program, the FTB collects over one-half of the state's General Fund revenue. The board conducts an extensive audit program to protect these important components of the state's revenue base. For 1985-86, FTB is requesting \$41.4 million to support audits of nearly 1.5 million tax returns. The types of returns selected for audit depend on the estimated revenue that can be anticipated per dollar of audit cost. According to the board's audit plan,

the proposed budget resources will allow it to perform audits of all returns with a potential revenue to cost ratio greater than or equal to \$8 per \$1 of cost. These audits are expected to eventually produce additional revenues to the General Fund of \$495 million.

When the Legislature enacted Chapter 1490, the tax amnesty measure, it also provided a significant funding increase to FTB to increase its tax compliance and enforcement effort. This included \$2,165,000 in 1984-85, and \$3,697,000 in 1985-86, specifically for additional audit, collections, and other tax enforcement activities.

The Governor eliminated all of the 1985-86 funds, stating that these funds should be considered as part of the regular budget process. The 1985-86 budget, however, requests no funds for increased audit personnel or tax collectors, other than 12 new audit positions that would conduct audits of real estate transactions, as identified by the new system established by Chapter 1490 for detecting unreported capital gains.

The budget's failure to request additional resources for the audit program removes one of the primary props from the amnesty program. When the Legislature enacted the program, it contemplated that the one-time "forgiveness" for tax evasion would be followed by increased tax enforcement. Additional resources, however, are *not* being requested to address major alleged abuses of the state's PIT and B&C laws, such as overstated deductions and business expenses, which result in significant losses of General Fund revenue.

Our analysis further indicates that it clearly would be in the state's financial interest to provide FTB with additional audit resources, because (1) audit coverage has been on the decline due to funding cutbacks, and (2) the audit resources would produce revenues well in excess of what they would cost.

1. ***Declines in Audit Coverage.*** For the past several years, FTB has had to redirect funds away from its audit program in order to pay for cost increases in other program areas. This occurred in 1983-84, for example, as a result of the Governor's decision to reduce FTB's appropriation by \$2,090,000 in order to eliminate funding for merit salary adjustments and inflation adjustments for operating expenses. In total, FTB's staff resources for audits has been reduced by approximately 50 personnel-years.

The effect of making less resources available for audit activities is to reduce the level of audit coverage, as measured by the revenue/cost ratio for audits conducted by the board. Prior to the 1983-84 funding reductions, the board was budgeted to perform audits in all account groups with a revenue/cost ratio exceeding about \$5 per \$1 of cost. The 1985-86 budget, however, only includes funding for audits with revenue/cost ratios exceed \$8 per \$1 of cost.

2. ***Additional Audits Would be Cost-Beneficial.*** The addition of audit personnel would produce revenues well in excess of what these positions would cost. Based on FTB's audit workplan for 1985-86, audit coverage *on the margin* would return \$8 for every \$1 of audit costs. Since the additional costs to the state would be substantially less than the revenues it would lose from not performing the audits, it would be in the state's financial interest to expand the number of audit personnel.

For these reasons, we recommend that the Legislature augment FTB's budget by \$1,526,000 and 49.5 personnel-years, in order to restore the level of resources for audits to what existed prior to the cutbacks in 1983-84. This would bring in additional revenues of \$13.4 million during the budget year and \$19.1 million annually thereafter.

FRANCHISE TAX BOARD—Continued**FTB Moves Forward With Office Automation**

As we noted in last year's *Analysis* (please see page 213), many of FTB's routine activities lend themselves well to office automation because they are both paper intensive and labor intensive. This is because the board's principal responsibility—collecting taxes—involves processing large volumes of tax returns, payment documents, claims, and correspondence with taxpayers.

Recognizing the potential to increase its efficiency offered by office automation, FTB established a task force to develop a *strategic plan* for taking advantage of this technology. Subsequently, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* directing FTB to report on the findings and recommendations of the task force.

In our opinion, the FTB's ongoing effort to apply new office automation technologies to its operations should serve as a model for other agencies to follow. The board has developed a strategic plan to guide its efforts, and it keeps abreast of the latest technological developments. The board tests new applications on a pilot project basis, and then makes plans to implement those which prove successful. Moreover, FTB makes an effort to identify and budget for personnel cost savings resulting from the increased use of office automation equipment.

The report provides an overview of FTB's efforts and plans to use available technology in different areas and activities. According to the report, FTB's plans provide for upgrading current applications, such as replacing word processing equipment with newer models, and applying available technologies to new applications. Some of the new applications include computer assisted design of tax forms and instructions, computer assisted training of department staff, and transmitting tax documents between district offices electronically.

The 1985–86 budget for the board reflects personnel cost savings of \$969,000 that were made possible by a new system of collecting information from PIT returns that costs \$310,000.

Budget Requests Funding for Additional Office Automation Equipment

We recommend a reduction of \$27,000 and two positions to account for the additional personnel cost-savings that will result from the acquisition of office automation equipment.

The budget requests funding of \$803,000 for additional office automation equipment. This includes \$282,000 for video display terminals, \$65,500 for microcomputers, and \$444,000 for word processing equipment. The request also includes \$12,000 for personal services. This reflects the replacement of two clerical positions with two computer programmers.

Our analysis indicates that the additional equipment should result in personnel savings exceeding the level reflected in the budget request. Specifically, we believe that the savings to be realized by expanding word processing capabilities in the legal division (\$101,500 for 21 stations) should result in greater savings during the budget year than what the FTB anticipates. While the board anticipates savings of \$18,000 and one personnel-year beginning in 1987–88, we note that the word processing equipment added to this division in 1984–85, at a cost of \$17,000, is expected to produce savings of \$11,000 during that year. Our analysis suggests that the word processing equipment to be purchased for the legal division should

result in savings during 1985-86 of at least \$27,000 and two personnel-years for clerical support. Accordingly, we recommend deletion of this amount.

Feasibility Study Report Needed for New Audit Application

We recommend that the expenditure of \$342,500 for specified office automation equipment be made contingent upon approval by the Department of Finance of the Feasibility Study Report for this project.

The board's request includes \$342,500 for word processing stations in the audit bureau. These stations will not be used for clerical staff, but instead will be used by auditors to enter information on the amounts of taxes due directly into the FTB's computer, which will then automatically generate letters to taxpayers who are found to owe back taxes.

To date, the board has not yet completed a feasibility study report (FSR) for this project. We believe that an FSR should be completed before the expenditures are made, in order to ensure that the project is cost-effective. Accordingly, we recommend that the Legislature adopt the following Budget Bill language:

"Provided that none of the \$342,500 in funds appropriated for the acquisition of word processing and other automation equipment for the board's Audit Bureau shall be expended until the Department of Finance's State Office of Information Technology has reviewed and approved a Feasibility Study Report for this project."

No Explanation for Personnel-Year Reduction

We recommend that the Franchise Tax Board report during budget hearings on its plans to implement the proposed reduction of \$546,000 and 33 personnel-years.

The Governor proposes to reduce FTB's staffing level by 33 personnel-years, for a corresponding General Fund reduction of \$546,000 in 1985-86. We understand that the reductions would be achieved through administrative efficiencies and new procedures for processing tax returns. However, at the time this analysis was prepared, we had not received any specific justification or plans to implement the reduction. Accordingly, we recommend that the board report during budget hearings on its specific plans to implement administrative efficiencies and new procedures that will enable it to achieve the proposed reductions.

FRANCHISE TAX BOARD—REVERSIONItem 1730-495 to the General
Fund

Budget p. SCS 87

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

Chapter 1581, Statutes of 1984 (AB 2727), appropriated \$395,000 from the General Fund to the Franchise Tax Board to develop a program for making multiple "offsets," or deductions from tax refunds in order to collect amounts owed by taxpayers to state agencies. The board estimates that the total General Fund costs to develop and implement the multiple offset program will be \$63,000, or \$332,000 less than the amount appropriated by Chapter 1581. The budget proposes that this unexpended amount revert to the unappropriated surplus of the General Fund.

Beginning in 1985-86, FTB's cost for the program will be supported entirely through reimbursements. We recommend approval of the proposed reversion.

**State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES**

Item 1760 from various funds

Budget p. SCS 98

Requested 1985-86	\$339,601,000
Estimated 1984-85.....	321,272,000
Actual 1983-84	260,275,000
Requested increase (excluding amount for salary increases) \$18,329,000 (+5.7 percent)	
Total recommended reduction	5,120,000
Recommendation pending	2,996,000

1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1760-001-001—Departmentwide. For direct support of department operations.	General	\$7,354,000
1760-001-002—Departmentwide. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by state.	General (Property Acquisition Law Account)	672,000
1760-001-003—Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Moneys Account)	2,292,000
1760-001-006—Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by physically handicapped.	General (Access for Handicapped Account)	385,000
1760-001-022—Office of Telecommunications. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	984,000
1760-001-026—Departmentwide. For payment of claims resulting from the Motor Vehicle Liability Self-Insurance program.	General (State Motor Vehicle Insurance Account)	6,512,000

Item 1760

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1760-001-120—Office of State Architect. For direct support of specified plan checking services.	Architecture Public Building (School Building Program Account)	1,027,000
1760-001-122—Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	3,420,000
1760-001-344—Office of Local Assistance. For support of State School Building Lease-Purchase program.	State School Building Lease-Purchase	1,375,000
1760-001-397—Office of California State Police. For state police training activities.	California State Police	40,000
1760-001-450—Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	75,000
1760-001-465—Departmentwide. For support of energy assessment programs.	General (Energy Resources Program Account)	1,139,000
1760-001-494—Office of Insurance. For allocation by Department of Finance to various state agencies to pay for life insurance benefit for state managers.	Various special	130,000
1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	11,723,000
1760-001-666—Departmentwide. For provision of goods and services to agencies.	Service Revolving	262,425,000
1760-001-688—Office of Procurement. For support of Surplus Personal Property program.	Surplus Personal Property Revolving	2,668,000
1760-001-739—Office of Local Assistance. For support of State School Building Aid program.	State School Building Aid	693,000
1760-001-890—Office of Small and Minority Business. For support of minority business program.	Federal Trust	100,000
1760-001-961—Office of Local Assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	221,000
1760-001-988—Office of Insurance. For allocation by Department of Finance to various state agencies to pay for life insurance benefit for state managers.	Various nongovernmental cost	109,000
1760-011-666—Departmentwide. Provides authority whereby funds appropriated for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund, which finances the department's carpool and reproduction services.	Service Revolving	N/A
1760-021-001—Office of Insurance. For allocation by Department of Finance to various state agencies to pay life insurance benefits for state managers.	General	225,000
1760-101-022—Office of Telecommunications. For reimbursement of local costs of implementing Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976.	General (State Emergency Telephone Number Account)	36,032,000
Total		\$339,601,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
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1. *Office of State Architect. Reduce by \$389,000.* Recommend that \$1,239,000 requested for a new management

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DEPARTMENT OF GENERAL SERVICES—Continued

- information system be reduced by \$389,000 to delete funding for those aspects of the system that have not been justified.
2. Office of State Architect. Recommend that Budget Bill language be modified to express the workload limit on architectural/engineering services in terms of personnel-years rather than dollar volume of projects. 178
 3. Architecture Revolving Fund. Withhold recommendation on \$3,343,000 requested from various special funds (Item 9865-001-494) and nongovernmental cost fund (Item 9865-001-988) to cover a deficit in the Architecture Revolving Fund, pending a report by the Office of the Auditor General. 179
 4. Office of Buildings and Grounds. Recommend that prior to budget hearings, the department report to the Legislature on the specific measures implemented in the custodial services program to (a) improve efficiency and thereby allow reduction of 53.4 authorized positions, and (b) increase salary savings. 181
 5. Office of Buildings and Grounds. Recommend adoption of Budget Bill language requiring the department to submit a report addressing the costs and benefits of contracting for janitorial services and/or grounds maintenance at the new Franchise Tax Board building, Sacramento and the new San Francisco state office building. 182
 6. Office of Buildings and Grounds. Withhold recommendation on \$652,000 budgeted for contract building maintenance pending receipt of additional information on (1) specific contract performance standards, and (2) the department's plan for monitoring contract services. 182
 7. Office of Buildings and Grounds. Recommend that prior to budget hearings, the Department of Finance identify the source of funds and budget authorization for janitorial services to be provided in the new Van Nuys state office building. 184
 8. Office of Buildings and Grounds. Recommend that prior to budget hearings, the department report to the Legislature on the long range funding needs for special repairs in state office buildings. 184
 9. *Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$1,760,000.* Recommend that funds for upgrading the heating, ventilation and air conditioning system in the Los Angeles state building be deleted because the work should be integrated with future renovations of the building. 185
 10. *Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$474,000.* Recommend deletion of funds for upgrading elevators in the Oakland state office building and the San Francisco state office building (525 Golden Gate Avenue) to eliminate double-budgeting of seismic safety improvements. Further, withhold recommendation on \$1,736,000 requested to upgrade elevators in the Resources building in Sacramento, pending submission of updated project schedules and cost estimates. 185

11. **Office of Buildings and Grounds. Reduce by \$1,525,000.** 186
Recommend that funds for repairs in new state office buildings be deleted because the work either is the responsibility of project contractors and consulting architects, or should be included in the capital outlay portion of the budget.
12. **Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$58,000.** 188
Recommend funds to purchase five microcomputers be deleted because the department has not provided adequate information to document that the purchase will increase operational efficiency.
13. **Office of Local Assistance.** 189
Withhold recommendation on the office's budget (\$2,344,000), pending receipt of the department's study designed to improve efficiency in the office.
14. **Office of Real Estate Services. Reduce Item 1760-001-001 by \$59,000.** 190
Recommend that funds requested from the General Fund to improve the surplus real property development program be deleted because this activity should be financed from the Property Acquisition Law Account in the General Fund.
15. **Office of Energy Assessments.** 191
Recommend adoption of Budget Bill language requiring the department to submit a report on the office's actual and projected expenditure program for development and monitoring of energy projects.
16. **Building Rental Account.** 192
Recommend that prior to budget hearings, the Director of Finance report on the amount of funds transferred from the account to the General Fund for 1983-84. Further, recommend the budget for the account be reduced by \$3,783,000, consistent with our recommendations on the Office of Buildings and Grounds budget.
17. **Building Standards Commission.** 193
Recommend the commission revise its 1985-86 fee schedule to reflect the amount in the Governor's Budget.
18. **Technical Budgeting Issue. Reduce Item 1760-001-666 by \$173,000.** 195
Recommend deletion in order to correct for underestimate of cost-savings associated with department-wide position reductions.
19. **Telecommunications Planning.** 196
Recommend that the department and the Department of Finance, at the time of budget hearings, provide the Legislature with a status report on statewide telecommunications planning.
20. **Statewide Telephone Acquisition.** 197
Recommend that the Legislature direct the Department of Finance to establish a revolving fund for the expedited purchase of state-leased telephones.
21. **Statewide Telephone Acquisition.** 197
Recommend that the department and the Department of Finance report during budget hearings on: (1) the appropriate level at which to capitalize the revolving fund and (2) the additional staff needed to administer an expedited telephone purchase program.

DEPARTMENT OF GENERAL SERVICES—Continued

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| 22. <i>Telecommunications Technicians Workload. Reduce Item 1760-001-666 by \$650,000.</i> | Recommend deletion of seven positions proposed to be added in the budget year, because the department has not adequately justified the request. | 198 |
| 23. <i>Management of Radio Technician Staff.</i> | Recommend adoption of supplemental report language directing the department to report on its management of telecommunications technicians. | 198 |
| 24. <i>Statewide Driver Safety.</i> | Recommend adoption of supplemental report language directing the department to restructure the existing Defensive Driver Training program so that it better addresses the specific driver safety needs of state employees. | 200 |
| 25. <i>Computer Purchase. Reduce Item 1760-001-666 by \$32,000.</i> | Recommend deletion of funds budgeted for lease payments on 12 computers and related accessories which the department plans to purchase in the budget year. | 201 |

GENERAL PROGRAM STATEMENT

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

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

The department has authorization for 4,165 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$339,601,000 from various funds to support activities of the Department of General Services in 1985-86. This is \$18,329,000, or 5.7 percent, more than estimated current-year expenditures. The increase will grow by the amount of any salary or staff benefits increase approved for the budget year.

Departmental Expenditures by Program

Table 1 presents the total expenditures of the department, by program element, during the three-year period ending with 1985-86. The largest departmental programs, in terms of budget-year expenditures, are Telecommunications (\$90.7 million), Buildings and Grounds (\$57.6 million), Building Rental (\$46.8 million), Procurement (\$37.4 million), and State Printing (\$37.1 million).

The budget proposes several major increases in program expenditures during 1985-86, including increases for Building Rental (21.0 percent), Buildings and Grounds (16.4 percent), State Police (10.2 percent), Legal Services (8.6 percent), and Telecommunications (7.4 percent).

Table 1
Department of General Services
Distribution of Program Expenditures
1983-84 through 1985-86
(dollars in thousands)

Program	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change, 1985-86 over 1984-85	
				Amount	Percent
Property Management Services:					
Architectural consulting and construction services	\$13,954	\$16,363	\$17,544	\$1,181	7.2%
Buildings and grounds	42,649	49,484	57,618	8,134	16.4
Building rental	33,380	38,718	46,837	8,119	21.0
Facilities planning and development	723	986	850	-136	-13.8
Local assistance	1,870	2,503	2,344	-159	-6.4
Real estate services	3,509	3,849	3,878	29	0.8
Space management	3,122	3,494	3,551	57	1.6
Energy assessments	946	3,030	3,081	51	1.7
Building standards	383	438	454	16	3.7
Subtotals, Property Management Services	(\$100,536)	(\$118,865)	(\$136,157)	(\$17,292)	(14.5%)
Statewide Support Services:					
Administrative hearings	\$4,248	\$4,735	\$4,858	\$123	2.6%
Telecommunications	63,439	84,408	90,695	6,287	7.4
Fleet administration	18,938	22,704	21,946	-758	-3.3
Insurance and risk management	8,451	8,724	9,366	642	7.4
Legal services	1,034	1,181	1,283	102	8.6
Management services	8,798	—	—	—	—
Management technology and planning	—	8,048	8,049	1	—
Support services	10,175	11,466	11,446	-20	-0.2
Procurement	29,942	35,850	37,362	1,512	4.2
Records management	1,609	1,822	1,881	59	3.2
State police	15,811	17,461	19,249	1,788	10.2
State printing	31,979	38,239	37,113	-1,126	-2.9
Small and minority business	1,089	1,259	1,226	-33	-2.6
Subtotals, Statewide Support Services	(\$195,513)	(\$235,897)	(\$244,474)	(\$8,577)	(3.6%)
Administration:					
Executive	\$1,001	\$1,265	\$1,332	\$67	5.3%
Administrative services	2,719	2,828	2,862	34	1.2
Fiscal services	—	4,771	4,799	28	0.1
Labor relations	258	—	—	—	—
Program and compliance evaluation	1,507	—	—	—	—
Subtotals, Administration	(\$5,485)	(\$8,864)	(\$8,993)	(\$129)	(1.5%)
Emergency Telephone Number Program (Local Assistance)	(\$22,236)	(\$35,853)	(\$36,032)	(\$179)	(0.5%)
Totals, All Programs	\$301,534	\$363,626	\$389,624	\$25,998	7.1%
Distribution of Intrafund Services:					
.....	41,259	42,354	50,023	7,669	18.1
Total Net Expenditures	\$260,275	\$321,272	\$339,601	\$18,329	5.7%

DEPARTMENT OF GENERAL SERVICES—Continued

Funding Sources for Departmental Expenditures

The department is funded by direct support appropriations and appropriations from revolving funds. Direct support refers to funds appropriated for specific purposes (for example, maintenance and security for the Capitol complex). Revolving fund appropriations, on the other hand, permit the department to expend specified amounts from revenues it "earns" by providing services and products to client agencies. These amounts are budgeted initially for operating expenses within the support budgets of the state agencies which purchase goods and services from the Department of General Services. The department then pays its personnel costs and operating expenses by using the "spending authority" provided by its revolving fund appropriations.

Table 2 presents a summary of the department's total expenditures, by source of funds, for the three-year period ending with 1985-86. The table shows that 81.5 percent of the department's costs are supported from earned revenues (flowing into revolving funds), while 18.5 percent are funded by direct support.

Table 2
Department of General Services
Total Expenditures, by Source of Funds
1983-84 through 1985-86
(dollars in thousands)

Source of Funds	Actual 1983-84	Estimated 1984-85	1985-86 Proposed	
			Amount	Percent of Total
Direct Support:				
General Fund	\$4,445	\$8,406	\$7,533	2.2%
General Fund (Special Accounts)	32,311	45,494	46,923	13.8
Architecture Public Building Fund	3,395	4,217	4,447	1.3
California State Police Fund	—	—	40	—
State School Building Aid Fund	563	733	693	0.2
Seismic Gas Valve Certification Fund	—	69	75	—
State School Building Lease-Purchase Fund	1,087	1,439	1,375	0.4
State School Deferred Maintenance Fund	178	277	221	0.1
Energy and Resources Fund	992	—	—	—
Federal Trust Fund	57	100	100	—
Energy Resources Programs Account	—	1,096	1,139	0.3
Unidentified Special Funds	—	124	130	—
Unidentified Nongovernmental Cost Funds	—	104	109	—
Subtotals, Direct Support	(\$43,028)	(\$62,059)	(\$62,785)	(18.5%)
Revolving Funds:				
Architecture Revolving Fund	\$9,410	\$10,985	\$11,723	3.5%
Service Revolving Fund	207,837	245,616	262,425	77.3
Surplus Personal Property Revolving Fund	—	2,612	2,668	0.8
Subtotals, Revolving Funds	(\$217,247)	(\$259,213)	(\$276,816)	(81.5%)
Total Expenditures	\$260,275	\$321,272	\$339,601	100.0%

The budget proposes \$7,533,000 in General Fund expenditures for direct support of departmental activities in 1985-86. This is a reduction of \$873,000, or 10.4 percent, from current-year expenditures. The department's General Fund appropriation pays for maintenance and security within the

Capitol complex, a small portion of the local assistance and real estate services programs, security for the Governor, and the costs of printing the Governor's Budget. The reduction in General Fund expenditures between the current year and the budget year reflects the impact of a one-time appropriation of \$1 million in 1984-85 to improve Capitol security.

Program Distribution of Departmental Personnel

Table 3 identifies the allocation of staff among departmental functions over the three-year period ending with 1985-86. As the table indicates, 3,946.7 personnel-years are proposed for the budget year—a net decrease of 218.7 personnel-years from the current-year level. The table also shows that in 1985-86, about 42 percent of the department's staff are budgeted in property management services, about 52 percent are budgeted in state-wide support services, and the remainder are in administration.

Table 3
Department of General Services
Distribution of Personnel-Years, By Program
1983-84 through 1985-86

Program	Personnel-Years			Percent of Total 1985-86
	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	
Property Management Services:				
Architectural consulting and construction services	247.9	262.4	249.8	6.3%
Buildings and grounds	1,229.8	1,288.2	1,220.6	30.9
Energy assessments	10.7	10.5	10.5	0.3
Facilities planning and development	13.0	14.2	14.2	0.4
Local assistance	45.2	55.8	49.5	1.3
Real estate services	59.7	58.2	57.9	1.5
Space management	64.9	66.3	65.2	1.7
Building standards	6.7	6.7	6.7	0.2
Subtotals, Property Management Services ..	(1,677.9)	(1,762.3)	(1,674.4)	(42.4%)
Statewide Support Services:				
Administrative hearings	66.4	67.4	67.4	1.7%
Telecommunications	306.4	313.4	341.7	8.7
Fleet administration	143.1	150.2	147.9	3.7
Insurance and risk management	19.4	19.8	19.8	0.5
Legal services	19.5	19.5	19.5	0.5
Management services	217.3	—	—	—
Management technology and planning	—	153.8	142.8	3.6
Support services	193.4	207.1	192.7	4.9
Procurement	207.2	272.8	265.0	6.7
Records management	34.7	37.8	37.3	0.9
State police	350.9	432.4	377.0	9.6
State printing	453.5	486.2	436.2	11.1
Small and minority business	19.5	20.0	20.0	0.5
Subtotals, Statewide Support Services	(2,031.3)	(2,180.4)	(2,067.3)	(52.4%)
Administration:				
Executive	18.7	21.0	21.0	0.5%
Administrative services	76.8	73.8	61.5	1.6
Fiscal services	—	127.9	122.5	3.1
Labor relations	4.5	—	—	—
Program and compliance evaluation	30.0	—	—	—
Subtotals, Administration	(130.0)	(222.7)	(205.0)	(5.2%)
Totals	3,839.2	4,165.4	3,946.7	100.0%

DEPARTMENT OF GENERAL SERVICES—Continued

Table 4
Department of General Services
Proposed 1985-86 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Special Funds^a</i>	<i>Revolving Funds^b</i>	<i>Total</i>
1984-85 Expenditures (Revised)	\$8,406	\$53,653	\$249,213	\$321,272
<i>Baseline Adjustments:</i>				
Salary increase adjustment	\$75	\$9	\$511	\$595
Merit salary adjustment	—	42	289	331
Operating expenses and equipment	199	760	6,436	7,395
Capitol security improvements (one-time) ..	-1,000	—	—	-1,000
Pro rata charges	—	235	932	1,167
Real estate services (funding shift)	59	—	-59	—
Miscellaneous adjustments	-462	202	-5,506	-5,766
Subtotals, Baseline Adjustments	(-\$1,129)	(\$1,248)	(\$2,603)	(\$2,722)
<i>Workload Changes:</i>				
Administrative services (clerical)	—	—	-\$159	-\$159
Building maintenance	—	—	-961	-961
Fleet administration (legislative vehicles) ..	-\$126	—	—	-126
Management technology (data processing) ..	—	—	-437	-437
Support services (clerical)	—	—	-79	-79
State police (security guard reduction)	—	—	-394	-394
Telecommunications (microwave equip- ment)	—	—	874	874
Procurement (telephone acquisitions)	—	—	456	456
Real estate services	—	—	-178	-178
State printing (various workload)	—	—	-1,606	-1,606
State police (overtime, equipment, and training)	277	\$40	1,206	1,523
Special repairs (statewide)	—	—	6,461	6,461
Cogeneration financing	—	—	1,900	1,900
Telecommunications (various workload)	—	—	3,780	3,780
Miscellaneous increases	105	311	1,959	2,375
Subtotals, Workload Changes	(\$256)	(\$351)	(\$12,822)	(\$13,429)
<i>Program Change:</i>				
Building maintenance (contract services) ..	—	—	\$2,178	\$2,178
1985-86 Expenditures (Proposed)	\$7,533	\$55,252	\$276,816	\$339,601
Change from 1984-85				
Amount	-\$873	\$1,599	\$17,603	\$18,329
Percent	-10.4%	3.0%	6.8%	5.7%

^a Includes \$100,000 in expenditures from federal funds.

^b Includes the Service Revolving Fund, the Architecture Revolving Fund, and the Surplus Personal Property Revolving Fund.

The department proposes only one major *staff increase* in 1985-86: the addition of 28.3 personnel-years for the Office of Telecommunications, due to increasing workload in radio engineering, radio installation and maintenance, telephone acquisitions, and related support.

The department is proposing major *personnel-year reductions* in the Offices of California State Police (55.4), Buildings and Grounds (50.0), State Printing (50.0), Administrative Services (13.0), and Management Technology and Planning (12.0), based on such factors as decreased workload, an increase in outside contracting for services, and higher salary savings.

Proposed Budget-Year Changes

Table 4 shows the changes in the proposed 1985-86 budget resulting from baseline adjustments, workload changes, and program changes. The table indicates that about three-quarters of the proposed budget changes consist of various changes in the level of workload throughout the department. Baseline adjustments, such as routine salary and operating expense increases, account for roughly one-seventh of the total budget changes. The department's only major program change is a proposal to contract for private building maintenance services.

PROPERTY MANAGEMENT SERVICES

OFFICE OF STATE ARCHITECT

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

The budget proposes a total of \$17,084,000 for support of the office's activities in 1985-86. This is an increase of \$1,145,000, or 6.7 percent, over estimated current-year expenditures. The proposed increase reflects (a) an increase of \$1,239,000 to implement a new computer-based management information system, (b) an increase of \$328,000 for inflation adjustments and (c) a decrease of \$422,000 resulting from the elimination of limited-term positions established under an emergency deficiency authorization in December 1984 to meet projected workload for Department of Corrections construction inspection services.

Management Information Systems Need to be Scaled Down

We recommend that \$1,239,000 budgeted for a new management information system be reduced by \$389,000 to eliminate features that are not related to capital outlay project management (Reduce Item 1760-001-602 by \$101,000, Item 1760-001-120 by \$46,000 and Item 1760-001-122 by \$87,000).

The budget includes \$1,239,000 for development and operation of a new management information system for the OSA. This system is being proposed because OSA's current automated accounting system, operated by the Teale Data Center, will not be operational after June 1985 when the Data Center installs new equipment. Consequently, a replacement accounting system must be developed. Moreover, OSA's management has determined that improved management information is needed for project administration.

Our review of OSA's performance has consistently pointed to the need for improvements in the office's management of capital outlay projects. This need also has been substantiated in the feasibility study for the new system, prepared by OSA. For example, the study of the projects completed recently by OSA reveals that:

DEPARTMENT OF GENERAL SERVICES—Continued

- 75 percent of the projects exceeded the project time schedule by an average of 95 days, requiring staff time beyond budgeted hours,
- project costs exceeded contract budgets by \$22.4 million, an average cost overrun of \$273,000 per project,
- 84 percent of the projects exceeded the estimated contract budget,
- project costs exceeded available contingency funds by \$5.4 million, with an average overrun of \$135,000 per project,
- expenditures on 41 percent of the projects exceeded the available contingency funds.

The OSA anticipates that adoption of the new management information system can achieve a savings of approximately \$1.4 million per year if only 5 percent of the cost overruns are eliminated. The initial cost of the system is \$1,239,000, including development costs, new computer hardware and software, and the first year's operating and maintenance costs. Future ongoing costs would be \$195,000 per year (1984 dollars).

Our analysis indicates that the OSA needs more timely and meaningful information to improve its management of capital outlay projects. The necessary replacement of the existing automated accounting system provides the opportunity for improving project information systems. The budget proposal, however, includes several components that would not address either of these needs and have not been adequately justified. In addition to project management and accounting information, the proposal includes new automated systems for a variety of activities within the office. These components include additional word processing (\$79,000), structural safety section plan checking (\$133,000), direct construction services (\$22,000) and computer assisted drafting/design (\$155,000). The OSA has not provided sufficient information to substantiate the need to automate these systems. On this basis, we recommend that the \$389,000 requested for these new systems be deleted from the proposal. The remaining \$850,000 would be sufficient to provide improved management information and accounting systems for the OSA.

In-House Architectural/Engineering Workload Dollar Ceiling Should Be Replaced

We recommend that language contained in Item 1760-001-602 of the Budget Bill be amended to (1) delete the limit on the value of working drawings that can be completed by the Office of State Architect in the budget year and (2) provide a limit on the number of personnel-years of professional staff that can be devoted to the architectural/engineering workload assigned to the office.

The 1972 Budget Act contained language setting a limit of \$25 million on the volume of work which the OSA could complete using in-house design staff. Since then, the \$25 million limit has been increased to reflect increases in construction costs. The 1985 Budget Bill proposes a limit of \$52.7 million.

The limit on in-house capability was established because in the 1960's, the OSA was staffed to meet peak design workload. When workload declined, the office had to lay off a large number of employees. To avoid the lay off and hiring cycle caused by the peaks and valleys in funding for the state's capital outlay program, the Legislature set a ceiling on OSA's in-house design workload. This, in effect, requires OSA to contract with private architectural/engineering firms when funding for the capital out-

lay program increases. The OSA manages these projects by assigning staff to supervise and monitor progress of the contract firms.

During hearings on the 1984-85 budget, the OSA indicated that the workload limit contained in the 1984-85 Budget Bill did not accurately reflect the equivalent 1972 workload level adjusted for inflation. Therefore, the Legislature increased the limit from \$36,460,000 to \$52,700,000. It also included language in the *Supplemental Report of the 1984 Budget Act* specifying that the increase was not to result in establishment of additional positions within the OSA. The language also directed our office to include an evaluation of the workload ceiling in the *Analysis of the 1985-86 Budget Bill*.

The workload ceiling initially was set by the Legislature in order to stabilize the OSA's architectural/engineering staffing level. This objective is equally valid today. Our review indicates, however, that a workload ceiling based on the value of construction is confusing and no longer meaningful.

To manage the capital outlay program, the OSA reviews anticipated workload on a project-by-project basis. In the process, it decides whether the project will be designed using OSA staff or through contract services. In essence, the amount of design work accomplished using in-house design staff is limited to the number of positions authorized in the budget, taking into account the number of positions needed to monitor contracted work.

The OSA reports biannually to the Legislature on its projected workload. In March, the OSA provides a listing of all projects underway and all projects proposed in the Governor's Budget. This report shows the estimated budget-year workload for each project and indicates whether the work will be accomplished by in-house staff or through a contract. In September, the OSA reports on the changes that have occurred in the projected workload, based on the final Budget Act. This report constitutes OSA's final plan for accomplishing the approved capital outlay program. Through assignment of positions between in-house and contract services, the OSA maintains a consistent staffing level.

We recommend that the Legislature build on this process in setting policies designed to stabilize OSA staffing levels. Specifically, we recommend that the Budget Bill specify the *number* of professional positions to be maintained in architectural/engineering services and consulting services, rather than the dollar value of work that may be performed in-house. This will clarify the policy and enhance the existing workload management practices used by the OSA. To do this, we recommend that the Budget Bill be modified as follows:

"The professional staff assigned to basic architectural and engineering services and consulting services within the Office of State Architect shall not exceed 84 personnel-years during 1985-86 consistent with the September 1984 report to the Legislature on projected workload in the office."

Accounting Error Goes Undetected for Seven Years

We withhold recommendation on \$3,343,000 requested in Items 9865-001-494 and 9865-001-988, for allocation to the Architecture Revolving Fund. We recommend that prior to hearings on the Budget Bill, the Legislature request the Office of the Auditor General to investigate the department's claim that the fund is \$4.5 million in deficit.

The Office of State Architect (OSA) recovers its fees through charges to project funds on deposit in the Architecture Revolving Fund (ARF).

DEPARTMENT OF GENERAL SERVICES—Continued

These fees are based on an hourly billing rate set at a level sufficient to cover direct costs, indirect costs and overhead costs associated with operation of the OSA. Charges to project funds accrue to the "fee earned account" in the ARF. Monthly, the accumulated fee revenue is compared to the actual expenses of the office, in order to determine the adequacy of the hourly billing rate.

The department indicates that a recent review of the OSA fee account revealed that an error in accounting procedures had led it to overstate the amount of fees earned for the past seven years. According to the department, because of this error approximately \$4.5 million in fees credited to the department's revenue account had actually not been received. The department indicates that this accounting error, when combined with a *planned* loss in the current year that was intended to erase an apparent surplus in the account, results in a deficit of \$5,655,000 in the fund.

In order to rectify these accounting errors, the budget proposes appropriations of \$3,343,000 from various funds which were the original financing sources for capital outlay projects undertaken by the OSA. The amount to be assessed against each individual fund will be determined by the Director of Finance. The proposed allocation of funds was not available at the time this analysis was prepared. Because the impact of this appropriation on special fund balances was not known, it was not reflected in the financial statements included in the Governor's Budget.

The budget indicates that a similar assessment against the General Fund, estimated to be \$1,189,000, will be deferred until 1986-87 when the final assessments against special funds will be known.

No external audit has been completed to validate the department's claim that a substantial deficit exists in the ARF. Consequently, we are not able to confirm the department's claim. We recommend that prior to hearings on the budget, the Legislature request the Auditor General to perform an audit of the OSA's fee earned account within the ARF, so that it will have a better basis for acting on this request. The Auditor General's report should also include alternatives and recommendations for eliminating any apparent deficit identified in the audit report.

OFFICE OF BUILDINGS AND GROUNDS

The Office of Buildings and Grounds is responsible for maintaining state office buildings and grounds under the jurisdiction of the department of General Services. In addition, the department provides custodial and maintenance services, as requested, in buildings owned by other agencies.

The budget proposes total expenditures of \$57,618,000 for support of the Office of Buildings and Grounds in 1985-86. This is an increase of \$8,134,000, or 16.4 percent, above estimated current-year expenditures.

The proposed increase of \$8,134,000 reflects:

- An increase of \$777,000 (5.1 percent) to adjust operating expenses for the effects of inflation.
- An increase of \$423,000 in estimated salary savings (that is, a reduction in the amount budgeted for personal services).
- An increase of \$2,178,000 in operating expense to cover the cost of contracting for maintenance and custodial services (\$1,729,000) and paying utilities (\$449,000) for the new Franchise Tax Board building in Sacramento and the new San Francisco State office building.
- A reduction of \$961,000 and 53.4 janitor positions to reflect (1) in-

creased efficiencies in the offices' custodial program, and (2) the department's proposal to contract for janitorial services in the Van Nuys office building.

- An increase of \$58,000 to provide computer equipment for administrative offices.
- An increase of \$6,212,000 to finance additional special repair projects in various state office buildings.

Reductions in the Number of Janitors May Erode Custodial Services in State Buildings

We recommend that prior to budget hearings, the department report to the Legislature on the specific measures implemented in the custodial services program to improve efficiency and make possible the elimination of 53.4 positions and an increase in estimated salary savings equivalent to 5.6 positions.

The amount needed for custodial services provided by the Office of Buildings and Grounds traditionally has been based on *federal* standards for these services and the amount of square feet to be maintained. The Department of General Services has consistently endorsed the appropriateness of these standards. Use of these criteria would indicate that 733 janitor *positions* are needed to provide service in 1985-86. If an adjustment is then made to reflect estimated salary savings in the current year, the criteria would indicate that funding is needed for 686 janitor positions in 1985-86.

The budget proposes three major changes in janitor staffing during 1985-86. *First*, it proposes the elimination of 46.4 janitor positions to reflect productivity increases achieved by the office. *Second*, the budget proposes to contract with the private sector for janitorial services to the Van Nuys state office building, permitting the elimination of seven janitor positions. *Third*, the overall targeted salary savings for the office has been increased from 6.4 percent to 7.8 percent. If achieved, this increase will result in approximately 5.6 fewer personnel-years of custodial services than in the current year.

Productivity Improvements Cannot be Identified. According to the information provided by the department, the reduction in janitor positions reflects the office's ability to provide custodial services in the 1982-83 fiscal year with 43 fewer janitor positions than authorized. The department, therefore, concludes that some improved efficiencies have been realized which would allow a commensurate reduction in the level of authorized positions during the budget year.

We are unable to confirm that the reduced work force for custodial services in 1982-83 was made possible by productivity increases, and was not merely a reflection of normal salary savings and turnover in positions that caused a reduction in the quality or quantity of service. We note, however, that the 1984-85 budget reduced staffing by 33.6 positions to reflect efficiencies gained through daytime scheduling of janitorial services.

If additional productivity increases have been achieved, the department should be able to identify the specific areas within its program where these increases make possible a reduction in the number of positions. It has not been able to do this. Consequently, the Legislature cannot be certain that the reduction in janitorial positions and the increase in salary savings will not simply reduce the level of service in state office buildings.

DEPARTMENT OF GENERAL SERVICES—Continued

We, therefore, recommend that prior to legislative hearings on the budget, the department identify the specific productivity increases and efficiencies which have been implemented in order to make possible the reduction in positions. Pending review of this additional information, we withhold recommendation on the proposed reductions in funding and positions for janitorial services.

Should Maintenance and Custodial Services for New Office Buildings Be Contracted to the Private Sector?

We recommend that Budget Bill language be adopted requiring the Department of General Services to provide a report to the Legislature on the costs and benefits of contracting for janitorial services at two new state office buildings, prior to entering into such contracts.

Further, we withhold recommendation on \$652,000 budgeted for contract building maintenance pending receipt of additional information on (1) contract performance standards and (2) the department's plan for monitoring performance.

The new Franchise Tax Board (FTB) building is scheduled to be completed in January, 1986. The building includes 466,000 square feet of building space and approximately one million square feet of grounds and parking area. The new building will provide additional square footage to house the FTB's operation, and allow the state to vacate occupancy of an inadequate leased building.

The new building is being constructed through a lease/purchase agreement and financed through issuance of certificates of participation. The FTB's annual rent for the facility is estimated at \$4.2 million. Ownership of the facility will revert to the state after 20 years of lease payments. The state has the option of retiring the certificates on an accelerated basis.

The budget anticipates that the new state office building in San Francisco will be occupied in September 1985.

The San Francisco facility includes 293,000 square feet of office space, 99,000 square feet of garage space and 177,000 square feet of grounds. The majority of the building will be occupied by the Public Utilities Commission. This facility was financed with certificates of participation issued through a Joint Powers Authority with the San Francisco Redevelopment Agency. The estimated annual rent, to be paid by DGS from statewide rental receipts, is \$5.2 million. Ownership of the building will revert to the state after 30 years. Financing provisions allow for early retirement of the debt.

Contract Maintenance and Janitorial Services Proposed. The budget proposes an increase of \$1,159,000 to finance building maintenance and custodial services for the new Franchise Tax Board buildings during the six months it will be occupied in the budget year. The budget also includes \$1,019,000 for maintenance and operation of the new San Francisco state office building during the last nine months of the budget year. Of the total requested, \$839,000 is for janitorial service and grounds maintenance, \$652,000 is for building maintenance and \$687,000 is for utilities and supplies.

The most recent information provided by the Office of State Architect, however, indicates that the San Francisco building will not be ready for occupancy until January 1986. Consequently, the full amount budgeted for building services will not be needed.

The Office of Buildings and Grounds indicates that it intends to contract with the private sector for all maintenance work and custodial services in these buildings *on a pilot basis*, in order to develop comparison cost data between services provided directly by the office using civil service employees and services provided through personal service contracts. The amounts proposed in the budget for these contracts are based on the cost of providing these services using state employees.

Day-to-day Custodial Services and Grounds Maintenance Could Be Contracted If Cost-Effective. The department's proposal includes \$839,000 for contracts providing janitorial services, window cleaning and grounds maintenance for these two new buildings. The department, however, has not provided sufficient information to demonstrate that contracting would be cost-effective.

Our analysis suggests that the nature of janitorial services and grounds maintenance may lend itself to contracting with the private sector. In fact, the department plans to enter into a personal service contract in the current year to secure janitorial services for the new Van Nuys state office building. Based on a DGS analysis, the apparent low bidder would provide these services at a cost approximately 30 percent below the cost of janitorial service provided by civil service employees. If the Van Nuys contract proceeds as planned, the department can monitor the results, and determine whether or not additional janitorial service contracts are warranted.

Because the bids received on the Van Nuys contract are promising, we believe the department's proposal to contract for janitorial services at two additional locations on a pilot basis warrants favorable action by the Legislature. We, therefore, recommend that the Legislature (1) approve the request for \$829,000 to fund a contract providing janitorial/window cleaning service and grounds maintenance and (2) adopt Budget Bill language requiring the department to submit a report at least 30 days prior to the award of a contract which details the specific costs and benefits associated with the proposed contract. The following language is consistent with this recommendation:

"Provided that at least 30 days prior to execution of any personal services contract for janitorial/window cleaning service or grounds maintenance, the Director of General Services shall submit a report to the Chairman of the Joint Legislative Budget Committee and the chairmen of the fiscal committees which details the costs and benefits of the proposed contract services, compared with the costs and benefits of providing these services by civil service employees."

Building Maintenance Contracts Must Meet Program Objectives. Building maintenance involves activities aimed at maintaining and preserving the useful life of building systems such as heating, ventilation and air-conditioning systems, electrical systems and plumbing systems. In addition to being cost-effective in the short-run, any contract for building maintenance functions must also support the *long-term* objectives of the Office of Buildings and Grounds—to preserve the state's capital investment in buildings. Thus, contract performance standards are needed to insure that this objective is achieved. In addition, the state must carefully monitor performance under such a contract to assure that the standards are met.

As in the case of janitorial services, it may be cost-effective to secure building maintenance services from outside state government. Before the department proceeds to contract out building maintenance work, however, it needs to develop and submit to the Legislature (1) appropriate

DEPARTMENT OF GENERAL SERVICES—Continued

contract performance measures and (2) a plan for monitoring performance. Pending receipt of this information from the department, we withhold recommendation on the \$652,000 budgeted for contracting building maintenance.

No Funding Proposal to Clean Van Nuys Office Building

We recommend that prior to hearings on the department's budget, the Department of Finance indicate how janitorial services in the new Van Nuys state office building will be funded.

The budget for the Office of Buildings and Grounds reflects the elimination of seven janitor positions currently approved to provide janitorial services in the Van Nuys state office building. The budget proposes, instead, to provide these services through contracts with the private sector, rather than with civil service employees.

The department has not been able to identify where it has budgeted funds to provide these services. We recommend therefore that prior to budget hearings, the Department of Finance identify how janitorial services for this building will be financed.

Major Increase in Special Repairs Funding

We recommend that prior to budget hearings, the Director of General Services provide a report to the Legislature which identifies the long-range needs for special repairs to buildings under the jurisdiction of the department.

The budget includes \$7,142,000 for special repair projects to be undertaken by the Office of Buildings and Grounds during 1985-86. Special repairs are those which continue the usability of the facility at its original designed level of service. In contrast, capital outlay projects include new construction, alterations and extension or betterment of existing structures. The amount proposed for special repairs is \$6,212,000 more than the \$930,000 expected to be spent for this purpose in the current year.

Proposed Projects. The special repair projects requested for 1985-86 are summarized by category in Table 5.

Table 5
Department of General Services
Office of Buildings and Grounds
1985-86 Special Repair Projects
(dollars in thousands)

Type of Project	Number of Projects	Budget Bill Amount	Analyst's Recommendation
1. Roof Repairs, Exterior Painting, etc.	16	\$863	\$863
2. Overhaul/Repair of Building Systems (electrical, heating and air conditioning)	27	2,795	520
3. Grounds, Sidewalks, Paving	9	117	117
4. Elevator upgrade/repair	4	2,220	pending
5. Repairs/corrections to New State Office Buildings	14	1,527	2
6. Miscellaneous Repairs (Drapery Cleaning, Governor's Portrait Protection, Floor Tile Replacement and Studies)	5	121	121
Totals.....	75	\$7,142	pending

Projects in Category 1 generally would provide repairs on the exterior

of existing buildings. We recommend approval of the 16 projects in this category, which are estimated to cost \$863,000. Projects in Category 3 include repairs to irrigation systems, sidewalks and exterior paving. We recommend approval of the \$117,000 requested for the nine projects in this category. We also recommend approval of the projects in Category 6, miscellaneous repairs, totaling \$121,000.

Our review of projects in the remaining three categories are discussed in the following sections.

Long-Range Funding Plan Needed. The department is responsible for approximately 7.1 million square feet of building space. The need to maintain these facilities in an appropriate manner to protect the state's investment is evident. In reviewing the department's request however, it became apparent that the department's procedures for budgeting special repairs need to be modified in order to take a longer view of repair needs. To determine the appropriate funding level needed to protect the state's capital investment in buildings, the department should develop a five-year plan to identify, in priority, current and projected special repair needs. Coupled with the five-year plan, the department should assure the Legislature that its preventive maintenance program will extend the useful life of the facilities and minimize the cost of special repair projects. Accordingly, we recommend that prior to budget hearings, the Director of General Services submit to the Legislature a five-year plan for special repair statewide. This plan should include the criteria for establishing repair priorities, and should rank repair needs on a priority basis using this criteria.

Los Angeles Building Heating, Ventilation and Air Conditioning Alterations

We recommend deletion of \$1,760,000 requested to upgrade the heating, ventilation and air conditioning system in the Los Angeles state building because the work should be integrated with future renovations of the building interior.

The department's special repair request includes \$1,760,000 to upgrade the heating, ventilation and air conditioning (HVAC) system in the Los Angeles state building to improve energy efficiency and tenant comfort. The request is based on a 1981 study of the work needed to complete renovation of the system that began in 1978-79.

The department has not provided adequate information identifying the problems with the existing HVAC system.

More importantly, the request is premature. The Legislature has authorized construction of a new Los Angeles state office building, to be financed through a lease/purchase agreement. According to the department's October 1984 State Office Building construction program, the new building will be occupied in November 1988. Once this occurs, many agencies will be relocated, and the existing state office building will have to be altered for new tenants. For this reason, we do not believe installation of a new HVAC system at this time is prudent, since this system will have to be modified substantially in just a few years to accommodate the alterations. For these reasons, we recommend deletion of the funds requested, for a savings of \$1,760,000.

Upgrade of Elevator in Four Buildings

We recommend deletion of \$474,000 requested to upgrade elevators in the Oakland State Office Building and the San Francisco office building at 525 Golden Gate Avenue because funds for upgrading the elevators

DEPARTMENT OF GENERAL SERVICES—Continued

have been included in the capital outlay portion of the budget. We withhold recommendation on \$1,736,000 requested to upgrade elevators in the Resources building in Sacramento, pending submission of updated project schedules and cost estimates for the projects.

The department's special repair request includes \$2,220,000 for four projects that would upgrade elevators. One project would upgrade a freight elevator in the Agriculture Building in Sacramento to improve its reliability, at a cost of \$10,000. We recommend approval of this project. The request also includes \$174,000 and \$300,000 that would be used to upgrade elevators in Oakland and San Francisco (525 Golden Gate Avenue), respectively, in order to meet seismic safety code requirements. We recommend deletion of these two projects.

The 1984 Budget Act contains \$897,000 to upgrade elevators to meet seismic safety code requirement on a statewide basis. The 1984 appropriation includes construction funds for modifying the elevators in the Oakland State Office Building. Moreover the 1984 Budget Act appropriated \$7,000 for preliminary planning to upgrade elevators in seven other buildings, including the San Francisco building. The department's 1985-86 capital outlay program includes \$100,000 under Item 1760-301-036 (12) for this work. According to the cost information submitted by the department for this special repair program, the work planned for these elevators involves earthquake safety specifications. Consequently, the \$474,000 requested under special repair should be deleted to eliminate double budgeting.

Finally, \$1,736,000 is requested to upgrade elevators in the Resources Building, Sacramento, because the existing elevators do not provide reliable service and pose a safety hazard. An initial study by a consultant identified problems with the control mechanisms and door operating devices. Adequate information, however, has not been provided to substantiate that the project scope and requested funds will be sufficient to make these elevators operate efficiently and safely. Moreover, the master workload schedule for the Office of State Architect (OSA) does not include this project. Therefore, it is not clear that this project will proceed in the budget year.

On this basis, we withhold recommendation on \$1,736,000 requested for this project pending receipt of (1) updated project plans and cost estimates, and (2) a schedule indicating that the necessary work can be completed by the OSA in the budget year.

Repairs and Corrections to New State Office Buildings

We recommend that \$1,525,000 requested for special repairs in new state office buildings be deleted because the work to be accomplished either (1) is the responsibility of the construction contractor (2) is the responsibility of the consulting architectural/engineering firm or (3) should be part of a capital outlay funding request.

The department's request includes \$1,527,000 for 14 special repair requests related to new state office buildings. One \$2,000 project would relocate an air compressor which is disrupting tenants in the Santa Rosa state building. The balance of the request addresses serious design and/or construction deficiencies in buildings which have been occupied for less than three years.

We recommend that \$32,000 requested for two projects be deleted. This amount includes \$10,000 for the San Jose state office building to repair

doorways. According to the information provided by the department, the problem is due to the fact that door frames were not installed properly by the project contractor. It would seem, then that the appropriate course of action for the state to take is to pursue remedial action by the project contractor, at no cost to the state.

The other project at issue, estimated to cost \$22,000, provides installation of 150 fluorescent light fixtures to *replace* the lighting system installed during construction of the new Energy Commission Building in Sacramento. No information has been provided to indicate that the light system approved by the OSA is not adequate.

Accordingly, we recommend reduction of \$32,000 to delete funds for these two projects.

The balance of funds requested under this category (\$1,483,000) relate to building improvements in *new* state office buildings. This part of the request raises serious questions about the adequacy of the OSA's design review and construction inspection functions.

The requested projects include the following:

Long Beach State Building

- Paint exterior beams (\$150,000)
- Seal beams which have been treated with wood preservative (\$200,000)
- Modifications to beams to improve structural system (\$800,000)

Energy Commission Building, Sacramento

- No hand rails on dock area (\$5,000)
- Lack of power for freight elevator (\$1,600)
- Damage to carpet and electrical equipment because of drainage problems in the building (\$220,000)
- Inadequate air dryer for pneumatic system (\$1,600)
- Inadequate number of drinking fountains (\$17,000)

EDD Building (Site 3)

- Inadequate access to underfloor electrical duct requiring reinstallation of carpeting (\$25,000)

Gregory Bateson Building, Sacramento

- 34 windows in atrium area have cracked and pose a safety problem (\$68,000)

Justice Building, Sacramento

- Replace roof squares on original "20-year" roof (\$4,000)

Clearly, when the Legislature appropriated funds for these buildings, it did so with the expectation that they would be complete and operable facilities. Apparently, this is not what has occurred. The department's supporting information for these projects is not sufficient to indicate whether the state is financially responsible for these design and/or construction errors.

For example, \$1,150,000 is proposed for various improvements to the wood laminated structural beams in the Long Beach office building. According to the department \$200,000 is needed to seal the beams because the preservative applied by the contractor is causing odors and may be releasing potentially toxic vapors. Moreover, the department contends that the preservative applied to the beams is not providing adequate protection from weather, making it necessary to paint the beams, at a cost of \$150,000. To provide adequate protection in the future, the beams will be painted at a minimum cost of \$75,000 per year. Finally, \$800,000 is

DEPARTMENT OF GENERAL SERVICES—Continued

requested to modify these same beams to improve their structural integrity. No information has been provided to substantiate this amount or to verify that the structural system was designed improperly. Thus, in total, the department is requesting \$1,150,000 to correct structural beams in a building that was occupied in fall 1982.

These state office buildings were designed and constructed under the direction of the OSA. In view of the significant number of serious deficiencies in these buildings, the OSA should review each problem addressed by the department's special repair requests and indicate to the Legislature how these deficiencies were allowed to occur, and why they were not identified during design or construction. The OSA should also provide assurances to the Legislature that (1) the state, rather than the contractor or architect, is financially liable for the cost of correcting these problems, (2) the proposed modifications will correct the problems, (3) the proposed cost of correcting each item of deficiency is appropriate and (4) problems of this nature will not be allowed to occur in other projects.

Finally, we note that any state funds needed to make these facilities "complete and operable" should be requested in the capital outlay portion of the budget, rather than the support portion. In this way, agencies occupying state-owned space will not have to pay for corrective measures through increased rental charges.

For the reasons given above, we recommend deletion of the \$1,487,000 requested for work in new office buildings.

Office Automation Proposal Not Adequately Justified

We recommend that Item 1760-001-666 be reduced by \$58,000 to eliminate funds for the purchase of five microcomputers because the department has not provided any information to document that the purchase will increase operational efficiency.

The budget requests \$58,000 to purchase five microcomputers for the Office of Buildings and Ground's regional offices in Los Angeles and Sacramento.

The department indicates that during the current year, savings in operating expenses will be used to purchase one microcomputer for the San Francisco regional office as a pilot project. The office indicates that the computers requested for the budget year would be used to automate records and management information related to preventive maintenance, telecommunications cable management, contract administration, property inventory, budget data, word processing, and other data currently managed on a manual basis.

The department has not shown that the requested microcomputers would produce any increase in productivity or efficiency. Given that a pilot project involving these computers is underway during the current year, we believe the request for additional microcomputers in 1985-86 is premature. Accordingly, we recommend deletion of the \$58,000 requested for the additional units, and deferral of the proposed purchases until the operational efficiencies produced by the microcomputer acquired this year have been thoroughly evaluated.

OFFICE OF LOCAL ASSISTANCE**Workload Standards Report is Incomplete**

We withhold recommendation on \$2,344,000 included in the budget for support of the Office of Local Assistance, pending receipt of the Department of General Services' report on the results of its review of the office's procedures, methods and management.

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

Legislature Requests Workload Review. In the 1984 Budget Act, the Legislature added 10 limited-term (one-year) positions to the office (the Governor reduced this to five limited-term positions). The new positions were limited-term because of concerns regarding the adequacy of the OLA's workload standards and the level of the office's long-term workload. Consequently, the Legislature, through the *Supplemental Report of the 1984 Budget Act*, directed the Department of General Services to review the OLA's workload standards and report the results of this review to the Legislature by November 1, 1984. The report was to include an analysis of how new workload standards would affect the office's staffing level.

The department's report was submitted on December 28, 1984. Based on its review, the department concluded that the OLA is understaffed by approximately 60 positions in the current year—a deficiency of about 107 percent. The department's conclusion, however, is based on the current organization and work practices of the OLA. The report does not address potential changes to current practices and procedures which could improve the way in which the office carries out its functions.

For example, the report indicates that it currently takes the OLA three years to process a school district through all phases of the new construction process. In addition, it takes two weeks to process applications for relocatable child care centers, and almost three weeks for emergency portable classrooms' applications. These timelines, themselves, warrant review, and changes to speed up the process should be explored. Such changes could both insure that local school districts' needs for school construction, reconstruction and maintenance are met on a timely basis, and reduce OLA staffing requirements.

Finally, the report does not address projected workload associated with the school bond issue approved by the electorate in November, or recent legislation such as Chapter 1751, Statutes of 1984 (AB 2377), which established an asbestos abatement program.

Budget Proposal. Despite the findings in the department's report, the budget does not propose any *increase* in staffing for the OLA. In fact, it *discontinues the five limited-term positions*.

According to the budget document, a study of the OLA's procedures, methods and management is being conducted in order to find ways of reducing costs and increasing efficiency. Such a study obviously is needed; it should have been part of the response to the Legislature's supplemental report directive. The information from the study should provide the Legislature with the data needed to determine what adjustments in staff, equipment and/or procedures are warranted to make this program more efficient.

DEPARTMENT OF GENERAL SERVICES—Continued

The results of their study should be sent to the Legislature prior to budget hearings so that the appropriate level of funding for the budget year can be determined. At a minimum, the study should include: (1) proposals for restructuring various procedures within the OLA and anticipated efficiencies related to each change; (2) the feasibility of automating various programs of the OLA and a specific implementation plan with timelines for accomplishing these objectives; (3) a specific assessment of the office's staffing needs for the budget year and future years, given the restructuring and/or automation processes.

We withhold recommendation on the OLA budget proposal (\$2,344,000), pending receipt of this report.

OFFICE OF REAL ESTATE SERVICES

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

The office recovers its costs for these activities through billings for the staff time and expenses devoted to each project. For acquisition projects, staff time is billed directly to each capital outlay appropriation. Sales and property management expenses are recovered as part of the revenue derived from the sale of the surplus property and/or through leasing property managed by the office.

The 1985-86 budget proposes 57.9 positions and expenditures of \$3,206,000 for the office. This is a reduction of \$178,000 and five positions from the *authorized* budget for the current year. This reduction is associated with a decline in the office's acquisition workload. The department, however, is going to submit a workload report to the Legislature by March 1, 1985 which will evaluate any changes in projected workload given the level of acquisition funding included in the 1985-86 Governor's Budget. If this workload report points to the need for any major changes in the budget for the office, we will address those changes in a supplemental analysis prior to hearings on the Budget Bill.

The budget proposes that the funding for one existing position be financed from the General Fund, rather than from the Service Revolving Fund, at a cost of \$59,000.

Surplus Property Position Should Be Self-Financing

We recommend that Item 1760-001-001 be reduced by \$59,000 to delete the General Fund appropriation for the surplus real property development program because a more appropriate funding source is available.

One of the responsibilities of the Office of Real Estate Services is to identify and sell surplus state property.

Currently, expenditures associated with interim management and sale of surplus property are charged to the Property Acquisition Law Account in the General Fund. Monies in the account are derived from the proceeds of leases covering surplus property as well as from the proceeds of property sales.

In a December 1983 report reviewing the surplus property program, the Auditor General recommended that the department become more aggressive in identifying potential state surplus property, in order to increase state revenues, particularly revenues to the General Fund. The

department agreed with the findings, and identified one position within its 1984-85 authorized budget which would be devoted solely to identifying surplus state property. The Legislature approved the department's proposal to redirect the position to this new activity.

The department has not implemented the more aggressive surplus property program in the current year because the department staff concluded that it would be inappropriate to charge expenditures for this element of its program against the Property Acquisition Law Account. The department based its finding on a determination that these new expenses are related to *potential* state surplus property, rather than to property which has already been *declared* surplus by state agencies or by legislation. Consequently the department proposes that \$59,000 be appropriated from the General Fund for this purpose.

Given the fact that the total cost of this program is recovered through rental receipts and revenues generated through the sale of surplus property, it is clearly state policy that the program be self-financing. The fund is projected to have a net surplus of \$1,537,000 in the budget year, and therefore adequate reserves are available for the additional work. We see no basis for deviating from the state's past policy of funding the cost of this program from the property account. Moreover, in many instances, the net proceeds from the sale of surplus property (after deducting sales costs) accrue to *special* funds, such as the Parks and Recreation Fund or the Fish and Game Preservation Fund. Therefore, these funds will receive increased revenues as a result of the improved program.

We therefore recommend that the \$59,000 requested from the General Fund for this activity be deleted and, that language in the Budget Bill be adopted specifying that this activity is to be financed from surplus property revenues. Specifically, we recommend that the following language be adopted under Item 1760-001-002:

"Notwithstanding any other provision of law to the contrary, up to \$59,000 appropriated under this item shall be available to finance identification of potential surplus state property under the surplus real property development program".

OFFICE OF ENERGY ASSESSMENTS

Report to Legislature Needed for Expenditure Accountability

We recommend that the Legislature adopt Budget Bill language under Item 1760-001-465 requiring the Department of General Services to report to the Legislature on the actual and projected expenditure program for the Office of Energy Assessments.

The Office of Energy Assessments (OEA) is responsible for improving the efficiency of state operations by developing cost efficient energy programs. The budget proposes \$3,082,000 to support the office in 1985-86, consisting of \$855,000 from the General Fund, Energy Resources Program Account (ERPA) and \$2,226,000 from the Service Revolving Fund (SRF). The ERPA request is \$37,000, or 4 percent, more than estimated expenditures in the current year. The SRF request is \$1,914,000, or 514 percent above the current-year *authorized* level of \$312,000. All but \$14,000 of this increase is for expenses related to developing and monitoring third-party financed energy projects. The Governor's Budget, however, indicates that a deficiency of \$1,900,000 is anticipated in the current year, due to the unexpected increase in activities associated with third-party financed projects.

DEPARTMENT OF GENERAL SERVICES—Continued

The budget for the office reflects a significant increase for monitoring and implementing third-party projects. The agreements with a third party include provisions that require the office to be reimbursed for its project-related costs.

We believe the department should demonstrate to the Legislature that the agreements it has negotiated call for reimbursement of all costs incurred by the office in connection with these agreements. We therefore recommend that the Legislature adopt the following Budget Bill language requiring the department to submit a report on project costs to the Legislature by March 1 of each year:

“On March 1, 1986 and annually thereafter, the Director of General Services shall report to the Chairman of the Joint Legislative Budget Committee and the chairmen of the fiscal committees on the actual and projected expenditures of the Office of Energy Assessments. The report shall identify personal service costs and operating expenses for each project, including third-party financed energy projects.”

BUILDING RENTAL ACCOUNT

We recommend that prior to budget hearings, the Department of Finance report on the amount of funds transferred from the Building Rental Account to the General Fund for 1983-84. Further, we recommend that \$46,837,000 budgeted from the account for maintenance and operation of state office buildings be reduced by \$3,783,000, consistent with our recommendations on the Office of Buildings and Grounds budget. (Reduce Item 1760-001-666 by \$3,783,000.)

Rental receipts from agencies housed in state-owned office buildings operated by the Department of General Services (DGS) are deposited in the Service Revolving Fund, Building Rental Account. This account was created in 1972, when the department instituted a standard rental rate for space in all DGS office buildings.

Until the 1983-84 fiscal year, any *balance* remaining in the building rental account after payment of all costs was credited to the General Fund, as required by Government Code Section 16422. Chapter 323, Statutes of 1983, (the budget trailer bill) amended this section to require that *any cash surplus* in the Service Revolving Fund be transferred to the General Fund. This change was made in order to provide for the transfer of all surplus funds in the Service Revolving Fund, rather than merely the surplus in the Building Rental Account.

Expenditures from the account in 1985-86 are budgeted at \$46,837,000, an increase of 22 percent over estimated expenditures. Table 6 shows income and expenditures for the account for the past, current, and budget years, based on the department's "Price Book" rates for office space rental.

Prior Year Balance Not Available to Cover Projected Deficit In the Budget Year. Table 6 shows that for 1985-86, the department anticipates a deficit in the Building Rental Account of \$1,559,000. The department indicates that it intends to apply a portion of the \$5,246,000 surplus generated in the 1983-84 fiscal year to offset the projected budget-year deficit. This, however, is not permissible under current law. Surplus funds in one year may not be carried over to the next because Section 16422 of the Government Code requires that the entire surplus be transferred to the General Fund.

Table 6
Department of General Services
Building Rental Account
Income and Expenditures
(dollars in thousands)

	1983-84 Actual	1984-85 Estimated	1985-86 Budgeted
Base Rental Rate—charge/sq ft/month	70¢	71¢	76¢
(Percent Increase Over Prior Year)		(1.4%)	(7.0%)
<i>Income</i>			
Gross Income, Rent	\$37,306	\$38,726	\$43,342
General Fund Appropriation	1,334	1,469	1,936
Total Income	\$38,640	\$40,195	\$45,278
(Percent Increase Over Prior Year)		(+4%)	(+12.6%)
<i>Expenditures</i>			
Maintenance	\$31,192	\$35,851	\$44,874
Rent (Debt Service & Lease/Purchase Payments)	1,913	1,916	1,680
Other Costs	289	478	283
Total Expenditures	\$33,394	\$38,245	\$46,837
(Percent Increase Over Prior Year)		(+14.5%)	(+22.4%)
Surplus Available for Transfer to General Fund ...	5,246	1,950	-1,559
Less:			
Funds Transferred to General Fund	1,349	—	—
Balance June 30	\$3,897	\$1,950	-\$1,559

The transfer from the Service Revolving Fund to the General Fund is to be completed on or before September 30 of each fiscal year and reported to the Legislature. At the time this analysis was prepared, however, the Legislature had not received a report on the transfer. The department indicates that the transfer has been delayed because of a disagreement between the Department of Finance and DGS concerning the meaning of "cash surplus." We estimate that approximately \$3.9 million remains to be transferred from the Service Revolving Fund to the General Fund.

We recommend that during budget hearings the Department of Finance explain why it has not provided the Legislature with the report required by Section 16422.

Special Repair Deletions Will Impact Account Budget. The 1985-86 budget for the Building Rental Account is dependent upon the approved level of expenditures for maintenance and operation of the state office buildings proposed in the Office of Building and Grounds budget. In the analysis of this office's budget, we have recommended deletion of special repair projects totaling \$3,783,000. We therefore recommend that the Building Rental Account be reduced by \$3,783,000.

BUILDING STANDARDS COMMISSION

Fee Schedule Should Be Revised

We recommend that the Building Standards Commission revise the fee schedule proposed for 1985-86 to reflect the commission's actual costs as presented in the Governor's Budget.

DEPARTMENT OF GENERAL SERVICES—Continued

The Building Standards Commission recovers its costs from fees charged to client agencies for services rendered by the commission. These fees are deposited in the Service Revolving Fund, from which the commission draws its support.

The budget proposes expenditures of \$454,000 for the commission in 1985-86. The commission's 1985-86 fee schedule, however, indicates that it plans to bill client agencies for a total of \$490,427. Funds to pay these fees are requested in each agency's budget for 1985-86. Consequently, we recommend that the Building Standards Commission revise its 1985-86 fee schedule to reflect the commission's actual costs as included in the Governor's Budget.

STATEWIDE SUPPORT SERVICES

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

Department Responds to Legislative Directives

The Legislature directed the Department of General Services to conduct various studies and prepare several reports for submission to the Legislature in 1984-85. A summary of the department's responses relating to its statewide support services program follows.

Management Study of the Office of Procurement. Pursuant to language contained in Item 1760-001-666 of the 1984 Budget Act, the department prepared a Request-for-Proposal (RFP) document providing for a management study of the Office of Procurement. The RFP was subject to the review and approval of the Department of Finance, the Joint Legislative Budget Committee, and the legislative fiscal committees.

The department prepared the RFP, and the document was approved by all of the reviewing parties. A private contractor subsequently was selected through a competitive bidding process to perform the required study. The final report of the contractor is scheduled for submission to the Legislature on March 29, 1985.

Mandatory Insurance Coverage. In the *Supplemental Report of the 1984 Budget Act*, the Legislature directed the department to review the state's practices relating to mandatory insurance coverage, and to recommend in a report to the Legislature any appropriate changes to existing law in this area. This report was due to the Joint Legislative Budget Committee and the fiscal committees on December 1, 1984, but was not submitted until January 10, 1985. We did not have sufficient time to review the department's report before completing this analysis.

Response to Auditor General's Report on Consultant Contract Monitoring. The *Supplemental Report of the 1984 Budget Act* required the department to report to the Legislature by December 15, 1984, regarding its progress toward solving problems raised by the Auditor General in a February 1984 report on the monitoring of state consultant contracts. We have reviewed the department's report (dated December 28, 1984), and conclude that the department appears to have taken steps to ensure a proper level of consultant contract monitoring.

Technical Budgeting Issue

We recommend the reduction of \$173,000 from the Service Revolving Fund, to correct for an underestimate of the cost-savings associated with multiple position reductions. (Reduce Item 1760-001-666 by \$173,000.)

The budget proposes the elimination of 99.3 positions (98.0 personnel-years) in the department's statewide support services program as a result of decreasing workload, increased contracting, and improved efficiency. These positions have been deleted from the budget on the assumption that each was last filled at or near the first step in the position's salary range. Our analysis indicates that on average, civil service positions currently are occupied and budgeted at the fourth or fifth salary step. Thus, the personal services savings under this proposal have been understated. Accordingly, we recommend the deletion of \$173,000 from the Service Revolving Fund (Item 1760-001-666), in order to properly reflect savings to be realized from the proposed position reductions.

STATEWIDE TELECOMMUNICATIONS**Background**

Prior to the divestiture of the American Telephone and Telegraph Company (AT&T) in January 1984, state agencies operated under telecommunications policies dictated by regulatory authorities. In this environment, the Department of General Services acted primarily as a liaison to agencies which requested telephone-related services from the regulated telephone companies.

Following the AT&T divestiture, and other federal actions which deregulated parts of the telecommunications industry, the administration issued two separate planning documents designed to address the state's new telecommunications responsibilities.

First, in response to a requirement in the *Supplemental Report of the 1983 Budget Act*, the DGS submitted to the Legislature a report entitled *A State of California Plan for Deregulation*. This plan focused almost exclusively on the procurement and installation of telephones. The plan, however, provided no fiscal analysis of proposed telephone acquisitions nor did it describe an implementation schedule for these acquisitions.

Second, the administration provided to the Legislature in April 1984 a document entitled *Telecommunications Strategy for State Government*. This report, which was prepared by the Department of Finance (DOF) and the Department of General Services, provided documentation in support of a proposal in the 1984 Budget Bill to spend \$18.2 million from the General Fund for statewide telecommunications. This proposal involved funding in 1984-85 for (1) a 13-person telecommunications planning task force in the DGS, (2) an intrastate, long-distance communications network, and (3) agency telephone equipment purchases. The Legislature, however, did not approve the funding for the plan, expressing concern primarily about the proposed long-distance network.

Telecommunications Planning Responsibilities Have Been Switched

Under Chapter 791, Statutes of 1983, the responsibility for planning statewide telecommunications is held jointly by the DOF (Office of Information Technology) and the DGS (Office of Telecommunications). Chapter 791 defines each agency's responsibilities with respect to the acquisition of telecommunications goods and services as follows:

DEPARTMENT OF GENERAL SERVICES—Continued

- The Department of Finance is the state's "strategic" policy maker, in charge of establishing overall goals and objectives; and
- The Department of General Services is responsible for "tactical" telecommunications policy, which involves directing operational staff in handling tasks on a daily basis.

In addition, Chapter 1372, Statutes of 1983, requires the director of the Office of Information Technology in the DOF to develop plans and policies relating to telecommunications.

On October 15, 1984, the Departments of Finance and General Services jointly issued Management Memorandum 84-24, which was intended to clarify the telecommunications responsibilities of these two departments. The memorandum states that the Office of Telecommunications in the DGS "is hereby designated as the lead office for the overall management of telecommunications and telecommunications planning within state government."

Administratively, it makes sense to us that a *single* agency should have both overall management authority in telecommunications and operational responsibilities to carry out daily tasks. As the state's telecommunications service provider, the Department of General Services already is involved extensively with telecommunications vendors, user agencies, regulatory bodies, and state control agencies. Thus, it probably is best suited to handle telecommunications planning responsibilities in addition to its other ongoing duties.

It appears to us, however, that Management Memorandum 84-24 resulted in a shift of authority in state telecommunications planning which may be in conflict with Chapter 791, and which was accomplished *without* any review or input by the Legislature. At the time this analysis was prepared, the administration had *not* proposed legislation to reflect this apparent transfer of authority within the provisions of existing law relating to telecommunications management.

Telecommunications Planning Effort May Be Understaffed

We recommend that during budget hearings the Department of General Services and the Department of Finance provide the fiscal subcommittees with a status report on statewide telecommunications planning.

Although the amount of money the state spends on telecommunications each year is not precisely known, the Office of Telecommunications estimated in April 1984 that proposed telecommunications spending in 1984-85 would approach \$130 million. It is probable, however, that actual expenses are many millions of dollars greater because the state's financial reports (which are the source of the office's estimate) are known to underestimate the full cost of the state's telecommunications activities. The magnitude of telecommunications costs, as well as the state's new responsibilities in the post-divestiture era, make it essential for the state to plan its telecommunications systems carefully.

Currently, the Office of Telecommunications has five staff members working on statewide telecommunications planning. These individuals previously were assigned to other duties within the office. No funds are budgeted in the current year for consulting services to assist the planning effort, nor does the budget propose any *additional* planning resources—in either state personnel or contract funds for consultant services—for the office in 1985-86.

In the post-divestiture environment, the Office of Telecommunications will be involved in the following new activities:

- Planning and designing a long-distance communications network for state agency use,
- Monitoring telecommunications regulatory actions,
- Keeping abreast of developments in the telecommunications industry, and
- Coordinating the telecommunications activities of the major user agencies in state government.

It is not clear to us, however, that the office will be able to carry out its new responsibilities at its current staffing level. Accordingly, we recommend that the department and the Department of Finance report to the fiscal subcommittees during budget hearings on the following: (1) the status of the state's strategic telecommunications planning effort, (2) the adequacy of current staff resources and available training programs in the area of telecommunications, and (3) the extent to which the administration will require the assistance of private-sector telecommunications consultants during the budget year.

The State Should Expedite the Purchase of Leased Phones

We recommend that the Legislature direct the Department of Finance to establish a revolving fund for the purchase of state telephones. We further recommend that the Department of General Services and the Department of Finance report at the budget hearings on: (1) the appropriate level at which to capitalize the revolving fund, and (2) the number of DGS staff that would be needed to administer and expedite a state telephone purchase program.

The state currently uses approximately 200,000 telephones. About 85 percent of these telephones are *leased*, despite the fact that it is in the state's financial interest to purchase this equipment. Generally, the cost of purchasing a telephone can be recouped within a period of months (in most cases, from 9 to 24 months) through the savings in lease payments. It is estimated that telephone purchases by the state could result in potential savings of several million dollars annually.

Despite these potential benefits, agency telephone purchases are being carried out on a fragmented, rather than comprehensive, basis. Our analysis indicates that this has occurred for two reasons. First, the Office of Telecommunications lacks adequate staff resources to address telephone acquisition workload statewide. Because of this constraint, the office has had to establish priorities for telephone purchases, such as putting primary emphasis on the needs of agencies that are in the process of moving to new facilities. Second, state agencies cannot fund most of these telephone purchases within baseline budgets, since the cost of purchasing a telephone usually exceeds the annual lease payments budgeted.

A key component of the administration's proposed telecommunications plan (described above) was a recommendation that a \$7.5 million revolving fund be established to assist departments in purchasing telephones that currently are leased. We believe that this component of the plan makes a good deal of sense from a fiscal perspective and that the Legislature should take action to implement it, regardless of what decisions the Legislature makes on other elements of the plan.

In order to finance state telephone purchases and realize *major* annual savings in state communications costs, it is necessary to provide "up front"

DEPARTMENT OF GENERAL SERVICES—Continued

funding. Clearly, it is worth an investment of state funds on a one-time basis in order to achieve these savings. At the time this analysis was prepared, however, we did not have the necessary information to determine the amount needed to capitalize a telephone equipment revolving fund.

Accordingly, we recommend that the Legislature direct the Department of Finance to establish a revolving fund, pursuant to authority provided to the department in Chapter 1286, Statutes of 1984. State agencies could then borrow from the revolving fund in order to finance telephone purchases, repaying the loan from amounts currently budgeted for lease payments.

We further recommend that the Department of General Services and the Department of Finance report during budget hearings on (1) the appropriate level at which to capitalize the fund, and (2) the number of additional staff needed by the Office of Telecommunications to administer an expedited telephone purchase program.

OFFICE OF TELECOMMUNICATIONS**Request for Telecommunications Technicians Is Premature**

We recommend: (1) the deletion of seven telecommunications technician positions and \$650,000 from the Service Revolving Fund, because the positions are not adequately justified; and (2) the adoption of supplemental report language directing the department to report on its management of telecommunications technicians. (Reduce Item 1760-001-666 by \$650,000.)

The budget proposes the addition of seven telecommunications technician positions and a corresponding increase of \$650,000 from the Service Revolving Fund, in order to address projected increases in radio installation and maintenance workload. This proposed augmentation includes \$350,000 in one-time funds for related equipment.

Background. The Office of Telecommunications employs 164 telecommunications technicians for the purpose of installing, modifying, maintaining, and repairing radio systems owned by the state. The office's technicians are stationed at radio repair shops located throughout California.

In our *Analysis of the 1983 Budget Bill* (please see page 221), we reported that the workload standards established for telecommunications technician activities were too low. On this basis, the Legislature directed the department to develop and implement new workload standards for telecommunications technicians that would be comparable to those prevailing in private industry.

In November 1983, the department advised the Legislature that no formal workload standards exist for radio repair and maintenance in the private sector, and that, therefore, an accurate comparison of technical efficiency between state and private-sector personnel is not possible.

At about the same time (September 1983), the Auditor General recommended that the department adopt procedures for monitoring the efficiency of its telecommunications technicians (*The Department of General Services Can Reduce Radio Communications Costs to State Agencies*). The department responded to this recommendation by developing a computerized system for measuring and evaluating the productivity of technicians who repair radio equipment. This system is being implemented in the current year.

The Need For Additional Technician Positions Has Not Been Established. Our review of the budget's proposal to add seven new telecommunications technician positions indicates that the augmentation request is premature, for two reasons.

First, given the concerns raised by two legislative staff offices regarding technician productivity, there is reason to doubt the appropriateness of the workload standards used by the office to estimate 1985-86 staffing needs. Specifically, the use of past-year average technician productivity levels to determine budget-year needs may "build in" existing inefficiencies, which if corrected would obviate the need for a staff increase. Consequently, we believe the office should use actual productivity figures only as a *first step* in determining workload standards.

Second, it does not appear that the office has made adequate allowance for the potential productivity gains to be derived from the new computerized technician monitoring system. This system, which has only been in operation for a few months, should be a powerful tool for managing and evaluating technician performance more effectively. It should, for example, provide information which will allow the office to (1) set minimum and average productivity standards, (2) discipline nonproductive employees and reward outstanding ones, and (3) distribute staff and workload throughout the state more effectively.

In requesting the seven-position augmentation, the office did assume a 1.3 percent increase in technician productivity from the current year to the budget year. It seems to us, however, that there is a much *greater* potential for productivity improvement in technician performance. In fact, if the monitoring system were to help the office increase productivity by 5 to 6 percent (which we believe is possible), there would be *no* need for a staff augmentation in the budget year.

We conclude that the office could improve its operations to the point where projected workload would be met with existing resources. Accordingly, we recommend that the Legislature not approve the proposed augmentation of seven positions and \$650,000 requested from the Service Revolving Fund.

In order to assist the Legislature in evaluating the need for additional telecommunications technicians in the future, we also recommend that the Legislature adopt the following supplemental report language:

The Department of General Services shall report to the Joint Legislative Budget Committee and the legislative fiscal committees by December 1, 1985, regarding the Office of Telecommunications' computerized system for monitoring radio technician productivity. The report should address how the system is being used to: (1) develop and enforce minimum and average productivity standards, and (2) distribute and manage workload throughout the state.

OFFICE OF INSURANCE AND RISK MANAGEMENT

The State's Driver Training Program

As requested by the Senate Finance Committee during hearings on the 1984 Budget Bill, we have conducted a review of the state's Defensive Driver Training program.

Background. The state currently offers a Defensive Driver Training program to state employees. The primary objectives of this program are: (1) to assure the safety of automobile use by state employees, and (2) to reduce state costs associated with accidents involving state drivers (such as liability payments and workers' compensation costs).

DEPARTMENT OF GENERAL SERVICES—Continued

The Office of Insurance and Risk Management, which has managed this training program since 1973, currently offers four driving-related training courses. Table 7 lists these courses, their target students, and 1983-84 attendance figures. As the table shows, about 98 percent of the program's participants take the multimedia classroom training. This course is a four-hour session involving an audio-video presentation with intermittent discussion periods. The other three classes offer more specialized training. In all cases, it is the responsibility of each state agency to send only those employees who would benefit from the training.

Table 7
Department of General Services
Defensive Driver Training Program

<i>Course Name</i>	<i>Target Students</i>	<i>1983-84 Attendance</i>
Multimedia Classroom	State employees who drive on-the-job	17,537 ^a
Behind-the-Wheel	Frequent state drivers	286
One-on-One.....	Problem state drivers	7
Snow and Ice	State employees who drive in winter conditions	—
Total		17,830 ^a

^a These figures include 2,498 employees of local governments, the federal government, and other miscellaneous organizations.

The budget proposes to spend \$201,000 on the Defensive Driver Training program in the budget year. This amount excludes proposed one-time expenditures of \$29,000 for replacement equipment (\$27,000) and a new computer (\$2,000). The program is staffed by a full-time coordinator, who manages contracts with course instructors obtained from the private sector.

Findings. Our review of the Defensive Driver Training program resulted in two main findings. First, there is no evidence that the program has had any effect on the overall state vehicle accident rate. The department could provide no statistical data indicating or even suggesting that the program has affected the performance of state drivers.

Second, the program does not seem to be restricted to those who would benefit most from training. The basic multimedia classroom course can be taken by civil service employees in a wide variety of personnel classifications, regardless of whether their jobs actually involve much on-the-job driving. Thus, there seems to be little effort made by state agencies to (1) "screen out" state employees who pose little or no risk to the state, and (2) send to training classes only those employees who must drive extensively while performing official state duties.

Program Should Be Steered Toward Frequent and Problem Drivers

We recommend that the Legislature adopt supplemental report language directing the department to restructure its Defensive Driver Training program to eliminate "low-risk" participants.

Our analysis indicates that the Defensive Driver Training program—in its current form—does not adequately focus its resources on those state employees who drive frequently while on-the-job or who have had accidents or other driving problems in a state vehicle. The program's resources could be used more cost-effectively if training were provided

principally to those state employees who pose the greatest liability risks to the state.

In order to focus the driver training program on higher-risk state drivers, we recommend that the Legislature adopt the following supplemental report language:

It is the intent of the Legislature that the Department of General Services shall revise the participation rules for the state Defensive Driver Training program, so that the program focuses solely on the needs of state employees who drive frequently while on-the-job or who have had reported accidents or other driving-related problems. The department, in conjunction with the Department of Finance, should revise the State Administrative Manual as it pertains to driver safety, so that the manual accurately describes the procedures governing access to the training program.

OFFICE OF MANAGEMENT TECHNOLOGY AND PLANNING

Proposed Computer Purchase is Overbudgeted

We recommend the deletion of \$32,000 requested from the Service Revolving Fund, in order to correct for overbudgeting of a proposed computer purchase. (Reduce Item 1760-001-666 by \$32,000.)

The budget proposes a one-time expenditure of \$89,000 from the Service Revolving Fund, in order to allow the Office of Management Technology and Planning to purchase 12 computers and related accessories. This equipment currently is being leased for \$5,300 per month on a six-month trial basis (total cost of \$32,000).

The equipment request reflects the full cost of purchasing the computers for the state's computer training program. The budget, however, does not adjust the request to account for the savings realized by not having to lease the computers. Accordingly, we recommend the deletion of \$32,000 requested from the Service Revolving Fund (Item 1760-001-666), in order to correct for this overbudgeting.

ADMINISTRATION

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

The budget proposes to spend \$3,993,000 on these activities in 1985-86, an increase of 1.4 percent over estimated current-year expenditures. This program accounts for 2.3 percent of the department's total budget.

EMERGENCY TELEPHONE NUMBER PROGRAM—LOCAL ASSISTANCE

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

The budget proposes a \$4.1 million deficiency appropriation to the department's local assistance item in the current year and an augmentation of \$2.7 million for the budget year. As a result, total expenditures for emergency telephone systems are proposed at \$35.9 million in 1984-85 and \$36.0 million in 1985-86.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY

Item 1760-301 and 1760-311 from
the General Fund, Special Ac-
count for Capital Outlay

Budget p. SCS 118

Requested 1985-86	\$16,207,000
Recommended approval	736,000
Recommended reduction	\$14,330,000
Recommendation pending	1,141,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Withhold recommendation on the following projects, pending receipt of additional information:
 - Item 1760-301-036 (1), Atrium Roof, Site 1B (\$520,000).
 - Item 1760-301-036 (4), Energy Commission Building, Sacramento—Items to Complete (\$9,000).
 - Item 1760-301-036 (6), HVAC System—Justice Building (\$272,000).
 - Item 1760-301-036 (8), San Francisco Backfill (\$222,000).
 - Item 1760-301-036 (9), San Jose State Building—Items to Complete (\$18,000).
 - Item 1760-301-036 (12), Statewide Elevator Modifications (\$100,000).
2. **Central Plant, Sacramento—Additional Condensing Water. Reduce Item 1760-301-036(2) by \$205,000.** Recommend deletion because the department should reevaluate other alternatives for providing additional condensing water for the central plant. 204
3. **Franchise Tax Board—Items to Complete. Reduce Item 1760-301-036(3) by \$149,000.** Recommend deletion because the department has assured the Legislature that the Franchise Tax Board building will be constructed within the amounts previously specified. 206
4. **New Elevator Resources Building. Reduce Item 1760-301-036(5) by \$410,000.** Recommend deletion because the department cannot substantiate the need for an additional elevator until it completes the upgrading of the existing elevators. 206
5. **Franchise Tax Board—Phase II. Reduce Item 1760-301-036(7) by \$594,000.** Recommend deletion because the department should reevaluate its record storage and retrieval function. 207
6. **Statewide Space Planning. Reduce Item 1760-301-036(11) by \$44,000.** Recommend reduction because planning funds for a specific solution to the Franchise Tax Board, Phase II, building is premature. 208
7. **Underground Storage Compliance. Reduce Item 1760-301-036(13) by \$12,000,000.** Recommend deletion because the department has provided no information to describe this project or justify the amount included in the budget. 208

- 8. **Replacement of PCB-Contaminated Equipment. Reduce Item 1760-311-036 by \$850,000.** Recommend deletion because (1) the department has submitted no information to describe the work to be accomplished under this project or justify the cost estimate, and (2) it is not clear that the project would be initiated in the budget year. 209
- 9. **New State Office Buildings.** Recommend that the Department of General Services and the Department of Finance provide the Legislature with its plans for developing the Sites 4, 5, and 1D office buildings, Sacramento. 210
- 10. **Minor Capital Outlay. Reduce Item 1760-301-036(10) by \$78,000.** Recommend reduction of four minor capital outlay projects to correct overbudgeting of construction items and construction contingencies. 211
- 11. **Construction Amounts.** Recommend that any funds approved for construction be reduced by three percent to eliminate overbudgeting. 211

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$16,207,000 from the General Fund, Special Account for Capital Outlay, for 13 major capital outlay projects and eight minor projects (\$200,000 or less per project) for the Department of General Services (DGS).

A. PROJECTS FOR WHICH RECOMMENDATION IS WITHHELD

We withhold recommendation on \$1,141,000 requested for five projects under Item 1760-301-036, pending receipt of additional information.

We withhold recommendation on \$1,141,000 requested for five major capital outlay projects in the Department of General Services' budget. These projects, together with our reasons for withholding recommendation, are described in Table 1.

Table 1

**Department of General Services
1985-86 Major Capital Outlay**

**Projects for Which the Legislative Analyst is Withholding Recommendation
(dollars in thousands)**

Sub-item	Project Title	Location	Phase ^a	Budget Bill Amount	Estimated Future Cost ^b	Reason for Withholding Recommendation
(1)	Atrium Roof, Site 1B.....	Sacramento	pwc	\$520	—	Pending receipt of (1) an evaluation of alternative roof designs, and (2) an OSA cost estimate.
(4)	Energy Commission Building—Items to Complete	Sacramento	pwc	9	—	Pending receipt of (1) certification that the requested alarm system is required by the Fire Marshal, and (2) an explanation as to why this system was deleted during construction.
(6)	Justice Building—HVAC System.....	Sacramento	wc	272	—	Pending receipt of preliminary plans and an updated cost estimate.
(8)	San Francisco Backfill....	San Francisco	w	222	\$3,216	Pending receipt of preliminary plans and an updated cost estimate.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

Table 1 (continued)

(9) San Jose State Building —Items to Complete.....	San Jose	pwc	18	—	Pending receipt of (1) the basis for the amount included in the budget and, (2) the reasons why sufficient funds were not available for these items during construction.
(12) Statewide Elevator Modifications	Statewide	wc	100	—	Pending receipt of preliminary plans and an updated cost estimate.
Totals.....			\$1,141	\$3,216	

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

^b Department estimate.

B. RECOMMENDED REDUCTIONS/DELETIONS

We recommend a reduction of \$14,252,000 in the Department of General Services' major capital outlay request. The department's proposals and our recommendations are summarized in Table 2.

Table 2
Department of General Services
1985-86 Major Capital Outlay
Legislative Analyst's Recommended Changes
(dollars in thousands)

Item: Sub- item	Project Title	Location	Phase ^a	Budget Bill Amount	Analyst's Recom- mendation	Estimated Future Cost ^b
Item 1760-301-036:						
(2)	Central Plant, Additional Condensing Water	Sacramento	a	\$205	—	\$2,600
(3)	Franchise Tax Board—Items to Complete	Sacramento	pwc	149	—	—
(5)	New Elevator Resources Building	Sacramento	pwc	410	—	—
(7)	Franchise Tax Board—Phase II	Sacramento	p	594	—	21,517
(11)	Statewide Space Planning	Statewide	p	243	\$199	—
(13)	Underground Storage Compliance	Statewide	pwc	12,000	—	—
Item 1760-311-036:						
	Replacement of PCB-Contaminated Equipment	Statewide	pwc	850	—	—
Totals				\$14,451	\$199	\$24,117

^a Phase symbols indicate: a=acquisition; p=preliminary planning; w=working drawings; and c=construction.

^b Department estimate.

Additional Condensing Water

We recommend that Item 1760-301-036(2) be deleted, because the department should reevaluate other alternatives for providing additional condensing water before proceeding with this project.

The budget requests \$205,000 to acquire a site for the construction of a Ranney-type well (a concrete caisson with horizontal laterals to collect

ground water) which would be used to provide additional condensing water to the central plant, Sacramento. Future costs for design and construction are estimated by the department to be \$2,600,000. The department indicates that the existing well cannot provide sufficient water to the Central Plant to meet the summertime cooling demand of the 20 state buildings in downtown Sacramento.

Background. The need to provide additional condensing water for the central plant has existed for some time.

Item 373.1, Budget Act of 1976, provided \$1.5 million for additional water with the stipulation that the Director of General Services determine the best method for providing the water supply and report his findings to the Joint Legislative Budget Committee. In its report, the department indicated that a series of deep water wells (rather than Ranney-type wells) along the Sacramento River would be the best means of insuring an adequate condensing water supply for the central plant. This project did not proceed, however, because the environmental impact report was not approved.

As part of the environmental impact review, the department installed a pilot well for testing purposes. According to the department, this pilot well—installed at a cost of approximately \$500,000—has a pumping capacity of 2,200 gallons per minute (GPM). The pilot well has been operated on an intermittent basis, in accordance with the terms of a temporary permit obtained from the Sacramento Regional Water Quality Control Board. The department is in the process of obtaining permanent approval from the regional board to operate the deep well during peak cooling demand.

When the pilot well is used, summer cooling demands for *existing* state buildings can be met, leaving excess capacity to meet the needs of *additional* office buildings. Continued use of the pilot well, however, may not offer a long-term solution to the problem if several new state office buildings are constructed. Nevertheless, the availability of water from the pilot well gives the Department of General Services the time it needs to complete an in-depth engineering and environmental impact evaluation of all alternatives to meet the state's long-term cooling needs.

Evaluation of Other Alternatives Is Necessary. The department has identified two alternatives to the proposed project for providing the additional condensing water needed by the central heating and cooling plant—(1) construction of a series of deep wells (which was the alternative recommended by the department in 1976), and (2) purchase of an unused Ranney well owned by the City of Sacramento.

The department has not explained adequately why the first of these options (constructing a series of deep wells) is no longer an acceptable alternative. In 1976, the department indicated that deep wells (1) provide a more reliable source of water than Ranney wells, (2) permit additional water capacity to be constructed in small increments to meet cooling needs as new buildings are constructed, and (3) could be constructed on state-owned land eliminating the need for acquisition funds.

Nor has the department indicated why acquisition of the City of Sacramento's unused Ranney well is not feasible. The department estimated that the cost for this alternative is about half the cost of constructing a new Ranney well.

Our analysis indicates that the department should perform a more thorough evaluation of the alternatives for providing additional condensing water. In the meantime the existing Ranney well and pilot well can meet the state's needs for condensing water.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

Consequently, we recommend that the Legislature delete this item and direct the department to conduct a detailed study of alternatives for providing the additional condensing water needed by the central plant. The study should evaluate at least the following alternatives:

- Construction of an additional deep well(s) on an "as needed" basis when condensing water demands exceed capacity.
- Purchase of the City of Sacramento's unused Ranney well.
- Operation of the existing pilot well on a "permanent" basis in conjunction with the existing Ranney well.
- Construction of a new Ranney well.

The study should include detailed cost estimates, the amount of condensing water which would be provided, and the comparative advantages and disadvantages of each alternative. The study should be submitted to the Legislature no later than November 1, 1985.

Franchise Tax Board (FTB)—Items to Complete

We recommend deletion of Item 1760-301-036(3) because the department has assured the legislature that the FTB building would be constructed within the amount previously specified.

The department is requesting \$149,000 to complete several construction items for the Franchise Tax Board, Phase I building. The FTB building is being constructed at a site near Highway 50 and Mayhew Road, and is being financed by a private developer, through the sale of participation certificates. Under the terms of the agreement, the facility will be leased to the state beginning January 1, 1986, for a term of 20 years, after which the state will take title to the land and building. The agreement also allows the state to purchase the land and improvements during the 20 year term.

Our analysis indicates that the need for additional funds has not been established. Moreover, the department has previously assured the Legislature that additional state funds would not be required for this building. In a letter dated December 16, 1982, the Director of General Services advised the Chairman of the Joint Legislative Budget Committee that he had solicited and received bids for a 466,000 gross square foot facility on a 50-acre site for the FTB building. The director further indicated that he intended to accept the lowest of the bids submitted which was approximately \$34.4 million. In response to the director's letter, the Chairman stated that "Given your department's assurances of quality construction within the stated cost, and because the low bid appears to be a reasonable offer, I see no reason to recommend against the project." The proposed project would provide funds *beyond* that which the director indicated were needed to complete the FTB, Phase I project.

Because the department has not provided sufficient justification to augment the project, and given its previous assurances to the Legislature, we recommend that the item be deleted, for a savings of \$149,000.

New Elevator—Resources Building

We recommend deletion of \$410,000 under Item 1760-301-036(5) because the department cannot substantiate the need for an additional elevator until the upgrading of the existing elevators has been completed.

The budget proposes \$410,000 to design and install a new elevator in the Resources Building in Sacramento. The request is based on a consulting

engineer's recent study indicating that the nine existing elevators are obsolete, inefficient, and prone to continual breakdowns and malfunctions. The consultant recommended that (1) the existing elevators be upgraded and modernized to correct these problems, and (2) a tenth elevator be installed.

The budget includes \$1,736,000 under Item 1760-001-666 to upgrade and modernize the elevator system, as recommended by the consultant. Based on the consultant's report and the number of complaints received from the building occupants, this work appears to be justified and should proceed. The need for a tenth elevator however, is not obvious. The nature of this building has not changed significantly over the years and the original number of elevators, if working properly, should be adequate. In any event, before spending \$410,000 for a new elevator, the department should complete the repair and modernization of the existing system. Only then can the need for a new elevator be established. On this basis, we recommend that the \$410,000 included for this work be deleted.

Franchise Tax Board, Phase II

We recommend that Item 1760-301-036(7) be deleted because the department should reevaluate its record storage and retrieval functions in light of recent technological innovations, and prepare a new Phase II program based upon this reevaluation, before proceeding with this project, for a reduction of \$594,000.

Item 1760-301-036(7) includes \$594,000 to develop preliminary plans for Phase II of the Franchise Tax Board (FTB) facility, which consists of a 385,000 gross square foot (gsf) office/warehouse facility. The structure will contain a record storage and retrieval center (277,500 gsf), office space for future expansion (50,000 gsf), warehouse space (40,000 gsf), buildings and grounds support space (10,000 gsf), a paper destruction area (7,500 gsf), 270 parking spaces, a shipping and loading dock, and a skybridge connecting it to the Phase I building. The department's estimated future cost for working drawings and construction is \$21,517,000.

The purpose of the Phase II building is to consolidate the record storage, document retrieval, and warehouse space needs of the FTB. Presently, the FTB stores records in leased space and at the state records center, and leases space for its warehousing functions.

Phase II Proposal Has Changed. The original program information developed for FTB, Phase II (as part of Phase I) indicated a total facilities need of 334,500 gsf. The proposal in the budget, however, would provide for 385,000 gsf of space, an increase of 50,500 gsf, or 15 percent. In addition, the allocation of space among the various functions to be located in the Phase II facility has changed. For example, warehouse space has been reduced from 66,100 gsf to 40,000 gsf, record storage/retrieval has been increased from 199,875 gsf to 277,500 gsf, and 50,000 gsf of office space has been added. The department has not provided adequate information to describe or justify these changes.

Program Reevaluation is Needed. In developing a conceptual program for the new Franchise Tax Board facility, a feasibility study was prepared in December 1981 for the Office of the State Architect. The study concluded that the record storage and retrieval operations of the FTB were primarily manual in nature, and did not make use of technological innovations in the area of record storage. The study also identified a number of commercially available storage and retrieval systems which involved varying degrees of automation.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

The department has not indicated whether any of the issues raised in the feasibility report have been addressed by the Franchise Tax Board, or whether any changes have been made in the board's current method of record storage and retrieval. Clearly, any such changes could affect the amount of record storage and retrieval space which would be needed in the Phase II building.

Our review indicates that the department and the FTB should, at a minimum, (1) reevaluate the present method for record storage and retrieval in light of currently available technology, (2) justify the need for an additional 50,000 gsf of office space, and (3) assess the potential of incorporating laser-optical disc technology as a major way to lessen the volume of hard copy storage. When this has been done, the conceptual plan for the Phase II facility, should be revised accordingly and a new request for Phase II should be submitted.

Because a thorough reevaluation of the proposal is needed, we recommend that this item be deleted, for a reduction of \$594,000.

Statewide Space Planning

We recommend that Item 1760-301-036(11), statewide space planning, be reduced by \$44,000 because space planning funds for a specific solution to the FTB, Phase II, building is premature.

The budget includes \$243,000 to fund space planning for three projects: (1) the Franchise Tax Board Phase I facility—\$40,000, (2) the Los Angeles State Office Building, to be constructed using a lease purchase arrangement—\$98,000, and (3) the Franchise Tax Board, Phase II facility—\$105,000.

Although we have recommended that preliminary plans for the Franchise Tax Board, Phase II facility be deleted, our analysis indicates that it would be appropriate to provide preliminary space planning funds for Phase II at this time. Use of these funds in connection with the reevaluation of the FTB's data storage and retrieval functions would provide the Legislature with more-detailed information upon which to evaluate a future request for funds to support the preparation of preliminary plans.

The department's request includes \$61,000 for the initial planning phase of the FTB Phase II facilities. This amount should be sufficient to finance the reevaluation and space planning that is needed. Accordingly, we recommend that the \$105,000 requested for the Phase II facility be reduced by \$44,000.

Underground Storage Compliance

We recommend deletion of Item 1760-301-036(13) because (1) the department has provided no information to describe the project or justify the amount included in the budget, and (2) it is not clear that capital outlay funds will be needed for this project, for a reduction of \$12,000,000.

The budget requests \$12 million for underground tank testing, monitoring, permitting and replacement. The budget document indicates that these funds would finance the first year of a multi-year program to comply with regulations to be issued by Water Resources Control Board (WRCB), pursuant to Chapter 1046, Statutes of 1983. Chapter 1046 established a permitting program for the regulation and control of hazardous substances stored in underground tanks.

No information has been provided to either describe the work that

would be conducted under this project or to justify the budget amount. The department has presented no data on the number, location or contents, of underground tanks for which the state is responsible. Presumably, this information is being compiled by the WRCB under the provisions of Chapter 1045, Statutes of 1983, which required a statewide inventory of underground tanks. At the time this analysis was prepared, however, the inventory results were not yet available.

Moreover, at the time this analysis was written, the WRCB regulations were in draft form. Until the regulations are final, the need for testing, monitoring, obtaining permits and/or replacing underground tanks cannot be determined.

In short, \$12 million in state funds should not be set aside for a program which has not yet been developed. Once the regulations are final and the department has obtained information on the extent of the problem that must be addressed, the Legislature will be able to assess the need for funds. Without final regulations, information on the scope of the problem to be addressed, or an expenditure plan for the funds, we must recommend deletion of this request, for a reduction of \$12 million.

According to the Department of General Services, the underground storage compliance program will be administered within the Office of State Architect (OSA), by the same unit which now administers the statewide PCB replacement program. Given the numerous delays in completing the PCB replacement projects approved by the Legislature, it may not be appropriate to have this unit administer the underground tank program.

Replacement of PCB-Contaminated Equipment

We recommend deletion of Item 1760-311-036 because (1) the department has submitted no information to describe the work under this project, or justify the cost estimate, and (2) it is not clear that the project would be initiated in the budget year, for a reduction of \$850,000.

Item 1760-311-036 proposes \$850,000 for replacement of electrical transformers containing PCB fluids. PCBs are insulating liquids which have been used primarily in electrical transformers and capacitors as a dielectric fluid. The storage, use and disposal of PCB substances are controlled by regulations administered by the Environmental Protection Agency (EPA)

The department has submitted no information to either describe the work that would be conducted with these funds or justify the \$850,000 in the budget.

Moreover, given the Department of General Services' track record, it is not clear that additional work in this area would be accomplished in the budget year. The Legislature appropriated \$3,647,000 in the 1981 Budget Act to replace all leaking, hazardous, or PCB-contaminated equipment. Only \$501,000 of these funds were spent in 1981-82, and the remaining funds were reverted to the General Fund. (The Legislature provided \$3,147,000 in the 1982 Budget Act to complete the original work.) Then, in the 1983 Budget Act, \$1,806,000 was provided for the sampling, disposal and replacement of PCB-contaminated equipment. Numerous delays in this project made it necessary for the Legislature to reappropriate \$1,426,000 of the 1983 funds in the 1984 Budget Act. This work still has not been completed. Finally, an additional \$2,333,000 was appropriated in the 1984 Budget Act for use in complying with final regulations adopted by the EPA concerning PCB items located in mechanical/equipment switchgear

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

rooms. The EPA has not issued its final regulations regarding these items.

This record hardly provides reassurance that the department would accomplish *any* substantial portion of the work for which it is requesting funds in the 1985 Budget Bill. In any case, lacking either a description of the work to be conducted or justification for the amount requested, we must recommend elimination of this item, for a reduction of \$850,000.

Status of New State Office Buildings is Uncertain

We recommend that the Department of General Services and the Department of Finance provide an explanation to the Legislature as to (1) why funds for working drawings and construction are not included in the budget for the Sites 4, 5, and 1D state office buildings, and (2) how the department proposes to complete these projects.

In the 1979 Budget Act, the Legislature provided a total of \$1,103,000 to develop preliminary plans for three new state office buildings in downtown Sacramento. These buildings, as approved in 1979, would have provided office space for the Board of Equalization (Site 4), the State Lands Commission and the Solid Waste Management Board (Site 1D), and the Air Resources Board (Site 5). A portion of the funds were spent to develop partial preliminary plans, but the department delayed further design work on these buildings.

In the 1984 Budget Act, the Legislature provided \$500,000 to complete preliminary plans for Site 4, \$87,000 to complete preliminary plans for Site 1D, and \$525,000 to develop new preliminary plans for Site 5. (The proposed tenant for Site 5 was changed from the Air Resources Board to the State Library and Board of Control.) At the time, the project schedules anticipated that a request for working drawing and construction funds would be included in the 1985-86 budget.

The Governor's Budget does not request funds for these office building projects. Based on the Office of State Architect (OSA) project schedules, preliminary plans for Site 1D have been completed, and preliminary plans for Site 4 and Site 5 will be completed in April 1985 and June 1985 respectively. Thus, adequate information on the amount needed for working drawings and construction could be made available to the Legislature on two of the three projects before the Legislature must complete action on the Budget Bill.

The October 1984, Sacramento Facilities Plan (prepared by the Department of General Services) indicates that the state currently leases 3.3 million square feet of office space—nearly one-quarter of the privately owned office space—in Sacramento, and that the costs for this space have been rising steadily. The plan also indicates that the long-term costs of leasing are higher than securing the needed space through state-owned buildings. The Legislature has recognized the advantage to the state of meeting ongoing space needs through state-owned facilities, and has provided funds for projects designed to reduce annual state costs by constructing new state office buildings.

For these reasons, we believe the department should provide the Legislature with its plans for developing the three buildings noted above. This information should be sent to the Legislature before hearings on the department's budget.

MINOR CAPITAL OUTLAY

We recommend that Item 1760-301-036, minor projects, be reduced by \$78,000 to correct for overbudgeting errors.

The budget includes \$615,000 under Item 1760-301-036(10) for eight minor capital outlay projects for the Department of General Services. Our analysis indicates that although these projects are justified, the department has overbudgeted various construction items such as kickplates, locks and drinking fountains, as well as construction contingencies, for four of these projects. The projects and our recommendations are summarized in Table 3.

Table 3
Department of General Services
1985-86 Minor Capital Outlay Program
Item 1760-301-036(1)
(dollars in thousands)

<i>Project</i>	<i>Location</i>	<i>Department Request</i>	<i>Analyst's Recom- mendations</i>
Handicapped Modifications—OB9	Sacramento	\$116	\$88
Handicapped Modifications—OB8	Sacramento	145	106
Handicapped Modifications	Redding	35	32
Handicapped Modifications	Fresno	31	31
Handicapped Modifications	Red Bluff	194	186
Energy Management System—Justice Building	Sacramento	30	30
Energy Management System—FTB Building	Sacramento	30	30
Office Alterations	Stockton	34	34
Totals.....		\$615	\$537

Overbudgeted Construction Funds

We recommend that the amounts approved for construction in Items 1760-301-036 and 1760-311-036 be reduced by 3 percent to eliminate overbudgeting of construction costs.

The Governor's Budget requests approximately \$14,256,000 for the construction phase of capital outlay projects in 1985-86. Consistent with the state's budgetary practice, these amounts are based on an anticipated construction cost index for July 1, 1985. The index level projected in the budget was reasonable at the time the budget was prepared. Inflation, however, has not been as high as anticipated. Based on the most-recent indices, adjusted by the current expected inflationary increase of about 1/2 percent per month, construction costs in the budget are overstated by approximately 3 percent. We therefore recommend that any funds approved for construction under this item be reduced by 3 percent, to eliminate overbudgeting.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

**State and Consumer Services Agency
STATE PERSONNEL BOARD**

Item 1880 from the General
Fund and Cooperative Per-
sonnel Services Revolving
Fund

Budget p. SCS 120

Requested 1985-86	\$20,416,000
Estimated 1984-85.....	21,999,000
Actual 1983-84	21,935,000
Requested decrease (excluding amount for salary increases) \$1,583,000 (-7.2 percent)	
Total recommended reduction	110,000

1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1880-001-001—Support	General	\$19,649,000
1880-001-667—Services to local governments	Cooperative Personnel Services Revolving	767,000
 Total		 \$20,416,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|--|-----|
| 1. Staff Reductions. Recommend that, prior to budget hearings, the Department of Finance and the State Personnel Board report on the impact that certain proposed personnel reductions would have on the board's ability to perform its statutory responsibilities. | 217 |
| 2. <i>Technical Reductions. Reduce Item 1880-001-001 by \$102,000, Item 1880-001-677 by \$8,000, and reimbursements by \$40,000.</i> Recommend deletion of funds requested for personal services and consulting and professional services expenses that are overbudgeted or have not been justified. | 218 |

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body consisting of five members appointed by the Governor for 10-year terms. The board has authority under the State Constitution and various statutes to adopt state civil service rules and regulations.

An executive officer, appointed by the board, is responsible for administering the merit aspects of the state civil service system. (The Department of Personnel Administration (DPA), which was established effective May 1, 1981, is responsible for managing the *nonmerit* aspects of the state's personnel systems.) The board and its staff also are responsible for establishing and administering, on a reimbursement basis, merit systems for city and county welfare and civil defense employees, to ensure compliance with federal requirements.

Pursuant to the Welfare Reform Act of 1971, the board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments.

The board also is responsible for coordinating affirmative action and equal employment opportunity efforts within state and local government agencies, in accordance with state policy and federal law.

The board has 420 personnel-years authorized in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$23,710,000 from the General Fund, Cooperative Personnel Services Revolving Fund, and reimbursements for support of the SPB in 1985-86. This is \$2,046,000, or 7.9 percent, less than estimated total expenditures for the current year.

Board expenditures, exclusive of expenditures from reimbursements, are proposed at \$20,416,000, which is \$1,583,000, or 7.2 percent, less than estimated current-year expenditures. The General Fund portion of this request amounts to \$19,649,000, which is \$1,130,000, or 5.4 percent, under the current-year level. This reduction, however, would be offset by the amount of any salary or staff benefits increase approved for the budget year.

The budget does not include any funds for the estimated cost of General Fund merit salary increases (\$151,000 in 1985-86) or inflation adjustments for operating expenses and equipment (\$85,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1 summarizes expenditures and personnel-years for each of the board's programs, for the three-year period ending June 30, 1986. As the table shows, *the budget proposes to reduce SPB personnel-years in 1985-86 by 25 percent from the current-year level.*

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

Program	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change, 1985-86 Over 1984-85	
				Amount	Percent
Merit System Administration	\$21,224	\$20,869	\$19,690	-\$1,179	-5.6%
Appeals	2,076	2,276	2,344	68	3.0
Local Government Services	1,806	2,497	1,798	-699	-28.0
Administrative Services	3,880	3,840	3,772	-68	-1.8
Distributed Administrative Services	-3,816	-3,726	-3,658	68	1.8
Unallocated Reduction for MSA and Operating Expenses	—	—	-236	-236	NA
Total Expenditures	\$25,170	\$25,756	\$23,710	-\$2,046	-7.9%
Funding Source					
General Fund	\$21,160	\$20,779	\$19,649	-\$1,130	-5.4%
Reimbursements	3,235	3,757	3,294	-463	-12.3
Cooperative Personnel Services Re- volving Fund	775	1,220	767	-453	-37.1
Personnel-years	474.8	420.0	314.9	-105.1	-25.0

The baseline and program changes proposed for the budget year are displayed in Table 2. The budgeted decrease in expenditures is primarily attributable to a reduction of (1) 42.1 positions and \$1,237,000 in the merit system administration program, made possible by the proposed extension

STATE PERSONNEL BOARD—Continued

of decentralized selection to additional agencies and (2) 55.4 positions and \$852,000 in the local government services program, made possible by a proposed restructuring of the program.

Table 2
State Personnel Board
Proposed 1985-86 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Cooperative Personnel Services Revolving Fund</i>	<i>Reim- bursements</i>	<i>Total</i>
1984-85 Expenditures (Revised)	\$20,779	\$1,220	\$3,757	\$25,756
<i>Baseline Adjustments</i>				
Personal Services	\$107	\$21	\$20	\$148
Operating Expenses	—	63	32	95
Technical Correction	—	—	-200	-200
Subtotals, Baseline Adjustments.....	(\$107)	(\$84)	(-\$148)	(\$43)
<i>Program Changes</i>				
Reduction in Merit Systems Administra- tion and Administrative Services Program	-\$1,237	—	—	-\$1,237
Reduction in Local Government Serv- ices Programs	—	-\$537	-\$315	-\$852
Subtotals, Program Changes	(\$-1,237)	(\$-537)	(\$-315)	(\$-2,089)
1985-86 Expenditures (Proposed)	\$19,649	\$767	\$3,294	\$23,710
Change from 1984-85:				
Amount	-\$1,130	-\$453	-\$463	-\$2,046
Percent	-5.4%	-37.1%	-12.3%	-7.9%

ANALYSIS AND RECOMMENDATIONS**A. THE IMPACT OF STAFFING REDUCTIONS**

The budget proposes to reduce staffing for the board in three different ways:

- **Increase Salary Savings.** The budget proposes a salary savings rate of 7.8 percent, which is 2.8 percentage points higher than the current-year salary savings requirement.
- **Expand the Decentralized Employee Selection Program.** The budget proposes to eliminate 42.1 positions (\$1,237,000) by accelerating implementation of the decentralized selection program.
- **Restructure the Local Government Services Program.** The Governor proposes that a Joint Powers Authority be authorized to provide personnel services to local governments, in lieu of using SPB staff, and the budget reflects elimination of 55.4 positions in recognition of this proposed change.

Our review of the 1985-86 budget request for the board indicates that SPB may not have the resources it needs to perform its statutory functions. The reasons for this conclusion are discussed in the following three sections.

Board May Not Be Able to Achieve Increased Salary Savings Level

The 1985-86 budget anticipates that salary savings will be \$689,000, or 7.8 percent of total salaries and wages. This assumes that the equivalent of 26.3 of the board's 341.2 proposed positions will be vacant throughout the fiscal year. In the current year, however, salary savings are expected to be \$559,000, or 5.0 percent of total salaries and wages.

Our review of board vacancy reports and personal services costs for 1982-83, 1983-84, and the first half of 1984-85 indicates that in order to achieve a 7.8 percent salary savings rate, the board will in 1985-86 have to hold positions vacant beyond the normal turnover period. This conclusion is based on two factors. First, the SPB's salary savings have been less than 7 percent in each of the last three years (6.3 percent in 1982-83, 5.9 percent in 1983-84, and 4.0 percent in 1984-85). Second, the vacancy rate is likely to be *lower* than normal in the budget year if other changes proposed in the Governor's Budget are approved. As noted above, the 1985-86 budget proposes to eliminate every position in the Local Government Services Division (LGSD)—a reduction of 55.4 positions. Our review indicates, however, that in those months when the SPB's vacancy rate exceeded 6 percent, the LGSD usually accounted for a *significant* portion of the vacancies. Thus, SPB vacancy rates probably would be considerably lower than in the past if the LGSD were eliminated.

Similarly, salary savings is likely to be below normal if the proposal to accelerate the decentralized testing program is approved. This is because the board would have to "absorb" many of the proposed staff reductions (42.1 personnel-years) by moving people associated with eliminated positions into other vacant positions.

Neither the board nor the Department of Finance (DOF) could provide any reason why the normal salary savings rate in 1985-86 will be higher than what it has been in the past. As noted above, the opposite is more likely to occur. Consequently, the budget's proposal to increase the rate to 7.8 percent appears to be nothing more than an *unallocated staffing cut*. The board will have to absorb this cut by holding vacant positions that are justified on a workload basis. We believe it is likely that this would reduce the level of services provided in personnel selection, affirmative action, or appeals.

Decentralized Employee Selection Program

Background. In 1981, the SPB initiated on a pilot basis a decentralized employee selection program (DESP). Under decentralized selection, the line agency—rather than SPB—administers the entire civil service selection process in filling its vacancies. The program advantages of this process are that the department can administer the selection process faster and at no greater cost than the SPB. When a department is selected for participation in the program and successfully completes a probationary period (usually up to one year), it can then be allocated the examining resources previously budgeted for SPB.

The board originally expected that most departments which wanted to participate in the program would be involved by 1986-87. Since 1981, 15 departments have completed their probationary period and have continued to participate in the program. An additional seven departments are beginning their probationary period in the current year.

During the first two years of the program, the following resources associated with decentralized selection were eliminated from SPB's budget: (1) \$158,000 and 5.7 positions; and (2) \$297,000 and 8.0 positions. Only four

STATE PERSONNEL BOARD—Continued

of the 15 participating departments, however, have actually received additional resources to implement the program. A total of \$316,000 (\$54,000 General Fund) and 11.5 personnel-years was provided to these departments. DOF staff reported during the 1984-85 budget hearings that allocations to departments for decentralized testing were not necessarily linked to SPB budget reductions.

Budget Proposal for 1985-86. The budget proposes to accelerate and expand the DESP, thereby making possible the elimination of all SPB resources associated with the employee selection program—42.1 personnel-years and \$1,237,000. Specifically, the budget proposal would require the board to complete the full implementation of the DESP by June 30, 1985, rather than in 1986-87 as planned. To accomplish this objective, the board plans to require all currently nonparticipating departments with more than 100 employees (34 departments) to begin full participation in the program by the end of the current year. This, in effect, would eliminate the probationary period for the new departments.

Our analysis of the budget proposal and the SPB's compliance plans indicate that:

- **The Proposed Staffing Reduction is Greater Than the Proposed Workload Reduction.** In our review, we found that SPB has 28 positions and \$830,000 assigned to manage the personnel workload of these 34 departments. Thus, the proposal to reduce 42.1 positions and \$1,237,000 actually would result in eliminating 14.1 positions currently assigned to workload associated with centralized exams.
- **New Participants May Not Be Ready to Assume Responsibility by Start of Fiscal Year.** Before departments assume full testing responsibility, SPB oversees their activities during the probationary period to ensure that they comply with state merit system requirements. It is unclear to us how 34 departments—over twice the number of agencies which have assumed full testing responsibilities during the four-year life of the program—can be “brought aboard” the program by July 1, 1985.
- **New Participants in the Program Would Not Receive Additional Staffing or Funding.** Thus, the 34 departments that would be required to take over the selection process would have to absorb the costs associated with this major new duty.

Consequently, we conclude that, under the budget proposal: (1) the board may have to reduce *other* activities in order to comply with the required personnel reductions; (2) all departments may not be able to assume full responsibility for the program by July 1, 1985, and (3) participating departments may have to reduce *other* program activities in order to provide for the personnel costs associated with these new DESP duties.

Local Government Services Program

The Local Government Services Program (LGSP) consists of two inter-related elements: (1) Merit Systems Service (MSS) and (2) Cooperative Personnel Services (CPS). Under the MSS program, the SPB approves or operates merit systems for a number of local government jurisdictions, in accordance with state law (Government Code Sections 19800-19810). This program operates on a fully reimbursable basis. Under the CPS program, the board provides recruitment, selection and other technical personnel

services to local government agencies. All program costs are paid by local agencies through reimbursements to the state Cooperative Personnel Services Revolving Fund (Item 1880-001-677).

The 1985-86 budget proposes to completely change the way these services are provided to local governments. The personnel services currently provided by state personnel in the LGSP would, instead, be provided through a Joint Powers Authority (JPA), governed by local government officials and representatives of SPB. The board would continue to collect reimbursements from local governments for the personnel services requested by local agencies. It would then contract with the JPA to provide these services.

From a budgetary standpoint, this change would have no significant effect. The proposal, however, allows the budget to show the elimination of all 55.4 personnel-years associated with the program.

It is not clear to us why the administration is proposing a change in the way these services are provided to local governments. We are not aware of any problems with the existing program, and the administration has provided no evidence that the proposed Joint Powers Authority would result in greater efficiencies or increased benefits.

While the proposal appears to have no significant implications for the program—good or bad—other than to make possible a reduction in the number of state employees, it does raise two legal issues.

- First, as noted above, SPB is required by law to establish, maintain, and review personnel standards for local government merit systems. If these personnel functions are delegated to the JPA, the board may not be in a position to fulfill its statutory responsibilities.
- Second, the proposal to transfer the LGSP's workload to the JPA, thereby eliminating 55.4 state personnel-years, may be in conflict with case law which defines when personal services contracting is allowed.

Conclusion

We recommend that, prior to budget hearings, the Department of Finance and the State Personnel Board report to the fiscal committees on the extent to which staffing reductions proposed for 1985-86 will allow the board and other affected departments to carry out their merit system responsibilities.

Given the above, we believe there is a reasonable basis for questioning the ability of the SPB and the 34 participating departments to carry out their merit system and examination responsibilities in 1985-86 without having to redirect funds away from other legislatively approved activities. Accordingly, we recommend that the Department of Finance and the State Personnel Board provide the fiscal committees with their responses to the following questions:

- **Salary Savings.** Which SPB programs or activities will have to hold vacant positions open in order to meet the proposed 7.8 percent salary savings requirement in 1985-86? How will these "artificial" vacancies affect the board's ability to meet its constitutional and statutory responsibilities?
- **Decentralized Selection.** (1) Which SPB programs will "absorb" the DESP personnel reductions which are in excess of the workload proposed to be transferred from the board? (2) What activities now conducted by participating departments will be reduced in order to "free up" the money needed to finance their new selection respon-

STATE PERSONNEL BOARD—Continued

sibilities⁹ and (3) Are departments capable of adequately assuming their new examination duties by July 1, 1985?

B. OTHER ISSUES

Technical Budgeting Recommendations

We recommend a reduction of \$150,000 (\$102,000 in Item 1880-001-001, \$8,000 in Item 1880-001-677, and \$40,000 in reimbursements) in order to eliminate overbudgeting as follows:

- The budget underestimates by \$116,000 (all funds) the savings associated with eliminating positions in the merit system administration and local government services programs.
- The amount budgeted for external contracts exceeds by \$34,000 (reimbursements) the amount justified in the Supplementary Schedule of Consultant and Professional Services.

**State and Consumer Services Agency
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Item 1900 from the General Fund, Public Employees' Retirement Fund, and other funds

Budget p. SCS 127

Requested 1985—86	\$33,465,000
Estimated 1984—85	33,629,000
Actual 1983—84	28,267,000
Requested decrease (excluding amount for salary increases) \$164,000 (—0.5 percent)	
Total recommended reduction	151,000
Recommendation pending	917,000

1985—86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1900-001-001—Social Security Administration	General	\$61,000
1900-001-815—Retirement Administration	Judges' Retirement	177,000
1900-001-820—Retirement Administration	Legislators' Retirement	111,000
1900-001-830—Retirement Administration	Public Employees' Retirement	30,147,000
1900-001-950—Health Benefit Administration	Public Employees' Contingency Reserve	2,634,000
1900-001-962—Retirement Administration	Volunteer Firefighters' Length of Service Award	46,000
Ch. 674/84—Current-Year Balance Available for Retirement Administration	Public Employees' Retirement	289,000
Total		\$33,465,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Data Processing Funds. Reduce Item 1900-001-830 by \$151,000. Recommend deletion because the request for addi-*

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- tional data processing resources constitutes contingency budgeting.
2. Investment Services. Withhold recommendation on \$667,000 budgeted for additional investment services, pending receipt and analysis of a detailed expenditure plan. 223
 3. Funds for Management Study Recommendations. Withhold recommendation on \$250,000 budgeted for implementation of management study's recommendations, pending receipt and analysis of a detailed expenditure plan. 223
 4. Public Employees' Contingency Reserve Fund. Recommend that the Department of Finance report at budget hearings regarding (a) the reversion of surplus monies in the fund and (b) the recapture of overbudgeted funds in 1984-85. 225
 5. Public Employees' Contingency Reserve Fund. Recommend that legislation be enacted to terminate the Public Employees' Contingency Reserve Fund. 225
 6. Administration of Health Benefits. Recommend that legislation be enacted to transfer administration of health benefits from the PERS to the Department of Personnel Administration. 226

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and related benefit programs that serve over one million active and retired public employees. The participants in these programs include state constitutional officers, members of the Legislature, judges, state employees, most nonteaching school employees and other California public employees whose employers elect to contract for the benefits available through the system.

Table 1
Public Employees' Retirement System
Contribution Rates
(percent of salary)
1984-85

	Employers	Employees			
		In Social Security		Not in Social Security	
		Monthly Salary Threshold	Rate on Salary Over Threshold	Monthly Salary Threshold	Rate on Salary Over Threshold
PERS Membership					
State Miscellaneous	17,604 ^a	\$513	5.0%	\$317	6.0%
State Industrial	19,976	513	5.0	317	6.0
State Safety	20,518	— ^b	— ^b	317	6.0
Peace Officer/Firefighter	24,310	— ^b	— ^b	238	8.0
Highway Patrol.....	25,292	— ^b	— ^b	863	8.0
Local Nonteaching School Employees	12,378	133	7.0	0	7.0
Local Contracting Agency Employees	Various ^c	Various ^c		Various ^c	

^a This is the effective annual rate for 1984-85.

^b Members not in Social Security.

^c Varies, depending on the membership classification of the employees and benefit provisions of the contract with PERS.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

The PERS also administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program (Social Security), which is now mandatory for state employees and is available to those local public workers whose employers elect such coverage.

Table 1 shows the PERS contribution rates for retirement benefits paid by the employer and employee-members during 1984-85.

The system administers a number of alternative retirement plans, through which the state and contracting agencies provide their employees a variety of benefits. The costs of these benefits are paid from employer and employee contributions equal to specified percentages of each participating employee's salary. These contributions are designed to finance the long-term, actuarial cost of the various benefits provided. For state employees and nonteaching local school employees, the contribution rates are determined by state law, and are adjusted whenever a statutory change is made in the benefits. For contracting local agencies, the employer and employee rates are determined by PERS actuaries, based on the cost of the particular benefit package approved by the respective governing bodies of these agencies.

Table 2
Public Employees' Retirement System
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
Retirement.....	613.6	643.3	615.4	\$25,309	\$30,158	\$30,155
Social Security.....	16.5	16.4	16.0	612	675	690
Health Benefits.....	51.1	50.9	49.0	2,512	2,699	2,558
Redesign Project	11.3	13.5	12.9	673	976	1,010
Administration (Distributed to other programs)	(235.7)	(242.1)	(227.0)	(13,506)	(16,615)	(17,419)
Unallocated General Fund Re- duction ^a	—	—	—	—	—	-2
Legislative Mandates.....	—	—	—	(9,367) ^b	(8,265) ^b	(8,265) ^b
Totals.....	692.5	724.1	693.3	\$29,106	\$34,508	\$34,411
Reimbursements				839	879	946
Net Totals				\$28,267	\$33,629	\$33,465
Funding Source						
General Fund.....				\$186	\$61	\$61
Public Employees' Retirement Fund				25,512	30,404	30,436 ^c
Public Employees' Contingency Reserve Fund				2,482	2,722	2,634
Legislators' Retirement Fund				87	156	111
Judges' Retirement Fund				— ^d	220 ^d	177 ^d
Volunteer Firefighters Length of Service Award Fund.....				—	66	46

^a Decrease in merit salary adjustments and operating expenses.

^b These expenditures are budgeted under Item 9680.

^c Includes \$289,000 in current-year unencumbered balances from the amount appropriated by Ch 674/84 (AB 529) for administration of the Two-Tier Retirement Program.

^d Beginning in 1984-85, administrative expenses for the Judges' Retirement System are appropriated from the Judges' Retirement Fund, rather than from the General Fund.

The health benefits program offers state employees and other public employees a number of basic and major medical plans on a premium-sharing basis.

The PERS is managed by a 13-member Board of Administration, the members of which are appointed, elected by specified membership groups, or assigned by statute.

In the current year, the PERS staff consists of 724 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures (excluding reimbursements) of \$33,465,000 for administrative support of the PERS in 1985-86. This is \$164,000, or 0.5 percent, less than current-year expenditures for this purpose. This decrease, however, will be more than offset by the cost of any salary or staff benefits increase that may be approved for 1985-86.

A summary of the PERS budget for the three-year period ending June 30, 1986, is provided in Table 2.

Table 3
Public Employees' Retirement System
Proposed 1985-86 Budget Changes
(dollars in thousands)

	<i>All Funds^a</i>
1984-85 Expenditures (Revised)	\$33,629
<i>Baseline Adjustments</i>	
Salary Increase	117
Reduced Pro Rata Charges	-971
Increased Reimbursements	-67
Reduction in Administrative Positions	-94
Increased Salary Savings Requirement	-644
Net Adjustment for Actuarial Valuations	-55
Relocation Expenses	149
Subtotal, Baseline Adjustments	(-\$1,565)
<i>Workload Changes</i>	
Board Member Elections	196
Second-Tier Retirement Program	289
Peace Officer/Firefighter Membership	107
Member Services and Tax-Withholding Units	110
Disability Investigations	120
Other Workload Changes	37
Subtotal, Workload Changes	(\$859)
<i>Program Changes</i>	
Update Mailroom and Data Processing Equipment	302
Newsletter for Retirees	89
Contingency Data Processing Assistance	151
Subtotal, Program Changes	(\$542)
1985-86 Expenditures (Proposed)	\$33,465
Change from 1984-85:	
Amount	-164
Percent	-0.5%

^a Over 90 percent of total PERS expenditures are from the Public Employees' Retirement Fund. The totals, however, also include expenditures from the Public Employees' Contingency Reserve Fund, the Legislators' and Judges' Retirement Funds, the Volunteers Firefighters Length of Service Award Fund, and the General Fund.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 3 categorizes the major budget-year changes as either (1) baseline adjustments, (2) workload changes or (3) program changes. The major *baseline adjustments* include a reduction of \$971,000, to account for adjustments in the system's pro rata charges, and a reduction of \$644,000, to account for an increase in the required salary savings rate from 6.8 percent in the current year to 9.7 percent in the budget year.

Significant *workload changes* include additional funds for the full-year implementation of the "Two-Tier" retirement program (\$289,000) and a new Peace Officer/Firefighter membership and benefit program (\$107,000). In addition, \$196,000 is budgeted for PERS administrative costs associated with the election of several members of the system's Board of Administration. The major *program changes* proposed in 1985-86 include \$302,000 for updating the PERS mailroom and data processing equipment (including the purchase of several personal computers for routine data-gathering, storage, and calculation functions).

ANALYSIS AND RECOMMENDATIONS**Budget Proposes Excessive Level of Salary Savings**

As noted above, the budget proposes to increase the system's salary savings level from 6.8 percent in the current year to 9.7 percent in the budget level. This is a significant increase to what was already a high salary savings requirement in 1984-85.

The budget offers no indication as to why PERS should expect such a large increase in salary savings in 1985-86. To the extent that the system does not realize this projected level of salary savings through normal attrition, this requirement will have the same effect as an unallocated reduction in the system's budget. To absorb such a reduction, PERS would probably have to cut staff in member services, its major program activity.

Augmentation for Data Processing Amounts to Contingency Budgeting

We recommend that \$151,000 requested from the Public Employees' Retirement Fund (Item 1900-001-830) for unanticipated data processing workload that may arise in 1985-86 be deleted in order to eliminate contingency budgeting and strengthen legislative control of expenditures.

The budget proposes \$151,000 in consultant and professional services funds to contract for data processing services on an "as-needed basis," in order to handle unanticipated data processing workload during 1985-86. These services would be obtained either from the Department of General Services or from the private sector.

According to the PERS, the system encounters unanticipated workload each year, primarily as a result of legislation that imposes additional, unfunded administrative costs. In past years, the PERS did not budget for this workload, since the magnitude of the work could not be estimated in advance. Instead, the system transferred temporarily EDP staff from its Redesign Project (an ongoing project to automate the PERS information and service programs) to handle this workload. According to the PERS, however, these redirections caused interruptions and delays in the Redesign Project.

Our analysis indicates that the system's request amounts to contingency budgeting. We have consistently recommended, and the Legislature has

generally agreed, that contingency budgeting is inappropriate. All state agencies may experience unanticipated demands on their staffs during the course of a year. In most cases, these demands can be absorbed without hindering the agency's performance of its primary mission. Where it is not able to absorb these costs, the budget provides a means for securing the additional funds that are needed: the Reserve for Contingencies or Emergencies (Item 9840). Consequently, contingency budgeting of the type proposed by PERS is unnecessary. In addition, it has two drawbacks. First, it needlessly inflates the size of the budget, and can tie-up funds that may be needed for other purposes. Second, it weakens legislative control of the budget by building in excess funds that can then be allocated by the agency, rather than by the Legislature.

If, indeed, legislation imposing new administrative costs on the system is enacted during 1985-86, these costs should be funded through that legislation, so that legislative control of expenditures is not weakened.

For this reason, we recommend that this proposed expenditure be deleted, for a savings of \$151,000 to the Public Employees' Reserve Fund.

PERS Has No Plan for Spending Investment Office Funds

We withhold recommendation on \$667,000 requested from the Public Employees' Retirement Fund (Item 1900-001-830) for the PERS Investment Office, pending receipt and analysis of a specific expenditure plan.

In 1984-85, the PERS investment program was augmented by \$667,000 so that the system could develop and implement a revised investment strategy and make related changes in investment personnel. At the time this analysis was prepared, PERS had not spent any of these funds. We understand that the system is in the process of preparing an overall plan for its investment program, which probably will be submitted to the administration and the Legislature this spring. Consequently, it is likely that little, if any, of the current-year augmentation will be spent by June 30, 1985.

The budget proposes to carry forward the \$667,000 augmentation into the budget year. However, until PERS has prepared and presented its plan for using the requested funds, there is no way to analyze the request. Accordingly, we withhold recommendation on the \$667,000 requested from the Public Employees' Retirement Fund, pending receipt and analysis of this PERS investment plan.

PERS Has No Plan for Implementation of Management Study Recommendations

We withhold recommendation on \$250,000 requested from the Public Employees' Retirement Fund (Item 1900-001-830) to implement recommendations contained in a management report, pending receipt and analysis of a specific expenditure plan for the funds.

The Governor's Budget requests \$250,000 for the PERS to use in implementing the recommendations contained in a management report on the system issued by a private consulting firm in November 1984. The PERS' budget for 1984-85 also includes \$250,000 for the same purpose.

The PERS management has appointed an internal task force to select specific ways of expending the \$250,000 provided by the 1984 Budget Act to implement the recommendations contained in the management report. According to the PERS, a listing of the proposed expenditures will be submitted to Department of Finance and to the Legislature prior to legislative hearings on the PERS' budget for 1985-86. We believe it is

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

unlikely that much, if any, of the \$250,000 will be expended in the current year.

Until we have received and reviewed the system's expenditure plan for these funds, we cannot evaluate this request. Accordingly, we withhold recommendation on the \$250,000, pending receipt of the forthcoming information.

Participation in "Two-Tier" Is Significantly Below Projections

Chapter 674, Statutes of 1984 (AB 529), provided certain state miscellaneous members of the PERS with the opportunity to elect a lower-tier retirement plan. This plan, referred to as "Two-Tier," provides about one-half the benefits offered under the current plan, but requires *no* employee contributions. "Two-Tier" is optional both for existing members and new employees. The 100,000 eligible PERS miscellaneous members can choose "Two-Tier" during annual "window" periods. The first such enrollment period ended January 1, 1985.

At the time this analysis was written (late January 1985), preliminary information indicated that about 8,000, or 8 percent, of eligible PERS members had elected the second-tier retirement plan during the first "window" period.

Thus, it appears that the election rate was significantly lower than the 30 percent rate projected by the Department of Personnel Administration during deliberations on Chapter 674 and used by the PERS actuaries last year in calculating the state's contribution rate to the system during the current year. Based on the assumed 30 percent participation rate, the PERS lowered the state's contribution rate from 18.262 percent of a miscellaneous member's salary to 17.604 percent. Given *actual* participation, however, it may be necessary for PERS to *increase* the state's rate in 1985-86.

ADMINISTRATION OF HEALTH BENEFITS**The Public Employees' Contingency Reserve Fund**

Under the Public Employees' Medical and Hospital Care Act of 1961, the PERS is responsible for providing medical insurance coverage for active and retired PERS members through carriers who contract with the system. In support of this program, the PERS also administers the Public Employees' Contingency Reserve Fund (PECRF).

The PECRF was established for two purposes. First, it provides a source of funding for the administrative costs incurred by PERS in carrying out its responsibilities under the 1961 act. Second, it serves as a special reserve which can be used, among other things, to: (1) defray future health insurance premium increases, (2) reduce contributions by employers and employees, and (3) increase health plan benefits.

The PECRF is funded by two separate "surcharges" on employers (that is, state and contracting local governments) that are calculated as a percentage of the gross health insurance premiums they pay. The PERS board is authorized by law to set a rate of up to 2 percent of gross premiums to pay for administrative costs, and a rate of up to 4 percent for the special reserve.

In the current year, the Legislature took several actions with regard to the PECRF. First, the Legislature amended existing law to require *annual legislative approval* of the PECRF surcharge rates authorized by the PERS

board. To implement this change and to accomplish other ends, the Legislature added Control Section 4.20 to the 1984 Budget Act. This section:

- Required the Controller to revert to employers, the PECRF surplus that existed as of June 30, 1984. A multimillion dollar surplus had accumulated, primarily because expected special reserve liabilities did not materialize.
- Provided the mechanism whereby the Legislature approves each year the PECRF surcharge rates. For 1984-85, the rates were set at 0.7 percent for administrative costs and 2.0 percent for the special reserve.
- Required the Department of Finance (DOF) to recapture any funds provided in agencies' 1984-85 budgets which were *in excess* of the rates approved by the Legislature. Since agencies were authorized to budget for a total PECRF rate of 3.5 percent in 1984-85, as compared to the 2.7 percent rate finally approved by the Legislature, there were substantial amounts to be recaptured.

Department of Finance Should Report on Implementation of Control Section 4.20

We recommend that prior to budget hearings, the Department of Finance report to the Legislature on: (1) the reversion of the PECRF's surplus as of June 30, 1984, and (2) the recapture of overbudgeted funds in 1984-85.

Our review of the Governor's Budget indicates that the provisions of Control Section 4.20 of the 1984 Budget Act have not been fully implemented. First, the fund condition statement on the PECRF (Governor's Budget, page SCS 133) indicates that the June 30, 1984 fund surplus—shown as almost \$16 million (\$8.6 million General Fund)—has *not* been reverted to employers, as required by Section 4.20.

Second, our review also indicates that the DOF has not recaptured all of the funds overbudgeted for PECRF surcharge rates in the current year. In recent instructions to agencies, the department properly instructed them to reduce current-year and budget-year baseline expenditures for these overbudgeted health care costs. The department did not, however, *ensure* that state agencies actually made these reductions. Information provided by the DOF indicates that only 16 agencies have made reductions in their budget for the current year, resulting in savings of \$110,000. This amount is far less than the \$3.2 million in savings that the Legislature anticipated when it adopted Section 4.20.

In light of the above, we recommend that the Department of Finance report to the budget committees on:

- When surplus PECRF funds (as of June 30, 1984) will be reverted to employers; and
- What actions the department will take to ensure that (1) *current-year* agency budgets are reduced in accordance with Section 4.20, and (2) the required 1984-85 reductions have not been carried forward into 1985-86 budgets.

PECRF Should Be Terminated

We recommend that legislation be enacted to terminate the PECRF because the cost of administering health benefits and special reserves can be provided in a more direct manner.

Our analysis of the PECRF indicates that its purposes could be achieved in a simpler, more direct fashion. For example, we see no reason why

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

PERS administrative costs should be financed by a surcharge on total health premium costs, as there is not necessarily a relationship between administrative costs and health premium costs. A more direct approach would be simply to appropriate the amount needed for PERS administrative costs in the Budget Bill, and have agencies reimburse the system for these costs. This is the way the Department of Personnel Administration is paid for the administrative costs it incurs in connection with the dental care program.

Similarly, we can find no good reason to fund any special one-time expenditures—which is what the special reserve recently has been used for—through a surcharge on health premiums. If the Legislature, for example, wants to provide a special subsidy to a health care provider, it can appropriate funds directly for that purpose. In fact, given the way in which the PECRF special reserve has been used, it would seem more appropriate for the Augmentation for Employee Compensation item (9800) to fund such expenditures. This item currently funds increases in the cost of health benefits for annuitants, a purpose similar to those funded by the PECRF special reserve.

Given the problems that the Legislature has encountered in properly budgeting for PECRF expenditures (see above) and holding the PERS accountable for how PECRF funds are used, we recommend that legislation be enacted terminating the PECRF, and that more direct means be used to accomplish the Legislature's purposes.

Administration of Health Benefits Program Should Be Transferred to Department of Personnel Administration

We recommend that legislation be enacted to transfer administration of health benefits from the PERS to the Department of Personnel Administration (DPA).

The Public Employees' Medical and Hospital Care Act of 1961 assigned responsibility for administering health benefits to the PERS Board of Administration. Under this act, the PERS board—with the support of PERS Health Benefit Division staff—negotiates the level of benefits and premiums with each of the providers. Once these negotiations are completed, the PERS board contracts with each provider for the agreed-upon benefits during the contract year, which runs from August 1 through the end of the following July. Funding for state employee benefits is budgeted by state agencies, based on an estimate of costs provided by the Department of Finance.

In 1961, there was no central agency responsible for the administration of state employee benefits other than PERS. Consequently, the Legislature assigned administration of health benefits to PERS.

Since the PERS was given this responsibility, however, the structure of state government has changed. In 1981, the Department of Personnel Administration (DPA), was established to manage the nonmerit aspects of the state's personnel system. The DPA is responsible for the administration of all matters related to state employee relations, including employee compensation packages, job classifications, layoff and grievance processes, performance evaluation procedures, and statewide training policies.

Furthermore, the DPA administers virtually all of the state benefit programs, including dental benefits, per diem and travel expenses, uniform allowances, employee assistance programs, and the deferred com-

pensation program. In fact, with the exception of health benefits, the only benefits administered outside the department that we know of are the retirement-related benefits provided by PERS.

Our analysis indicates that responsibility for the administration of health benefits should also be assigned to the DPA. This would be consistent with DPA's statutory responsibility in the area of benefits administration. In addition, since DPA is already responsible for administering the state dental program, shifting responsibility for the administration of health benefits from PERS to DPA would consolidate in one agency the administration of all health-related benefits. This would enable the state to better respond to changes in the way health benefits are provided in the future.

Finally, the current arrangement makes it difficult for the state to implement successfully the State Employer-Employee Relations Act. We can find no convincing reason why the PERS board, an independent entity having no *overall* responsibility for the negotiation and administration of state employee benefits, should be in charge of this one major benefit.

For these reasons, we recommend that the appropriate sections of the Government Code be amended to transfer the administration of health benefits from the PERS to the DPA.

**State and Consumer Services Agency
STATE TEACHERS' RETIREMENT SYSTEM**

Item 1920 from the State Teachers' Retirement Fund and other funds

Budget p. SCS 135

Requested 1985-86	\$14,015,000
Estimated 1984-85.....	13,285,000
Actual 1983-84	11,775,000
Requested increase (excluding amount for salary increases) \$730,000 (+5.5 percent)	
Total recommended reduction	86,000

1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1920-001-835—Retirement administration	State Teachers' Retirement	\$13,856,000
Education Code Section 24701—COLA administration	State Teachers' Retirement (Retirees' Purchasing Power Protection Account)	97,000
1920-001-963—Annuity administration	Teacher Tax-Sheltered Annuity	62,000
Total		\$14,015,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Computer System Operators. Shift \$84,000 in Item 1920-001-835 from operating expenses to personal services.* Recommend that the STRS hire two system software specialists in the budget year, rather than contract for computer-related services, since the system will need such assistance "in-

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STATE TEACHERS' RETIREMENT SYSTEM—Continued

house" on an ongoing basis.

2. *Investment Clerical Support. Reduce Item 1920-001-835 by \$56,000.* Recommend deletion of funds budgeted for contract clerical services in the investments office, because the need for additional clerical support in the budget year has not been established. 231
3. *Technical Budgeting Issue. Reduce Item 1920-001-835 by \$30,000.* Recommend deletion of funds to correct for overbudgeting of contract legal services. 232

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves nearly 400,000 active and retired members. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

Table 1
State Teachers' Retirement System
Budget Summary
1983-84 through 1985-86
(dollars in thousands)

Program	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change, 1985-86 Over 1984-85	
				Amount	Percent
Operations:					
Administration	\$269	\$370	\$373	\$3	0.8%
Data Processing	1,660	2,158	2,320	162	7.5
External Operations	943	1,238	1,286	48	3.9
Member Services	3,151	3,804	3,887	83	2.2
Subtotals, Operations	(\$6,023)	(\$7,570)	(\$7,866)	(\$296)	(3.9%)
Investment Services	\$179	\$719	\$454	-\$265	-3.7%
Administration:					
Accounting	\$1,148	\$1,534	\$1,664	\$130	8.5%
Executive Office	1,627	998	975	-23	-2.3
Management Services	3,106	2,452	2,915	463	18.9
Program and Policy	—	270	449	179	66.3
Subtotals, Administration	(\$5,881)	(\$5,254)	(\$6,003)	(\$749)	(14.3%)
Total Expenditures	\$12,083	\$13,543	\$14,323	\$780	5.8%
Reimbursements	-308	-258	-308	50	19.4
Total Expenditures (net)	\$11,775	\$13,285	\$14,015	\$730	5.5%
Funding Sources					
Teachers' Retirement Fund	\$11,534	\$13,126	\$13,856	\$730	5.6%
Teacher Tax-Sheltered Annuity Fund..	56	62	62	0	—
Retirees' Purchasing Power Protection Account, Teachers' Retirement Fund	185	97	97	0	—
Personnel-years	273	298.4	293.3	-5.1	-1.7%

The primary responsibilities of the STRS include: (1) maintaining a fiscally sound plan for funding approved benefits, (2) providing authorized benefits to members and their beneficiaries in a timely manner, and (3) furnishing pertinent information to teachers, school districts, and other interested groups. In addition to having overall management responsibility for the STRS, the board reviews applications for benefits provided by the system.

Our analysis of funding requirements for the *benefits* provided through the STRS appears under Item 6300—"Contributions to the State Teachers' Retirement Fund." This analysis (Item 1920) covers funding requirements for the *support* of the system.

The STRS has authorization for 298.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$14,015,000 from the State Teachers' Retirement Fund and two other special funds for administrative support of the STRS in 1985-86. This is an increase of \$730,000, or 5.5 percent, over estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefits increase that may be approved for the budget year.

Total STRS expenditures, by program, for the past, current, and budget years are shown in Table 1. As the table shows, the system's largest programs, in terms of budget-year expenditures, are member services (\$3.9 million), management services (\$2.9 million), and data processing (\$2.3 million). Table 1 also indicates that the STRS proposes to fund 293.3 personnel-years in the budget year—a net reduction of 5.1 personnel-years from the current-year level.

Table 2
State Teachers' Retirement System
Proposed 1985-86 Budget Changes

	<i>State Teachers'</i> <i>Retirement Fund</i> ^a
1984-85 Expenditures (Revised)	\$13,285,000
<i>Baseline Adjustments:</i>	
Salary Increase Adjustment	136,000
Operating Expenses and Equipment	229,000
Pro Rata Charges	217,000
Miscellaneous Cost Reductions	-164,000
Subtotal, Baseline Adjustments	(\$418,000)
<i>Workload Changes:</i>	
Actuarial Valuation (Consultant)	\$75,000
Claims Processing (Limited-term Positions)	166,000
Investments Office (Clerical)	56,000
On-line Computer System (Consultant)	84,000
Position Reductions (Various)	-240,000
Toll-free Telephone Lines (Full-year Funding)	171,000
Subtotal, Workload Changes	(\$312,000)
1985-86 Expenditures (Proposed)	\$14,015,000
Change from 1984-85:	
Amount	\$730,000
Percent	5.5%

^a Includes administrative costs for a tax-sheltered annuity program and a pension adjustment program funded from the Teacher Tax-Sheltered Annuity Fund and the Retirees' Purchasing Power Protection Account of the Teachers' Retirement Fund, respectively.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

Table 2 summarizes the major changes in the STRS's budget proposed for 1985-86. The table indicates that *baseline adjustments*, such as routine salary and operating expense increases, account for over 57 percent of the proposed budget changes. The STRS budget also proposes various *workload changes*, the largest of which are: (1) a \$171,000 augmentation to provide full-year funding of toll-free telephone lines (as authorized by Chapter 683, Statutes of 1984), (2) a \$166,000 increase to extend for one year eight limited-term positions assigned to benefit claims processing, and (3) a reduction of \$240,000, involving various positions no longer needed on a workload basis.

ANALYSIS AND RECOMMENDATIONS**Problems Associated with Claims Processing Continue**

The Supplemental Report of the 1984 Budget Act directed the STRS to report on the effectiveness of its new automated information system in reducing delays, benefit adjustments, and penalty payments associated with benefit application processing. We have reviewed the system's report, and conclude that while steps have been taken to automate the process for determining final retiree benefit allowances, the report did not demonstrate quantitatively the extent to which automation has improved the system's productivity and effectiveness in this area.

As we indicated in the *Analysis of the 1984 Budget Bill* (please see page 284), the STRS is meeting most of its statutory deadlines for claims processing but has had serious difficulty in meeting its 45-day deadline for processing *final* service retirement payments. According to STRS staff, the system continues to experience backlogs and delays in processing these final retirement payments, and currently is meeting the processing standard less than 30 percent of the time. These delays not only can cause financial hardship for STRS members (or their beneficiaries); they also can result in additional costs to the STRS because of interest penalties imposed under existing law on late payments.

The STRS indicates that these processing backlogs should be alleviated to a large extent by the implementation of its new on-line information system. This system, which is scheduled to begin operating in November 1985, will fully automate most claims-processing and benefit-calculating procedures.

In addition, the budget proposes to spend \$166,000 for a one-year extension of eight limited-term staff positions which are due to expire on June 30, 1985. These positions were added by the 1984 Budget Act to address the increased workload and persistent processing delays in service retirement and death benefit claims. We have reviewed the system's request to use these positions in the budget year, and we conclude that the request is justified adequately.

Report on Disability and Service Retirement Costs Arrives Too Late

The Supplemental Report of the 1984 Budget Act required the STRS to prepare and submit to the Legislature by October 1, 1984, a report on disability and service retirement costs. We did not receive the system's report until January 18, 1985, and thus we did not have a sufficient opportunity to review the document prior to the completion of this analysis.

Computer System Assistance Should Be Provided "In-House"

We recommend that \$84,000 requested for consulting be shifted from operating expenses to personal services, and that the STRS be authorized to hire two system software specialists in the budget year.

Currently, the STRS employs an associate system software specialist to perform various computer programming tasks. The budget requests \$84,000 in consulting funds for the system to use in contracting for *additional* computer programming and operations assistance. (This amount is equivalent to about two person-years.) The STRS reports that the expected completion of its new on-line information system in November 1985 is the basis for this request.

Our analysis indicates that the STRS will require additional resources to operate and manage its new automated system. However, it would be more appropriate for the STRS to use civil service computer programmers for this purpose than to retain private consultants.

The STRS currently owns, operates, and manages its data processing systems. Consequently, all ongoing operations related to its computer systems are inherently of an "in-house" nature. Given this arrangement, we see no justification for splitting the programming function between civil service and contract personnel. It seems to us, in fact, that the use of contract personnel might *lessen* the ability of the STRS to control and manage its computer systems.

Thus, we can find no basis on which to justify the request for additional *consulting* funds. Accordingly, we recommend that these funds be shifted from operating expenses to personal services (Item 1920-001-835), and that the STRS be authorized to hire the equivalent of two system software specialists in the budget year.

Need for Additional Clerical Support Has Not Been Demonstrated

We recommend the deletion of \$56,000 requested from the State Teachers' Retirement Fund for additional clerical support, because the need for this support has not been established. (Reduce Item 1920-001-835 by \$56,000.)

The budget requests \$56,000 for the STRS to use in contracting for increased clerical support in its investments office. Currently, this office has six clerical positions, four of which have been assigned to the chief of investments and the eight investment managers. The budget change proposal submitted by the system indicates that eventually the office will have a total of 16 investment managers, and that as additional managers are hired, there will be a corresponding increase in clerical workload.

Our analysis indicates that the need for additional clerical support in the budget year has not been demonstrated. First, the STRS has not provided detailed documentation regarding its allocation of *existing* clerical staff in the investments office. Second, it is not clear at this time that additional clerical staff will be needed in the budget year since there is uncertainty over how quickly the system will be able to hire additional investment managers. Accordingly, we recommend that the funds budgeted for additional clerical services for the investments office be deleted, for a savings of \$56,000 to the State Teachers' Retirement Fund.

Even if the STRS could demonstrate an increase in investment-related clerical workload, we still would be concerned about a request for additional funds to *contract* for clerical support. Since the investment program is an *ongoing* activity, and since any needed clerical personnel could be

STATE TEACHERS' RETIREMENT SYSTEM—Continued

hired within the civil service system, we know of no reason why the STRS should be allowed to contract for clerical support.

Technical Budgeting Issue

We recommend the deletion of \$30,000 requested from the State Teachers' Retirement Fund to eliminate overbudgeting, for the following reason:

- The system has budgeted \$77,000 for contract legal services with outside attorneys, but the STRS staff has indicated that these service contracts will actually cost \$47,000 in the budget year.

**State and Consumer Services Agency
DEPARTMENT OF VETERANS AFFAIRS AND
VETERANS' HOME OF CALIFORNIA**

Items 1960-1970 from the General Fund and special funds Budget p. SCS 140

Requested 1985-86	\$36,717,000
Estimated 1984-85	37,560,000
Actual 1983-84	32,757,000
Requested decrease (excluding amount for salary increases) \$843,000 (-2.2 percent)	
Total recommended reduction	None
Recommendation pending	1,870,000

1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1960-001-001—Departmental support	General	\$2,323,000
1960-001-592—Departmental support	Cal-Vet Farm and Home	896,000
1960-101-001—Local Assistance	General	1,000,000
1970-011-001—Veterans' Home	General	20,063,000
1970-011-890—Veterans' Home	Federal Trust	(12,601,000)
Continuing Appropriation—Administration	Cal-Vet Farm and Home	12,206,000
Continuing Appropriation—Administration	Cal-Guard Farm and Home	229,000
Reimbursements		<u>(4,326,000)</u>
Total		\$36,717,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Laundry Services Contract with the Prison Industry Authority. Withhold recommendation on laundry services proposal, pending the receipt of information on various unresolved issues. 235
2. Cal-Vet Loan Processing. Withhold recommendation on the purchase of a computer system to centralize automation of loan processing, pending the approval of a feasibility study report by the Department of Finance. 237

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs provides services to California veterans and their dependents, and to eligible members of the California National Guard, through five programs:

1. **Cal-Vet Farm and Home Loan.** This program provides low-interest farm and home loans to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds.

2. **Veterans Claims and Rights.** This program assists eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.

3. **The Veterans' Home.** The home provides approximately 1,400 California war veterans with several levels of medical care, rehabilitation services, and residential services.

4. **Cal-Guard Farm and Home Loan.** This program provides low-interest farm and home loans to qualifying National Guard members, using proceeds from the sale of revenue bonds.

5. **Administration.** This program provides for the implementation of policies established by the California Veterans Board and the department director.

The department has 1304.5 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$36,717,000 from various state funds for support of the Department of Veterans Affairs and the Veterans' Home of California in 1985-86. This is a decrease of \$843,000 or 2 percent, below estimated current-year expenditures. This reduction, however, will be offset by the cost of any salary or staff benefit increase approved for the budget year.

Table 1 provides a summary, by fiscal year and funding source, of all expenditures, including expenditures for loans, debt service, and taxes, for the Cal-Vet and Cal-Guard loan programs. As shown in the table, total expenditures of \$1,026 million are proposed for 1985-86. This is a net increase of \$38.4 million, or 4 percent, over estimated current-year expenditures. The increase reflects the following changes:

- An increase of \$1,103,000, or 5 percent, in *General Fund* support for (1) departmental administration and (2) the Veterans' Home. This primarily reflects increases in employee compensation and inflation adjustments.
- An increase in *special funds*, including a net increase of \$42,839,000, or 5 percent, in the Cal-Vet program primarily to reflect increased interest costs, partially offset by a decrease of \$6,365,000, or 41 percent, in the Cal-Guard program to reflect a reduction in available loan funds.
- An increase in *federal funds* of \$408,000, or 3 percent, primarily to reflect additional Medicare reimbursements received by the home to offset the costs it incurs in providing services to members.
- An increase in *reimbursements* of \$427,000, or 11 percent, reflecting increases in members' fees and "aid in attendance" payments made by the federal Veterans Administration to veterans requiring special assistance.

**DEPARTMENT OF VETERANS AFFAIRS AND
VETERANS' HOME OF CALIFORNIA—Continued**

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

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change From 1984-85 to to 1985-86	
				Amount	Percent
General Fund					
Departmental administration/Claims and Rights	\$1,727	\$2,313	\$2,323	\$10	0.4%
Veterans Service Offices	420	1,000	1,000	—	—
Veterans' Home	17,737	18,970	20,063	1,093	5.8
Totals, General Fund	\$19,884	\$22,283	\$23,386	\$1,103	4.9%
Cal-Vet Farm and Home Fund					
Loan program administration	\$12,512	\$14,972	\$13,102	-\$1,870	-12.5%
Loans, debt service, taxes	882,348	919,266	963,975	44,709	4.9
Totals, Cal-Vet Fund	\$894,860	\$934,238	\$977,077	\$42,839	4.6%
Cal-Guard Farm and Home Fund					
Loan program administration	\$361	\$305	\$229	-\$76	-24.9%
Loans, debt service, taxes	5,862	15,112	8,823	-6,289	-41.6
Totals, Cal-Guard Fund	\$6,223	\$15,417	\$9,052	-\$6,365	-41.3%
Federal Trust Fund Veterans' Home	\$10,896	\$12,193	\$12,601	\$408	3.3%
Reimbursements					
Departmental administration	99	208	137	-71	-34.1
Veterans' Home	3,609	3,691	4,189	498	13.5
Totals, Reimbursements	\$3,708	\$3,899	\$4,326	\$427	11.0%
Total Expenditures	\$935,571	\$988,030	\$1,026,442	\$38,412	3.9%

Table 2 summarizes the department's expenditures, by program, for the past, current, and budget years. The budget proposes a decrease of \$1,870,000, or 13 percent, in the amount spent to administer the Cal-Vet program and an increase of \$44,709,000, or 5 percent, in loans, debt service, and taxes. The decrease in administration primarily reflects reductions in the amount of services purchased from the Teale Data Center as a result of the new departmental computer system for loan processing that is expected to come on line in the current year. The increases reflect higher interest costs as bonds with low interest rates mature and are replaced by new bonds sold at higher interest rates.

In addition, the budget proposes decreases in both departmental support (\$76,000) and loans, debt service, and taxes (\$6,289,000) under the Cal-Guard loan program. The department anticipates that all remaining proceeds from the last bond sale will be allocated for new loans by about the middle of 1985-86. As a result, the cost of processing new loans will be reduced.

The budget also proposes an increase of \$2,026,000, or 6 percent, in expenditures for the Veterans' Home. The major reasons for the increase include (1) overtime payments of \$460,000 for medical personnel, (2) contracts for maintenance and laundry services totaling \$394,000, (3) the purchase of new medical equipment at a cost of \$199,000, and (4) eight additional positions for medical and administrative services costing \$396,000.

Table 2
Department of Veterans Affairs
Program Summary
1983-84 through 1985-86
(dollars in thousands)

Expenditures	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change From 1984-85 to 1985-86	
				Amount	Percent
Cal-Vet Farm and Home Loan Program administration.....	\$12,512	\$14,972	\$13,102	-\$1,870	-12.5%
Loans, debt service, and taxes	882,348	919,266	963,975	44,709	4.9
Cal-Guard Farm and Home Loan Program support	361	305	229	-76	-24.9
Loans, debt service, and taxes	5,826	15,112	8,823	-6,289	-41.6
Veterans Claims and Rights.....	1,694	2,811	2,786	-25	-0.9
Veterans' Home	32,794	35,564	37,590	2,026	5.7
Administration (distributed)	1,286	1,637	1,662	25	1.5
Unallocated General Fund reduction for merit salary adjustments and operating expenses.....	—	—	-63	-63	NMF
Totals	\$935,535	\$988,030	\$1,026,442	\$38,412	3.9%
<i>Personnel-Years</i>					
Cal-Vet Farm and Home Loan.....	260.1	280.8	266.0	-14.8	-5.3%
Veterans Claims and Rights.....	30.5	37.2	36.4	-0.8	-2.2
Veterans' Home	884.8	941.0	919.7	-21.3	-2.3
Cal-Guard Farm and Home Loan	5.0	5.0	4.2	-0.8	-16.0
Administration (distributed)	(32.4)	(36.2)	(35.2)	-1.0	-2.8
Totals	1,180.4	1,264.0	1,226.3	-37.7	-3.0%

NMF means not a meaningful figure.

Table 2 also shows that reductions totaling 37.7 personnel-years, or 3 percent, are proposed for the department's programs. These decreases primarily reflect the replacement of permanent staff with contractors at the Veterans' Home (21.3 personnel-years) and automation of various Cal-Vet loan program functions (14.8 personnel-years).

ANALYSIS AND RECOMMENDATIONS

Laundry Service Proposal

We withhold recommendation on the funds requested for a proposed laundry services contract between the Veterans' Home and the Prison Industry Authority. We recommend that prior to budget hearings, the department report on several unresolved issues concerning the proposal.

The budget proposes \$204,000 (\$173,000 from the General Fund and \$31,000 from reimbursements) to implement the first year of a three-year program to replace in-house laundry services at the Veterans' Home. These services would instead be provided by the Prison Industry Authority (PIA). Currently, the home has 26 positions to provide in-house laundry services, at a cost of \$522,000. When the contract with the PIA is fully operational, the department indicates that it will reduce its staff by a total of 17 positions and realize annual savings of \$48,000.

The department's request for 1985-86 contains four elements:

(1) \$40,000 to remodel the department's facilities to accommodate centralized laundry distribution, (2) \$168,000 for additional linen to assure an

**DEPARTMENT OF VETERANS AFFAIRS AND
VETERANS' HOME OF CALIFORNIA—Continued**

adequate supply, given the anticipated increase in laundry processing time under the contract with the PIA, (3) \$158,000 to finance the first-year costs of the PIA contract, and (4) a reduction of six positions for a savings of \$108,000. The proposal indicates that PIA will process 832,000 pounds of laundry at a General Fund cost of 19 cents per pound in the budget year.

The department recommends the contract with PIA as a more efficient method of providing laundry services. The department suggests that PIA can provide the services at a lower cost than it could provide them itself, and at the same time the PIA could accomplish its legislatively-mandated goal of developing increased work opportunities for prison inmates. Further, the department advises that the plan can be implemented without layoffs through attrition and the redirection of existing positions.

Our review indicates that the department's proposal may result in a more efficient delivery of laundry services than the current method, and expand the work program for inmates, thereby improving the chances that inmates will make successful transitions from prison to the community. We note, however, that the department and the PIA have not resolved several significant issues that must be resolved before the Legislature can act on the department's request.

Price for Laundry Services Has Not Been Established. At the time this analysis was prepared, the PIA and the department had not met to discuss either the terms of or price for contract laundry services. The budget assumes that the price will be 19 cents per pound for PIA laundry services. This is the same price the PIA proposes to charge those other state institutions that plan to enter into similar laundry agreements during the budget year. The department, however, could not advise us as to whether the 19-cent-per-pound charge will cover all PIA costs, including the cost of linen replacement and transportation, or just the cost of processing.

In addition, based on information provided by the PIA, its costs to provide similar laundry services at nearby state institutions are approximately 12 cents per pound. Thus, we estimate its profit margin would total 58 percent. To the extent that a negotiated price is lowered to a level closer to actual PIA costs, the proposal could result in savings to the department.

Laundry Facilities May Not Be Ready in Time. The PIA has not yet initiated its laundry services operation at California Medical Facility-South at Vacaville. Although the PIA hopes to do so by the beginning of the budget year, delays in constructing the laundry facilities at the new prison would necessarily delay the provision of services to the home.

Inventory Needs Have Not Been Established. It is not clear how the laundry services contract will affect the department's linen supply needs. The budget includes \$168,000 to purchase additional sets of linen for each resident, on the assumption that laundry processing time will be longer under the contract. The department, however, could not tell us how it estimated the need for the additional linen or what it assumes the added processing time will be. As a result, we cannot determine how much, if any, additional linen will be needed in the budget year.

Analyst's Recommendation. Our review of the department's proposal indicates that PIA laundry services could result in savings over the current system and increase the PIA's ability to provide appropriate work opportunities to prison inmates. Because the department and the PIA

have not yet resolved issues such as the cost of the laundry contract, when service will begin, and the department's linen supply needs, we cannot determine the amount needed for laundry services in 1985-86. To assure that the legislature has the information it needs in order to evaluate the department's proposal, we recommend that the PIA and the department resolve these issues and report the results to the Legislature prior to budget hearings.

We withhold recommendations on \$204,000 proposed for the PIA laundry services contract, pending the receipt of this information.

[Our analysis of the budget of the Department of Developmental Services contains a discussion of a proposal to provide PIA laundry services for state hospitals (please see Item 4300). In that discussion, we recommend a 3.7-cent-per-pound reduction in the laundry processing price (from 19 cents to 15.3 cents). This recommendation is based on information provided by the PIA about its processing costs for the state hospitals. Similar information about PIA processing costs for the Veterans' Home was not available at the writing of this analysis. Accordingly, we cannot make the same recommendation for the home at this time.]

Cal-Vet Loan Program Automation

We withhold recommendation on the department's proposal to purchase a computer system to automate the Cal-Vet loan program, pending the receipt of an approved feasibility study report from the Department of Finance.

In the budget year, the department proposes to delete 18 positions (12.2 personnel-years) and spend \$1,697,000 from the Cal-Vet Farm and Home Loan Fund to automate Cal-Vet loan processing. The proposal is intended to centralize operations in Sacramento and reduce loan processing time in the headquarters office and the 11 field offices around the state. The department advises that the first two phases of the project will be completed in the current year.

In Phase I, the department proposes to obtain administration approval for the purchase of new computer equipment. Phase II will involve testing the proposed system. Phases III and IV will involve implementing a new system in Sacramento and in each of the field offices. When the automation project is completed in June 1986, the department indicates that a total of 61 positions will be deleted and annual savings of \$1 million will be realized.

In the current year, the Cal-Vet loan program has a staff of 281 positions to process an anticipated 9,200 new loan applications. The volume of new loan approvals is expected to remain at its current-year level of \$411 million. Currently, the Teale Data Center performs some computerized loan functions for the department. The computer equipment to be purchased in the budget year would allow the department to discontinue using the Teale Center for processing of loan applications. The department proposes a pilot test of the proposed computer system beginning in February 1985.

Our review indicates that the purchase of a computer for loan processing in the Cal-Vet program may enable the program to provide more efficient services to loan holders than is possible under the current system. We note, however, that the project has not been thoroughly evaluated by the administration. At the time this analysis was written, the department had submitted a feasibility study report (FSR) on its proposal to the Office of Information Technology (OIT) in the Department of Finance, but the OIT had not completed its review.

**DEPARTMENT OF VETERANS AFFAIRS AND
VETERANS' HOME OF CALIFORNIA—Continued**

The State Administrative Manual requires departments to obtain OIT approval of an FSR in accordance with specified procedures before automation projects are authorized. The purpose of this review is to ensure that the department's information and data processing needs have been defined adequately and that the proposed automation solutions are feasible. In addition, OIT reviews the accuracy of the cost savings estimates in each project completed.

We withhold recommendation on the department's proposal to purchase a computer system in order to implement the automated Cal-Vet loan processing system, pending (1) the evaluation of the pilot test of the new loan processing system and (2) formal approval of a feasibility study report by the Office of Information Technology in the Department of Finance.

SLAMM Project Implemented

The *Supplemental Report of the 1984 Budget Act* required the Department of Veterans Affairs and the Office of Procurement in the Department of General Services to report by December 1984 on the estimated amount and timing of budget savings expected to result from implementation of the Statewide Logistics and Materials Management (SLAMM) project recommendations. In an October 1983 study, the SLAMM project had noted various deficiencies in the materials management practices of the Veterans' Home.

The report submitted by the department and the office indicated that 11 of the 23 recommendations contained in the October 1983 report have been implemented by the Home. In the current year, the department estimates the net savings from SLAMM program alterations to be \$93,729. The major changes include:

- Increased costs of \$12,467, due to the relocation of the central warehouse,
- The purchase of equipment (\$28,122),
- Inventory reductions totaling \$79,222, and
- Disposal of materials through sale or transfer to other agencies of \$55,096.

The department proposes to continue SLAMM implementation in the budget year.

The department advises that the Home has fallen behind schedule in implementing the remaining recommendations, which primarily concern revised plant operations procedures. The report contains a revised implementation schedule and indicates that SLAMM project recommendations will be fully implemented by December 1986.

Agent Orange Report Delayed

Chapter 1480, Statutes of 1984 (AB 3443), appropriated \$50,000 from the General Fund to the Department of Veterans Affairs for the expansion of its efforts (1) to inform Vietnam War veterans about the potential dangers of the herbicide Agent Orange used during the war and (2) assist veterans in obtaining information and services from the federal Veterans Administration (VA).

Specifically, the measure requires the department to keep detailed records and data about the number of veterans who have sought its assist-

ance regarding Agent Orange exposure and the status of their claims with the VA. The statute also directs the department to work with the Board of Medical Quality Assurance (BMQA) to provide information about the herbicide to physicians. Finally, Chapter 1480 requires the department to submit to the Legislature by January 1, 1985, a progress report on its efforts to inform veterans about Agent Orange. Prior law required only that the department assist veterans with their Agent Orange claims. At the time this analysis was written, the department had not yet submitted the report to the Legislature.

The department advises that it will hire one professional and 0.5 clerical positions to carry out the provisions of the new law in the current year and requests \$75,000 to continue the positions in the budget year. The positions are limited to June 30, 1987, the sunset date of Chapter 1480. The staff would be used to collect specified data and work with the BMQA.

We recommend approval of the proposal because the additional positions are needed to carry out the provisions of Chapter 1480.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Item 1970-301-036 from the General Fund, Special Account for Capital Outlay

Budget p. SCS 151

Requested 1985-86	\$4,698,000
Recommended approval	362,000
Recommended reduction	1,222,000
Recommendation pending	3,114,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page
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1. Withhold recommendation on the following ten projects, totaling \$3,114,000, pending receipt of additional information:
 - Item 1970-301-036(1), Remodel Section A—Domiciliary (\$676,000)
 - Item 1970-301-036(2), Remodel Section C—Domiciliary (\$981,000)
 - Item 1970-301-036(3), Remodel Section D—Domiciliary (\$951,000)
 - Item 1970-301-036(4), Correct Code Deficiencies, Section F—Residential (\$116,000)
 - Item 1970-301-036(7), Remodel Hospital Wards 1, 2, 3A (\$67,000)
 - Item 1970-301-036(8), Remodel Section B—Intermediate (\$82,000)
 - Item 1970-301-036(10), Remodel Hospital Wards 1, 2, 3B (\$45,000)
 - Item 1970-301-036(11), Remodel Hospital Wards 2, 3E, Administration (\$56,000)
 - Item 1970-301-036(12), Annex II—ICF (\$72,000)
 - Item 1970-301-036(13), Remodel Section E—Domiciliary (\$68,000)

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

2. **Renovate Hospital Support Services. Reduce Item 1970-301-036(6) by \$64,000.** Recommend reduction to delete funds for working drawings because preliminary plans will not be completed in the current year. 244
3. **Primary Electric Service. Reduce Item 1970-301-036(9) by \$692,000.** Recommend reduction to delete funds for working drawings and construction because the department does not have adequate information on the electrical load of the hospital to determine the scope of this project. 245
4. **Hospital Food Service. Reduce Item 1970-301-036(14) by \$60,000.** Recommend deletion of this project because the department has not substantiated the need to relocate the food service activity. 245
5. **Main Kitchen Renovation. Reduce Item 1970-301-036(15) by \$48,000.** Recommend deletion of this item because the department has not submitted adequate information to justify the project. 246
6. **Minor Projects. Reduce Item 1970-301-036(5) by \$358,000.** Recommend reduction to eliminate four projects which are not justified and/or are inappropriately budgeted as capital outlay. 247
7. **Construction Costs.** Recommend that the amounts approved for construction under Item 1970-301-036 be reduced by 3 percent to eliminate overbudgeting of construction costs. 247

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$4,698,000 from the General Fund, Special Account for Capital Outlay, for 18 major capital outlay projects and 8 minor projects at the Veterans' Home in Yountville.

Overview of the Master Plan

The Department of Veterans Affairs' facility in Yountville provides long-term care to qualified California veterans. In 1979, the department prepared a master plan to correct identified code and certification deficiencies at the Veterans' Home and to renovate the facilities. Chapter 1106, Statutes of 1984, requires construction and reconstruction projects at the Veterans' Home to be accelerated, and directs the department to revise the master plan in order to reflect this acceleration.

As revised, the master plan calls for new and renovated space to provide the following levels of services:

- **Acute Care.** An addition to Holderman Hospital, which has been funded for construction, will house 56 acute care beds, surgery, laboratory, radiology, pharmacy, and a major portion of the outpatient clinic services. Other acute care support facilities will be retained in the existing hospital.
- **Skilled Nursing.** The remaining portion of the hospital would be renovated to provide space for 307 skilled nursing beds. Modifications would meet code, privacy and space requirements.
- **Intermediate Care.** The two annexes to the hospital and the Section B building would be remodeled to provide a total of 282

intermediate care beds. The proposed work would correct code deficiencies and meet privacy and space requirements.

- **Residential and Domiciliary Care.** Eleven buildings would be renovated to provide 1,055 beds for residential and domiciliary care for home members. The renovations would correct code deficiencies and provide one-, two-, and three-bedrooms to meet privacy and space requirements.

This new accelerated construction schedule will provide for the completion of the following master plan construction projects during the next five years:

<i>Year of Completion</i>	<i>Building</i>	<i>Number and Type of Remodeled Beds</i>
1986	Section A	139—Domiciliary
	Section C	169—Domiciliary
	Section D	149—Domiciliary
1987	Hospital Addition	56—Acute Care
	Section B	96—Intermediate Care
	Hospital Wards 1, 2, 3A	58—Skilled Nursing
	Section E	171—Domiciliary
	Section F	114—Residential
1988	Hospital Wards 1, 2, 3B	63—Skilled Nursing
	Hospital Wards 2, 3E, Administration	60—Skilled Nursing
	Annex II	93—Intermediate Care
	Section H	56—Domiciliary
	Section J	51—Domiciliary
	Section K	37—Domiciliary
	Section L	32—Domiciliary
1989	Hospital Wards 1, 2, 3C	62—Skilled Nursing
	Hospital Wards 1, 2, 3D	62—Skilled Nursing
	Section G	117—Domiciliary
1990	Annex I	93—Intermediate Care

Completion of these projects according to this schedule is dependent upon two factors: (1) the appropriation of sufficient funding by the Legislature and the U.S. Congress, and (2) the timely completion of preliminary plans and working drawings by the Office of State Architect (OSA).

In addition to renovating the facilities as discussed above, the master plan also proposes major improvements to other facilities. Included in the overall plan are modifications to the laundry building, boiler plant, main kitchen and dining room, maintenance shop, central warehouse, members' workshops, recreation/theatre building and the administration building.

The total cost of renovations and improvements included in the master plan exceeds \$30 million.

Availability of Federal Funding. Chapter 1106 specifies that "no contract for construction of any project related to the master plan shall be entered into prior to the department's obtaining a written commitment from the federal government to fund either 65 percent of the project cost, as approved by the federal government, or the maximum amount available to the state." The department has indicated that the Veterans Administration (VA) will provide funds to cover 65 percent of the total cost of implementing the master plan. The state's share of these costs is provided under Item 1970-301-036 and the federal government's share is provided under Item 1970-301-890.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued**A. PROJECTS RECOMMENDED FOR APPROVAL**

We recommend approval of \$68,000 for Items 1970-301-036 (16), (17), (18), (19), preliminary plans to remodel Sections H, J, K and L at the Veterans' Home.

We recommend approval of the \$68,000 requested to develop preliminary plans for remodeling Sections H, J, K, L, in order to provide a total of 176 domiciliary beds. Table 1 summarizes the budget proposal and shows the estimated future cost of working drawings and construction for these projects.

Table 1
Department of Veterans Affairs
1985-86 Major Capital Outlay
Projects Recommended for Approval
Item 1970-301-036
(dollars in thousands)

Subitem	Project Title	Number of remodeled beds	Phase ^a	Budget Bill Amount	Estimated Future Cost ^b
(16)	Correct Code Deficiencies, Section H.....	56	p	\$19	\$941
(17)	Correct Code Deficiencies, Section J.....	51	p	17	794
(18)	Correct Code Deficiencies, Section K.....	37	p	16	547
(19)	Correct Code Deficiencies, Section L.....	32	p	16	594
	Totals			\$68	\$2,876

^a Phase symbol indicates: p = preliminary planning.

^b Department's estimate of total cost.

According to revised department project schedules, it is appropriate to begin preliminary planning work for these buildings at this time, and we recommend the funds for the work be approved.

B. PROJECTS FOR WHICH RECOMMENDATION IS WITHHELD

We withhold recommendation on \$3,114,000 requested under Item 1970-301-036 for ten projects at the Veterans' Home, pending receipt of additional information from the department and the Office of State Architect.

We withhold recommendation on \$3,114,000 requested for 10 major capital outlay projects at the Veterans' Home in Yountville. These projects, together with our reasons for withholding recommendation on them, are summarized in Table 2.

Table 2
Department of Veterans Affairs
1985-86 Major Capital Outlay Projects for Which the
Legislative Analyst is Withholding Recommendation
Item 1970-301-036
(dollars in thousands)

<i>Sub-Item</i>	<i>Project Title</i>	<i>Phase^a</i>	<i>Budget Bill Amount</i>	<i>Estimated Future Cost^b</i>	<i>Reason for Withholding Recommendation</i>
(1)	Remodel Section A—Domiciliary	c	\$676	—	Pending receipt of a report addressing (1) the status and need for roof insulation, (2) the operation and cost of an intercom system and the telephone system, and (3) preliminary plans and a cost estimate for an individual building chiller additive alternate.
(2)	Remodel Section C—Domiciliary	c	981	—	Pending receipt of a report addressing (1) the status and need for roof insulation, (2) the operation and cost of an intercom system and the telephone system, and (3) preliminary plans and a cost estimate for an individual building chiller additive alternate.
(3)	Remodel Section D—Domiciliary	c	951	—	Pending receipt of a report addressing (1) the need for roof insulation, and (2) the operation and cost of an intercom system and the telephone system.
(4)	Correct Code Deficiencies in Section F	w	116	\$2,089	Pending receipt of completed preliminary plans.
(7)	Remodel Hospital Wards 1, 2 and 3A	w	67	1,449	Pending receipt of (1) a report evaluating whether construction of a new hospital is more cost-effective than renovating the existing facility, and (2) completed preliminary plans.
(8)	Remodel Section B—Intermediate.....	w	82	3,163	Pending receipt of completed preliminary plans.
(10)	Remodel Hospital Wards 1, 2 and 3B	p	45	1,156	Pending receipt of (1) a report evaluating whether construction of a new hospital is more cost-effective than renovating the existing facility, and (2) an OSA cost estimate.
(11)	Remodel Hospital Ward 2, 3E and Administration.....	p	56	1,370	Pending receipt of (1) a report evaluating whether construction of a new hospital is more cost-effective than renovating the existing facility, and (2) an OSA cost estimate.
(12)	Annex II (ICF)	p	72	1,850	Pending receipt of an OSA cost estimate.
(13)	Remodel Section E—Domiciliary	w	68	2,683	Pending receipt of completed preliminary plans.
	Totals		\$3,114	\$13,760	

^a Phase symbols indicate: p = preliminary planning; w = working drawings; and c = construction.

^b Department's estimate of total cost.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued**C. RECOMMENDED REDUCTIONS/DELETIONS**

Our analysis indicates that the amounts requested for four major capital outlay projects, totaling \$902,000, by the Department of Veterans Affairs should be reduced or deleted. These projects, together with our recommendations on each, are summarized in Table 3.

Table 3
Department of Veterans Affairs
1985-86 Major Capital Outlay
Legislative Analyst's Recommended Changes
(dollars in thousands)

Sub- item	Project Title	Phase ^a	Budget Bill Amount	Analyst's Recom- mendation	Estimated Future Cost ^b
(6)	Renovate Hospital Support Service.....	pw	\$74	\$10	\$947
(9)	Primary Electrical Service.....	pwc	700	8	—
(14)	Hospital Food Service.....	pw	60	—	290
(15)	Main Kitchen Renovation	pw	48	—	252
Totals.....			\$882	\$18	\$1,489

^a Phase symbols indicate: p = preliminary planning; w = working drawings; and c = construction.

^b Department's estimate of total cost.

Renovate Hospital Support Services

We recommend that Item 1970-301-036(6) be reduced by \$64,000 to eliminate funds for working drawings because preliminary plans will not be completed in the current year.

The budget proposes \$74,000 under Item 1970-301-036(6) for preliminary plans and working drawings to renovate support services at Holderman Hospital. The project will remodel the two-story wing at Holderman Hospital and the ground floor of the A wing. The renovated space will be occupied by those programs which provide acute care support services for the residents of the Veterans' Home, such as social work and speech pathology. The future cost for construction of this project is estimated at \$947,000 (LSI 405).

The Department of Finance (DOF) has already transferred a total of \$17,900 to the Office of State Architect (OSA) for this project. Chapter 1106, Statutes of 1984 (AB 3356), also provided \$16,000 for development of preliminary plans.

The 1985-86 OSA budget estimate indicates that an *additional* \$10,000 is required to complete preliminary plans for this project. In addition, the OSA Master Schedule contains *no* date for completion of these plans. Consequently, preliminary plans will not be available for review in the current year and, as a result, the Legislature will not have the information it needs to determine the appropriate scope of the project and the adequacy of the cost estimate.

On this basis, we recommend that this item be reduced by \$64,000 to provide only the funds needed to complete preliminary plans. Deferring the provision of funds for working drawings until 1986-87 will not affect the completion of other projects in the Veterans' Home Master Plan.

Primary Electric Service

We recommend that Item 1970-301-036(9) be reduced by \$692,000 to eliminate funds for working drawings and construction because the information needed to determine the future electrical load at the Veterans Home is not available.

The budget proposes \$700,000 under Item 1970-301-036(9) to increase the primary electric service at the Veterans Home. The project provides for the installation of new primary switch gear, primary electrical distribution cables, underground ducts and oil selection switch.

The construction of the acute care hospital addition and the other remodeling work will change significantly the electrical load demands at the home. Recognizing this, the Legislature appropriated funds for preliminary plan and working drawing funds for this project in the 1982 Budget Act. The preliminary plans, however, could not be completed because there was no way of determining what the electrical load would be after completion of the master plan projects. The working drawing portion of the 1982 funds has been reverted.

Information on Electrical Load is Still Lacking. There is still no information available that details (1) existing electrical capacities and demands or (2) projected electrical needs, based on the schedule for completing the projects in the master plan. Nor has the department identified whether the proposed third-party-financed cogeneration project will have an effect on the electrical distribution system at the Home. Without this information, there is no way the Legislature can determine the appropriate scope and cost of this project. Consequently, we recommend deletion of the funds requested for working drawings and construction.

Preliminary Planning Funds Needed. Based on the preliminary Master Plan Schedule, preliminary plans should be completed on most master plan projects by the end of the budget year. Completion of this work coupled with more complete information on the cogeneration project will provide the information on future electrical loads which will be needed to assess the Home's primary electrical service needs. Consequently, we recommend that \$8,000 be provided to update the existing preliminary plans. These preliminary plans should provide the necessary information for the Legislature to consider a request for working drawings and construction funds in the 1986 budget bill. Based on the phased construction of the master plan projects, funding improvements to the primary electrical system in 1986-87 should not cause any hardship.

Hospital Food Service

We recommend deletion of Item 1970-301-036(14) because the department has not substantiated the deficiencies in the food service area. Future savings: \$290,000.

The budget proposes \$60,000 for preliminary plans and working drawings to construct a new food service area at Holderman Hospital. Specifically, the project includes a new dishwashing area, walk-in refrigerators, an ice-cream freezer and ice machine, food warming cabinet with toasters, storage area, and tray-line components. Food service for Holderman Hospital is presently located on the first floor. The department's proposal would abandon the first floor site and construct a new food service area in the hospital addition unexcavated space. Future cost for construction is estimated by the department at \$290,000.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

The department has not substantiated the need for this project. We have received no documentation to justify relocating the hospital food service activity, nor have we received any information on the alternatives considered by the department in preparing this request. Moreover, we have received no information to justify the amount of funds requested for preliminary plans and working drawings or identified as the future costs of this project. Finally, we note that the work being proposed was not part of the hospital addition project approved by the Legislature. It is not clear, therefore, how the food service area would be constructed within this new facility.

For these reasons, we recommend that funding for this project be deleted, for a savings of \$60,000.

Main Kitchen Renovation

We recommend deletion of Item 1970-301-036(15) because the department has not submitted adequate information to justify the project, for a savings of \$48,000. Future savings: \$252,000.

The budget proposes \$48,000 under Item 1970-301-036(15) for preliminary plans and working drawings to renovate the main kitchen at the Veterans' Home. Specifically, the project includes modifications to provide additional freezer/refrigerator space, a combined test kitchen/nourishment room, additional warehouse/storeroom space, an ingredients room, two offices and a classroom. The project also would replace the existing floor-mounted steam kettles with wall-mounted units. The department states that the project is being proposed based on the result of a food service consultant's study. The department estimates that the future cost of constructing this project is \$252,000.

The department has not substantiated the need for this project. It has not provided a copy of the consultant's study that serves as the basis for the project, nor has it documented its claim that the renovation will improve the "operation of the food preparation function and increase production efficiency," or identified the cost savings that will result once the project is completed. Finally, the department has not provided justification of, or estimated costs for, the various components of this project.

For these reasons, we recommend that funds for the project be deleted for a savings of \$48,000.

D. MINOR CAPITAL OUTLAY

Table 4
Department of Veterans Affairs
1985-86 Minor Capital Outlay Program
Item 1970-301-036(5)
(dollars in thousands)

Project	Department Request	Analyst's Recommendation
Oil Pollution Prevention Plan.....	\$139	—
Replace Elevators.....	148	—
Centralized Storage Building	138	138
Steam Line Replacement to Section L.....	100	100
Fire Sprinkler System for Laundry	48	—
Kitchen Dock.....	18	18
Dumpster Loading Area.....	20	20
Install Sprinkler System and Backflow Protection.....	23	—
Totals	\$634	\$276

We recommend that Item 1970-301-036(5) be reduced by \$358,000 to eliminate funding for four projects which are either not justified or inappropriately budgeted as capital outlay.

The budget proposes \$634,000 under Item 1970-301-036(5) for eight minor capital outlay projects (\$200,000 or less per project) to be undertaken by the Department of Veterans Affairs. These projects, and our recommendations on each, are summarized in Table 4.

Our analysis indicates that four of these projects are justified, and we recommend that funding for them be approved. Our analysis also indicates that funding for the four remaining projects should be deleted.

- *We recommend deletion of \$139,000* requested for an oil pollution prevention plan, because the work proposed should be funded from the department's support budget.
- *We recommend deletion of \$148,000* requested for replacement of elevators in Section H and the Recreation Center because any work related to Section H should be carried out as part of the major project to remodel this building, and the department should evaluate modernization of the existing elevator in the Recreation Center before proposing new construction.
- *We recommend deletion of \$48,000* requested to install a fire sprinkler system in the laundry because the system is not required by fire safety codes. Moreover, the Governor's Budget proposes to phase-out this laundry.
- *We recommend deletion of \$23,000* requested for a landscape sprinkler system and backflow protection system at the Home because, (1) we have no indication as to what the funds included in the budget will be used for, (2) it is not clear that the existing system is in violation of any codes, and (3) the cost-effectiveness of the project has not been demonstrated.

Overbudgeted Construction Funds

We recommend that the amounts approved for construction in Item 1970-301-036 be reduced by three percent to eliminate overbudgeting of construction costs.

The Governor's Budget requests \$3,282,000 for the construction phase of capital outlay projects in 1985-86. Consistent with the state's budgetary practice, these amounts are based on an anticipated construction cost index for July 1, 1985. At the time the index was established for the budget year it was set at a reasonable level. Inflation, however, has not increased as anticipated. Using the most recent indices, adjusted by the current expected inflationary increase of about ½ percent per month, construction costs in the budget are overstated by approximately 3 percent. We therefore recommend that any funds approved for construction under this item be reduced by 3 percent to eliminate overbudgeting.

Supplemental Report Language

For purposes of project definition and control, we recommend that supplemental report language be adopted by the fiscal subcommittees which describe the scope of each of the capital outlay projects approved under this item.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Item 1970-301-890 from the Federal Trust Fund

Budget p. SCS 152

Requested 1985-86	\$5,917,000
Recommendation pending	5,917,000

ANALYSIS AND RECOMMENDATIONS

Federal Matching Funds for Veterans' Home Projects

We withhold recommendation on Items 1970-301-890 (1), (2), and (3), pending receipt of additional information on the Sections A, C and D domiciliary projects.

The budget includes \$5,917,000 in federal construction matching funds for three projects at the Veterans' Home. State funds for these projects are requested under Item 1970-301-036.

Specifically, \$1,786,000 is included under Item 1970-301-890(1) to remodel Section A (domiciliary); \$2,365,000 is included under Item 1970-301-890(2) to remodel Section C (domiciliary); and \$1,766,000 is included under Item 1970-301-890(3) to remodel Section D (domiciliary). These funds are provided under the Veterans Administration's grant program for construction or repair of state homes for veterans.

We have withheld recommendation on the state's share of these projects, pending receipt of additional information. Consequently, we withhold recommendation on this item.

Business, Transportation and Housing Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General Fund

Budget p. BTH 2

Requested 1985-86	\$16,373,000
Estimated 1984-85	15,922,000
Actual 1983-84	13,499,000
Requested increase (excluding amount for salary increases) \$451,000 (+2.8 percent)	
Total recommended reduction	117,000

GENERAL PROGRAM STATEMENT

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

The department maintains 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department is authorized 361.7 positions in the current year.