

**BOARD OF CONTROL**

ITEM 108 of the Budget Bill

Budget page 262

**FOR SUPPORT OF BOARD OF CONTROL FROM THE GENERAL FUND**

Amount requested .....	\$13,557
Estimated to be expended in 1957-58 Fiscal Year .....	28,557
Decrease (52.5 percent) .....	\$15,000

**RECOMMENDED REDUCTIONS** ..... None**GENERAL SUMMARY**

In general, the legal authority for the Board of Control is found in Sections 13900-13956, of the Government Code. The board consists of the Director of Finance and the Controller, both acting ex officio, and a third member who is appointed by the Governor and who may be a state officer, acting ex officio.

The board makes general rules and regulations governing the presentation and audit of claims against the State, travel claims and allowances, determination of partial pay for monthly employees, pay roll deductions for charitable contributions and U. S. Savings Bonds, use of state-owned vehicles, and determination of value of state-supplied living quarters and maintenance. They may adopt rules and regulations pertaining to merit awards to state employees who propose procedures and ideas which increase efficiency of state operations, or who perform special acts or services in the public interest.

The board considers, audits and recommends to the Legislature payment of claims against the State for which there has been no appropriation made. Also, the board sits as an adjudicative body hearing appeals from departments and protests from vendors in regard to purchasing procedures.

**ANALYSIS**

The \$15,000 or 52.5 percent decrease in the amount requested is due to deletion of an operating expense item for auditing services provided by the Audits Division, Department of Finance. Previously, this expenditure was entered as a reimbursement in the Audits Division budget. Since both agencies concerned derive their support from the General Fund, this will eliminate unnecessary accounting procedures.

This does not reflect any change in the present level of service.

We recommend approval of this budget as submitted.

**STATE CONTROLLER**

ITEM 109 of the Budget Bill

Budget page 263

**FOR SUPPORT OF THE STATE CONTROLLER FROM THE GENERAL FUND**

Amount requested .....	\$3,000,184
Estimated to be expended in 1957-58 Fiscal Year .....	2,797,388
Increase (7.2 percent) .....	\$202,796

## State Controller—Continued

## Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages-----	\$83,982	\$83,982	---	271 9
Operating expense-----	83,521	83,521	---	271 11
Equipment-----	60,101	60,101	---	271 13
Less increase in reimbursements--	-644	-644	---	271 20
Add decreased appropriation other funds-----	331	331	---	
Less increased appropriations other funds-----	-27,067	-27,067	---	
Add increase in pro rata charges	2,572	2,572	---	271 22
Total increase-----	\$202,796	\$202,796	---	

RECOMMENDED REDUCTIONS----- None

## GENERAL SUMMARY

The election of a State Controller is provided for in Article V, Sec. 17 of the California Constitution.

Duties expressed in the Constitution are as follows:

“No money shall be drawn from the treasury but in consequence of appropriation made by law, and upon warrants duly drawn thereon by the Controller; \* \* \*—(*Const., Art. IV, Sec. 22.*)

“Notwithstanding any limitations or restriction in this Constitution contained, every state office, department, institution, board, commission, bureau, or other agency of the State, whether created by initiative law or otherwise, shall be subject to the regulations and requirements with respect to the filing of claims with the State Controller and the submission, approval and enforcement of budgets prescribed by law.—(*Const., Art. IV, Sec. 1a.*)

“Art. IV, Sec. 6 (member of Reapportionment Commission); Art. V, Sec. 21 (approval of allocation of funds to Attorney General for certain purposes); Art. XIII, Sec. 9 (ex officio member of State Board of Equalization); Art. XVI, Sec. 3 (member of State Highway Finance Board); Art. XVIII, Sec. 1 (perform duties of Secretary of State at any election to recall the Secretary of State); Art. XXIV, Sec. 2 (temporary member of State Personnel Board).”

General duties of the Controller are expressed in Section 12410 of the Government Code which reads as follows:

“\* \* \* The Controller shall audit all claims against the State, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment. Whenever, in his opinion, the \* \* \* (claim audit) is not adequate, the Controller may make such field or other audit of any claim or disbursement of state money as may be appropriate to such determination.”

Subsequent sections spell out in detail these general duties.

## State Controller—Continued

The above mentioned functions are carried out by eight divisions as follows:

Administration,	County budget and reports,
Audits,	Tax collection and refunds,
Disbursements,	Tax deeded lands.
Inheritance and gift tax,	

*Boards and Commissions of which the State Controller is a member.*

State Board of Equalization,	State School Building Finance
Franchise Tax Board,	Committee,
State Lands Commission,	State Construction Program
State Board of Control,	Committee,
Pooled Money Investment	San Francisco Harbor Bond
Board,	Finance Board (1929),
Retirement Investment Board,	San Francisco Harbor Bond
State Teachers' Retirement	Finance Board (1951),
System,	State Park Finance Board,
Committee to Fix Interest Rates	State Highway Finance Board,
on Registered Warrants,	Unemployment Relief Finance
Veterans' Finance Committee	Committee,
of 1943,	Reapportionment Commission,
	Reciprocity Commission.

## ANALYSIS

The proposed budget of the State Controller for the Fiscal Year 1958-59 shows an increase of \$202,796 or 7.2 percent of the amount estimated to be expended in the current fiscal year.

The following new positions are requested strictly on an increase in workload.

Disbursement Division	
4 Intermediate clerks .....	\$13,824
Temporary help and related expenses .....	4,838
1 Tabulating machine supervisor .....	6,980
Inheritance and Gift Tax Division	
2 Accountant auditors .....	11,064
1 File clerk .....	3,492
Related expenses .....	2,241
County Budgets and Reports Division	
1 Accounting technician .....	4,645
Related expenses .....	642
Tax Collection Division	
1 Stenographer and related expense .....	3,995

The above positions are justified on an increased workload as shown in the following table:

## State Controller—Continued

	Table of Increases				
	1955-56 <i>Actual</i>	1956-57 <i>Actual</i>	1957-58 <i>Estimated</i>	1958-59 <i>Estimated</i>	<i>Increase 1958-59 over 1957-58</i>
Warrants issued .....	2,459,148	2,663,196	2,930,030	3,129,000	198,970
Number of audits .....	537	670	996	1,101	105
Claims audited .....	2,719,394	2,973,022	3,100,000	3,225,000	125,000
Gift tax returns .....	4,771	5,401	6,200	7,100	900
Inheritance tax returns .....	18,480	19,810	21,197	22,681	1,484
Total local jurisdic- tions reporting .....	4,468	4,771	4,861	4,930	69
County and city roads and street reports ..	382	396	410	420	10
Motor vehicle fuel tax refund claims .....	86,888	89,301	90,435	91,570	1,035
Transportation tax accounts receivable ..	\$539,272	\$599,307	—*	—	—
Fund accounting and revenue control documents .....	55,464	58,823	64,860	67,260	2,400
Tax-deeded lands, notices of sale to State .....	108,395	—†	—	—	—

\* Agency estimates not available; however, there are no indications of any decrease.

† Due to unpredictable conditions specific estimates cannot be made; however, the latest reports from counties indicate that there was an increasing amount of delinquencies in the 1956-57 tax year.

At present the Controller draws warrants against claims for services and materials presented by the various state agencies. These warrants are sent to the agencies and are mailed by them to the claimants. This method of handling warrants is considered unsound accounting practice which could result in fraudulent transactions.

The Legislative Analyst, the Auditor General and Price Waterhouse and Co., as a result of surveys, have all recommended that warrants be mailed directly from the Controller's Office to the claimants. This procedure will provide a good control. Savings will occur in state agencies but additional costs will occur in the Controller's Office. To put this program into effect, the following estimated expenditures in the proposed budget for the Controller's Office will be necessary.

4 Clerks .....	\$13,824
Mailing machine .....	4,400
Envelopes .....	1,332
Postage and communications .....	49,820
Printing .....	6,885
Files .....	686
Related expenses .....	1,810
Labor cost to set up retirement files .....	2,500
Total .....	\$81,257

## State Controller—Continued

The following new expenditures result from legislation adopted at the 1957 Session.

Charitable contributions and dues deductions	\$3,827
1 Intermediate account clerk	3,456
Related expenses	250
	<hr/>
	\$7,533
Less: reimbursements	<hr/>
	—7,533
	<hr/>
Net cost	-----

The major item of expenditure for equipment is the purchase of several units of IBM punched card equipment in the amount of \$3,194.62. This equipment has been in use in the Disbursement Division on a rental basis. A survey made by the Organization and Cost Control Division concluded that savings would result by the purchase of certain types of equipment.

We recommend approval of the budget as submitted.

## Economies and Improvements Requiring Legislation

We recommend that the functions and personnel of the Inheritance and Gift Tax Division be transferred to the Franchise Tax Board. This transfer will require amendments to several sections of the Revenue and Taxation Code, the Probate Code and perhaps other laws, but no amendment to the Constitution is necessary.

We believe the 150 tax appraisers, who are officers of the court and exempt from civil service, appointed by the Controller, should be made civil service employees.

We also recommend that tax due the State, now deposited in the first instance with the county treasurers, be paid directly to the State Treasurer. We see no reason why the taxpayer cannot make a self-assessment by the filing of a tax return stating the amount due and paying the tax direct to the State. Inheritance tax administration is handled this way in many other states.

## Major Reasons for Recommendations

1. Tax collection functions should not be in the Office of the State Controller. These duties should be performed by a tax collection agency.

2. Savings to the General Fund would result. An estimated \$100,000 per year in possible interest earnings would be gained if these taxes were paid directly to the State.

3. Cost of administration would be reduced. The Inheritance and Gift Tax Division in the State Controller's Office has authorized expenditures of \$601,223 for 1957-58, exclusive of retirement, all of which is from the General Fund. In addition, county treasurers will receive about \$400,000, and inheritance tax appraisers about \$250,000 out of inheritance tax collections in county treasuries so that the total state administrative costs will amount to about \$1,250,000, all of which can be regarded as a General Fund expenditure, either directly or indirectly.

**State Controller—Continued**

In addition to their compensation of \$250,000 from the State, it is estimated that the inheritance tax appraisers will receive at least \$1,000,000 in fees from the estates involved as compensation for their services as probate appraisers.

*We recommend that the functions of the Tax Collection Division and Refund Division be transferred from the Office of State Controller.*

The principal function of this division is the collection of the motor vehicle transportation license tax, gasoline tax and refunds of gasoline tax because of nonhighway use. As we have recommended in the past, we believe this function should be transferred to the Board of Equalization. An estimated savings of \$90,000 per year should result from this transfer. In addition to the resultant savings we submit the following reasons to support our recommendation.

1. All functions of assessments are now made by the Division of Highway Taxes of the Board of Equalization which administers the transportation license tax and gasoline tax.

2. Remittances are received with returns and processed through Board of Equalization central cashier, then deposits are made to the credit of the Controller.

3. The Board of Equalization has authority to issue clearance certificates which complicates further collection efforts of the Controller's Office.

4. The Division of Highway Taxes has authority to request cash or surety bonds to be posted to secure accounts.

5. It has an original file of all assessments and keeps the status of accounts.

6. The division has personnel in the field that can perform functions of collection.

7. This division must prepare, handle and forward to the Controller and store extra copies of accounting forms.

8. It is necessary to write numerous letters to the Tax Collection Division of the Controller's Office to make information available for their collection purposes.

9. This division has necessary information files and personnel to perform collection functions now being performed by the Tax Collection Division.

The function of collection of gasoline and insurance tax should be transferred to the Board of Equalization and the petroleum and gas tax collection to the Division of Oil and Gas, Department of Natural Resources.

**Claim Audit Function in the Office of the State Controller**

As early as 1950-51 Fiscal Year we made a recommendation regarding the preaudit of claims in the Controller's Office. We stated that in our opinion reasonable audit standards could be met by test checking of 10 percent of purchase orders in lieu of the 100 percent check being made at that time.

In subsequent analyses, we made recommendations regarding the 100 percent paper audit being performed on all other types of claims in the Claim Audit Bureau in the Controller's Office. In brief, we

## State Controller—Continued

recommended a 25 percent check for mathematical correctness. We recommended approval of a report of the Department of Finance which recommended a 100 percent check of all invoices of \$500 or more and a 10 percent check of all others. We also questioned the duplication of certain checks made by the Audit Bureau and recommended that checks be confined to determine (1) if the appropriation to be charged is in accordance with the statute and (2) that the items of service rendered are in accordance with the appropriation.

In our analysis of the 1957-58 Budget Bill, we recommended the reduction of 21 positions, which would leave sufficient staff to make the checks to meet the requirements outlined in (1) and (2) above. The Department of Finance concurred with this reduction in their report No. 819, January 20, 1956.

The Auditor General in a report dated February 20, 1957, titled "Report on Study of Claim Processing Procedure in Office of State Controller and in Selected State Agencies," made a recommendation on page 20 of this report, quoted in part as follows:

*"Recommendation 2.* We recommend that the statutory duties of the State Controller as they relate to the audit of claims against the State be changed to relieve him from liability with respect to warrants drawn in reliance upon certification of claim schedules by authorized employees of state agencies. We recommend further that the State Controller's examination of claim schedules submitted by state agencies be limited to a determination: (1) that the claim schedules are certified by properly designated agency representatives; (2) that the appropriations shown on the claim schedules are available to the particular agencies; and (3) that sufficient unexpended balances are available to cover the amounts claimed.

"Sections 12410 and 16003 of the Government Code provide for the audit of all claims against the State by the Controller. It is our recommendation that these sections of the Government Code be changed to provide that the Controller draw his warrants upon the presentation of claim schedules certified by properly designated representatives of state agencies as being true, correct, and in accordance with law. The standard claim schedule now in use includes such a certification under penalty of perjury. Changes are required in these two sections of the Government Code and in other sections which provide for audit of claims by the Controller. These changes are necessary to permit the Controller to make payments on the certification of others."

The Controller, in part, has put into effect our recommendations regarding sample checks for mathematical correctness and other changes that, in our opinion, result in a more efficient and economical procedure.

However, we believe that further reduction in the Claim Audit staff can and should be made by amending the law as indicated above.

The Legislature created the Office of the Auditor General for the sole purpose of providing an independent audit of the financial transac-

State Controller—Continued

tions of the State. In our opinion, this nullifies the necessity for any extensive so-called independent audit by the Controller. Furthermore, the Division of Audits of the Department of Finance performs audits of the various departments of State Government for the executive branch of government. We believe that the interests of the State should be sufficiently protected by these audits and that further checking done by the State Controller should be held to a minimum and in no way duplicate the work done by the Auditor General and the Department of Finance.

STATE CONTROLLER

ITEM 110 of the Budget Bill

Budget page 271

FOR SUPPORT OF AUDIT OF SPECIAL APPROPRIATIONS FOR AID TO LOCAL GOVERNMENTS FROM THE POSTWAR UNEMPLOYMENT AND CONSTRUCTION FUND

Amount requested	\$5,796
Estimated to be expended in 1957-58 Fiscal Year	6,127
Decrease (5.4 percent)	\$331

RECOMMENDED REDUCTIONS None

ANALYSIS

Under provisions of the Postwar Unemployment and Construction Act, Statutes of 1946, and the Postwar Planning and Acquisition Aid Act, Statutes of 1944, the State Controller does accounting and auditing of these aid programs to local governments. Only 79 projects remained to be audited during the Fiscal Year 1957-58. We believe these accounting and auditing functions will terminate at the end of the Fiscal Year 1958-59.

We recommend approval of the item as submitted.

STATE CONTROLLER

ITEM 111 of the Budget Bill

Budget page 271

FOR SUPPORT OF TAX COLLECTIONS AND REFUND DIVISION AND THE BUREAU OF HIGHWAY ACCOUNTS AND REPORTS FROM THE MOTOR VEHICLE FUEL FUND

Amount requested	\$490,153
Estimated to be expended in 1957-58 Fiscal Year	476,307
Increase (2.9 percent)	\$13,846

RECOMMENDED REDUCTIONS None

ANALYSIS

The principal function of this division is the collection of the Motor Vehicle Transportation License Tax, Motor Vehicle Fuel Tax, and the processing of gasoline tax refunds for nonhighway use.

As we have recommended in the past, and recommended again under the analysis section of the State Controller, this function should be transferred to the Board of Equalization.

The amount requested provides for the same level of services performed in the current fiscal year. Therefore we recommend approval of the item as submitted.



## STATE CONTROLLER

ITEM 112 of the Budget Bill

Budget page 272

FOR SUPPORT OF TAX DEEDED LANDS DIVISION FROM THE  
REDEMPTION TAX FUND

Amount requested .....	\$193,787
Estimated to be expended in 1957-58 Fiscal Year .....	189,083
Increase (2.5 percent) .....	\$4,704

RECOMMENDED REDUCTIONS ..... None

## ANALYSIS

This division is charged with the administrative procedure for tax sales, tax deeds, redemptions of lands sold or deeded to the State for nonpayment of taxes. Information is furnished to county officials with respect to the levying and collection of taxes on property. Services relative to delinquent tax accounting is given to the various counties. The administration of property tax deeded to the State is also the responsibility of this division.

The same level of service is anticipated for the Fiscal Year 1958-59. We recommend approval of this item as budgeted.

## STATE CONTROLLER

ITEM 113 of the Budget Bill

Budget page 271

FOR SUPPORT OF TAX COLLECTIONS AND REFUND DIVISION FROM  
THE MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested .....	\$184,507
Estimated to be expended in 1957-58 Fiscal Year .....	179,253
Increase (2.9 percent) .....	\$5,254

RECOMMENDED REDUCTIONS ..... None

## ANALYSIS

The amount requested above is the portion of the cost, chargeable to the Motor Vehicle Transportation Tax Fund, of collecting taxes levied under the provisions of the Motor Vehicle Transportation License Tax, and the collection of the Motor Vehicle Fuel Tax and the processing of gasoline tax refunds for nonhighway use.

As we have recommended in the past, and recommended again under the analysis section of the State Controller, this function should be transferred to the Board of Equalization.

We recommend approval of this item as budgeted.

## STATE CONTROLLER

ITEM 114 of the Budget Bill

Budget page 272

FOR ADDITIONAL SUPPORT OF THE STATE CONTROLLER  
FROM THE STATE SCHOOL BUILDING AID FUND

Amount requested .....	\$120,228
Estimated to be expended in 1957-58 Fiscal Year .....	116,965
Increase (2.8 percent) .....	\$3,263

RECOMMENDED REDUCTIONS ..... None

State Controller—Continued  
ANALYSIS

The State provides financial assistance for school construction where school districts cannot provide needed facilities due to lack of bonding capacity. The Controller's Office is required by law to audit these projects where the State has provided financial assistance (Sections 7744 and 7745 of the Education Code).

In our analysis of the budget act for the Fiscal Year 1957-58 we recommended that these two sections be amended to permit the elimination of the Controller's post audit of these projects. This would eliminate the duplication of audit by the Local Allocation Division, Department of Finance, which is done on a closeout examination of the expenditures and the post audit by the Controller. No action has been taken to amend these sections; therefore, the Controller's Office is obligated to continue his post audit function.

The workload for the Fiscal Year 1958-59 remains about the same as for the Fiscal Year 1957-58. For the Fiscal Year 1957-58, the bureau planned to audit 435 projects and for the Fiscal Year 1958-59 the bureau proposes to audit 483 projects. We recommend approval of the item as budgeted. We also wish to repeat our recommendation that Sections 7744 and 7745 of the Education Code be amended, at the coming general session, to eliminate the post audit on these projects now being done by the Office of the State Controller.

BOARD OF EQUALIZATION

ITEM 115 of the Budget Bill

Budget page 273

FOR SUPPORT OF GENERAL ACTIVITIES FROM THE GENERAL FUND

Amount requested .....	\$11,789,514
Estimated to be expended in 1957-58 Fiscal Year .....	11,452,049
Increase (2.9 percent) .....	\$337,465

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Workload or salary adjustments	New services		
Salaries and wages .....	\$142,061	\$132,677	\$9,384	279	28
Operating expense .....	128,162	127,262	900	279	30
Equipment .....	93,091	93,091	--	279	32
Reimbursements:					
Mapping services to counties ..	—15,743	—15,743	--	279	35
Division of Highway taxes .....	14,394	14,394	--	279	37
Department of Alcoholic Beverage Control .....	500	500	--	279	38
Cities and counties, local sales and use tax law .....	—25,000	—25,000	--	279	39
Total .....	\$337,465	\$327,181	\$10,284		

RECOMMENDED REDUCTIONS

Reduction in budgeted increases .....	\$900
Improved efficiency and policy reappraisal .....	127,634
Total reductions .....	\$128,534

## General Activities—Continued

Summary of Reductions		Budget	
	Amount	Page	Line
Unallocated:			
Out-of-state travel .....	\$6,250		
Administration:			
Out-of-state travel .....	900	274	30
1 training officer .....	9,384	274	14
Division of Assessment Standards:			
Instructional services .....	112,000	276	44
Total reductions .....	\$128,534		

## GENERAL SUMMARY

The Board of Equalization in its present form was created by the Constitution of 1879, and consists of four members elected by districts and the State Controller, ex officio. Section 9 of Article XIII of the Constitution, as amended in 1884, provides that the " \* \* \* Legislature shall have power to redistrict the State into four districts as nearly equal in population as practical \* \* \*." At present one of the districts has 56.8 percent of the State's population and another about 8 percent. There has been one redistricting since 1879, that in 1923, at which time the Board of Equalization had a staff of six and total annual expenditures of \$37,000.

The board has the following duties under the Constitution:

Article XIII, Section 9 " \* \* \* to equalize the valuation of the taxable property in the several counties of the State for the purposes of taxation \* \* \*."

Article XII, Section 14. To assess, annually, the properties of all privately owned public utilities which " \* \* \* shall be subject to taxation to the same extent and in the same manner as other property \* \* \*."

Article XX, Section 22. To assess and collect excise taxes on the manufacture, importation and sale of alcoholic beverages in this State.

Article XIII, Section 14½. To assess the tax on insurance companies. The Insurance Commissioner determines the amount of the tax in the first instance and audits the tax base while the State Controller collects the tax.

In addition to its constitutional responsibilities the board performs the following functions under various statutory provisions:

(1) Supervises and assists local assessors in connection with property tax administration.

(2) Hears appeals from decisions of the Franchise Tax Board under the Personal Income Tax and Bank and Corporation Tax Laws.

(3) Administers the Itinerant Merchants Act.

(4) Assesses and collects the state sales and use tax.

(5) Assesses and collects the local sales and use tax for cities and counties under the Bradley-Burns law.

(6) Assesses and collects the private car tax.

(7) Assesses and collects the use fuel tax (diesel tax).

(8) Assesses the motor vehicle transportation license tax (truck tax) which is collected by the State Controller.

(9) Assesses the motor vehicle fuel license tax which is collected by the State Controller who also administers the provisions of the law relating to refunds for nonhighway use.

General Activities—Continued

We do not believe that the participation of more than one agency in the administration of a given tax law, as is the case with the insurance tax, the truck tax and the gasoline tax makes for the most efficient and economical administration, a subject covered more fully in a later section entitled "Economies and Improvements Requiring Legislation."

The agency is organized into the eight divisions indicated in the budget document, two of which, general administration and the service division, perform housekeeping functions for the entire agency, including the six operating divisions. The latter are organized on the basis of laws administered rather than by function. Three of them, research and statistics, assessment standards, and valuation, are concerned primarily with various phases of property tax assessment, while the other three administer the state taxes indicated.

Table 1 shows the distribution of the authorized permanent staff for 1957-58, by division and district, as well as the number of field offices in each district.

As will be noted in the table, there was a total of 2533.8 authorized positions of which 896, or 35.4 percent were in headquarters in Sacramento and the remainder or 1,637.8 in the field.

The district organization was developed primarily for administration of the sales tax and for Alcoholic Beverage Control enforcement when that activity was handled by the Board of Equalization. Sales Tax Division staff of 1813.3 accounts for 71.6 percent of the agency total with 425.5 positions or 23.5 percent in headquarters and the remainder of 1387.8 or 76.5 percent in field offices.

The 12 administrative districts in California consist of counties, or groups of counties, which are subdivisions of the four equalization districts. Each has a district headquarters in the city, as shown in Table 1, and several branch offices. The use of equalization districts as the basis for the field organizational pattern results in some needless duplication of facilities, since in two instances, in the San Francisco Bay area and in the vicinity of Sacramento they divide normal economic areas. Each district is headed by a district tax administrator who has several bosses. He is responsible to the elected board member from his district for certain matters, to the executive secretary for others and to each of the division chiefs, who head the three tax divisions in Sacramento, for still others.

This type of organizational structure does not appear to us to be conducive to the most efficient and economical operation.

The field positions shown under general administration, column 3, Table 1, are the individual board members and their immediate staffs, who maintain headquarters in their cities of residence, i.e., Los Angeles, San Francisco, Oakland, and Woodland, in the Marysville district.

The field positions shown under Research and Statistics and Assessment Standards are engaged in sample appraisals for local property tax equalization purposes and county contract mapping services, respectively, and are not responsible to district tax administrators.

Table 1. Authorized Staff, 1957-58, by Division and Location as of July 1, 1957

District (1)	Number of field offices (2)	General administration (3)	Research and statistics (4)	Assessment standards (5)	Service (6)	Valuation (7)	Retail sales tax (8)	Beverage tax (9)	Highway tax (10)	Total (11)
Headquarters—Sacramento.....		66.5	35	61	147	56	425.5	17	88	896
New York.....	1						20			20
Chicago.....	1						20			20
Los Angeles.....	8	3	21	19			536	12	64	655
San Francisco.....	2	4					159	10	8	181
Oakland.....	4	1	13				107	1	7	129
Fresno.....	5						84	1	15	100
San Bernardino.....	a4						94.4		6	100.4
San Diego.....	2						64		8	72
San Jose.....	4						72.7		7	79.7
Santa Rosa.....	a7			16			47.2		9	72.2
Stockton.....	a7						89		11	100
Santa Barbara.....	3			6			31.3		1	38.3
Marysville.....	b11	1					42.7		4	47.7
Redding.....	b5						20.5		2	22.5
Total.....	64	75.5	69	102	147	56	1,813.3	41	230	2,533.8

a Includes one part-time office.

b Includes four part-time offices.

General Activities—Continued

Section 15603 of the Government Code provides that each board member elected from a district “ \* \* \* shall devote his entire time to the services of the State in performing the duties imposed upon the board and its members by the Constitution and Statutes of this State.”

The Board of Equalization, acting as a board, usually meets three days out of each month, although during the calendar year 1957, it met oftener in four months (eight days in June, four in July, six in August and eight in October), a total of 50 days during the year. These meetings are devoted to hearing appeals from actions of the Franchise Tax Board, and proposed actions by its own staff on tax deficiencies, consideration of matters of general policy and, at certain times of the year, to equalization of local property tax assessments, valuation of public utility properties and assessment of the taxes on insurance companies and private cars.

When not meeting as a board, the time of the four district elected members is taken up with matters affecting their individual districts pursuant to Section 15623 of the Government Code which reads as follows:

“Each member of the State Board of Equalization elected by the voters of an equalization district shall investigate the administration, enforcement, and operation within the district from which he is elected of all laws, the administration and enforcement of which are vested in the board.

“Each such member may appoint a deputy to assist him in the performance of his duties under this section. The deputy shall be so appointed as to be exempt from civil service under paragraph (6), subdivision (a), Section 4, Article XXIV of the Constitution, and not otherwise.”

We believe that two major changes are needed in the internal organizational structure of the Board of Equalization, to make it operate more effectively and economically.

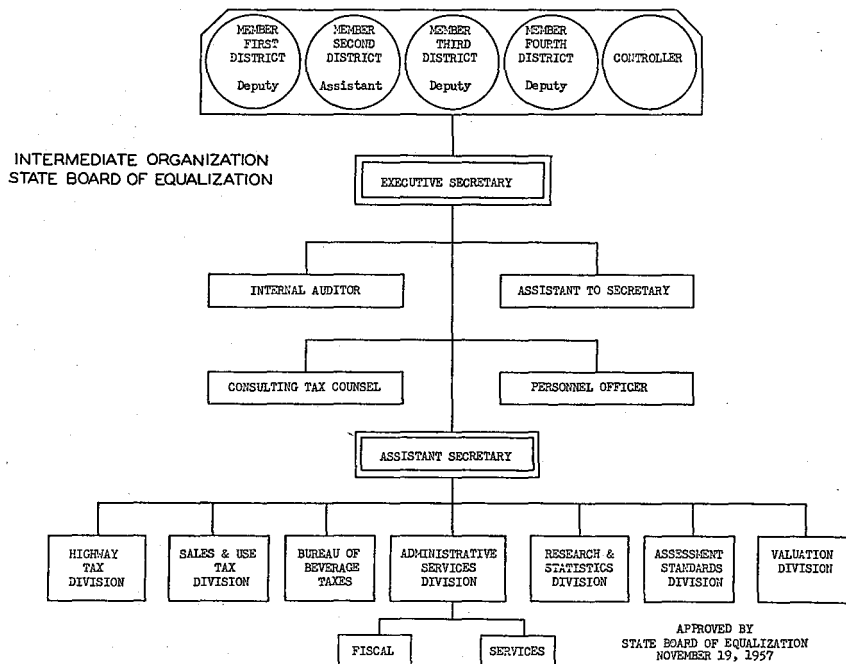
One is the concentration of responsibility for the administration of the staff functions in headquarters, such as research and statistics (as distinct from the sample appraisal activity), personnel, housekeeping services, accounting, administrative analysis, and budgeting under a single individual. There is a particular need for better co-ordinating the budgeting and the accounting activities.

The other is the need for consolidating all activities having to do with the various excise taxes administered by the board both at headquarters and in the field under a single individual with the organization of these activities placed on a functional, rather than a tax law basis, patterned generally upon the new organizational structure in the Franchise Tax Board.

The Board of Equalization, in approving the organizational structure indicated by the attached chart on November 19, 1957, has apparently recognized, at least in part, the need for the first organizational change, but not the second.

## General Activities—Continued

It is interesting to note that the Department of Finance, in Management Analysis Report A. N. 231, dated September 28, 1949, made essentially the same recommendation as that in our second recommendation indicated in the above.



We further believe that if the Board of Equalization should organize its districts on the basis of natural economic areas in the State, without regard to equalization district boundaries, the number of districts and, consequently, the number of district tax administrators reporting to headquarters could be substantially reduced.

## ANALYSIS

## Out-of-state Travel to Attend Conventions

One of the items which we believe should be reappraised at this time in view of the State's financial condition is out-of-state travel to attend conventions or meetings.

The budget of the Board of Equalization includes \$9,250 for this purpose to provide for the attendance of a total of approximately 26 persons at the following eight conventions, or meetings outside the State:

- National Association of Tax Administrators;
- North American Gasoline Tax Conference;
- Western Interstate Committee on Highway Policy Problems;
- Western States' Association of Tax Administrators;

## General Activities—Continued

- National Tax Association;
- Commission of Intergovernmental Relations;
- National Tax Conference;
- National Association of Assessing Officers.

The amount budgeted for attendance at these conventions or meetings appears in seven separate items in this budget, as follows:

Organizational Unit	Amount	Budget	
		Page	Line
General Administration -----	\$3,550	274	30
Research and Statistics -----	1,150	275	10
Assessment Standards -----	900	276	37
Valuation Division -----	750	277	29
Sales Tax, Headquarters -----	1,500	277	79
Sales Tax, Districts -----	900	278	36
Highway Taxes, Headquarters -----	500	280	31
Total -----	\$9,250		

In two instances it appears to us from the justification submitted with the budget that as many as seven individuals from the agency are scheduled to attend the same convention.

We believe that, in general, attendance at a given convention or meeting should be limited to a single individual from a given agency since matters of significance which transpire at these conventions are generally published or are otherwise available in written form to interested parties for subsequent study.

We recommend that out-of-state travel to attend conventions be reduced \$6,250, and that the remaining \$3,000 budgeted be distributed among the budget items involved in a manner to be determined by the agency with the approval of the Department of Finance.

We believe that an overall study should be made of this subject and definite criteria established for the guidance of the administration in authorizing out-of-state travel of this nature, since the problem is one which is not peculiar to this agency. We are skeptical of the benefits which California officials can derive from many of these conventions and meetings.

The problem of attendance at conventions and meetings is not limited to out-of-state travel since the Board of Equalization, for example, spent \$10,275 during 1956-57 for travel incident to conferences, conventions and training sessions within the State, which was as follows, by division:

Division	No. of Items	Amount
General Administration -----	41	\$2,114
Valuation -----	8	940
Assessment Standards -----	10	567
Sales Tax -----	165	5,374
Research and Statistics -----	6	225
Service -----	3	71
Highway Tax -----	28	984
Total -----	261	\$10,275



## General Activities—Continued

The number of items shown represents the number of claims filed, which is greater than the number of individuals involved because of duplications.

Included in the foregoing were conferences or conventions at the following locations:

Place	Date	Number of individuals	Amount
Los Angeles	November 11-16, 1956	32	\$1,752
Fresno	February 12-14, 1957	54	1,152
Hobergs (Lake County)	June 17-19, 1957	85	2,589
Totals	-----	171	\$5,493

The meeting in Los Angeles involved attendance at meetings of the Western States Association of Tax Administrators and the National Tax Association, while those at Fresno and Hobergs were "training conferences for instructing employees and disseminating information." We believe that there are better and more economical ways of doing this than at large gatherings such as these.

## Administration

Out-of-state travel, \$4,900, budget page 274, line 30, in addition to \$3,550 for attendance at conventions includes an item of \$900 for a trip of a senior and an associate administrative analyst to the East Coast to confer with companies manufacturing and developing electronic equipment.

It appears to us that such a trip is unnecessary since any needed information can be obtained in other ways, by the use of published material, by correspondence, or by arranging for representatives of the companies involved to meet with representatives of the agency locally.

*We recommend a reduction of \$900 in out-of-state travel, budget page 274, line 30.*

Included in general administration is a training officer position, budget page 274, line 14, at a budgeted salary of \$9,384, for 1958-59. This is a training officer II position, salary \$745-\$905, which was established by the conversion of an existing vacant auditor position during the current year, was not included in the budget as submitted for 1957-58, and as a consequence has never been subject to review by the Legislature.

*We recommend elimination of one training officer, budget page 274, line 14, \$9,384.*

This position has never been filled, its location in the administrative structure of the agency has not been determined and it represents an increase in the level of service.

## Research and Statistics

The staff budgeted for this division for 1957-58 consisted of nine persons, five technical statistical and research personnel and four clerical, which perform the staff functions in this field for the Board of Equalization.

General Activities—Continued

Effective July 1, 1957, the board, by administrative action, transferred to this division from the Division of Assessment Standards "all duties incident upon the process of determining relative assessment practices for the purposes of intercounty equalization." This involved a transfer to this division of the entire staff engaged in making sample appraisals of property in the various counties of the State, which included 50 appraisers and related clerical personnel.

While we have some reservations as to the wisdom of separating the appraisers into two distinct groups, this group and those in the assistance unit in the Division of Assessment Standards, we believe there may be certain advantages from the standpoint of clearly pinpointing the nature and extent of this activity.

It is interesting to note that shortly after the passage of Chapter 1466, Statutes of 1949, the Board of Equalization submitted to the Department of Finance a proposal to place this function in the Division of Research and Statistics, and that the management analysis section of the Department of Finance in Report AN 231 dated September 28, 1949, recommended against the proposal on the ground that the property tax equalization function was essentially a line activity while the research and statistic function was a staff service for the entire board and that when the two are placed in the same unit "\* \* \* either the research work is subordinated to the line activity or the line activity is delayed by lengthy research studies. Frequently the work of both activities is adversely affected."

Division of Assessment Standards—Assistance Unit

This unit advises, instructs and assists local assessors in performance of their duties with a view toward improving property tax assessment procedures and achieving uniformity of such procedures throughout the State.

During 1956-57, it had a staff of 16 permanent positions devoted to this work, and the 1957 Legislature authorized an increase of 10 positions or a total staff of 26 for 1957-58 (exclusive of temporary help), which is the staff budgeted for 1958-59. These changes, by class, are summarized as follows:

<i>Class</i>	<i>Authorized 1956-57</i>	<i>Authorized increase</i>	<i>Authorized 1957-58</i>
Chief of division.....	1	—	1
Principal real property appraiser.....	—	1	1
Appraiser .....	9	7	16
General auditor III .....	1	—	1
Technician and clerk.....	5	2	7
Totals .....	16	10	26

The Division of Assessment Standards was created during 1939-40 and had a staff of nine during that year. The printed budget for 1941-43 states:

"The Division of Assessment Standards was established by the board at the request of the 58 county assessors to assist in the achievement of uniformity in assessment practices throughout the State."

## General Activities—Continued

Prior to 1939-40 the functions of the board relating to local property taxes which are now enumerated in Sections 15606 to 15612 of the Government Code, were performed by one man, an "advisor to assessors," and upon his retirement during 1937-39 by a senior valuation engineer. The staff during the early years was as follows:

<i>Fiscal year</i>	<i>Staff</i>
1939-40 -----	9
1940-41 -----	17
1941-42 -----	15
1942-43 -----	15
1943-44 -----	14
1944-45 -----	17
1945-46 -----	17
1946-47 -----	17.4

Article XIII, Section 9 of the Constitution, places on the Board of Equalization the responsibility " \* \* \* to equalize the valuation of the taxable property in the several counties of the State for the purposes of taxation. \* \* \* " We believe that the staff in the Division of Research and Statistics engaged in sample appraisals should enable the board to carry out its responsibilities under this provision.

In addition to its constitutional responsibilities the board has certain statutory responsibilities relating to the work of local assessors, which are summarized as follows:

1. Prescribe rules to govern local boards of equalization when equalizing and assessors when assessing (Government Code Sec. 15606).
2. Prescribe and enforce the use of all forms for the assessment of property for taxation and the collection of taxes (Government Code Sec. 15606).
3. Issue instructions to assessors designed to promote uniformity throughout the State in assessment of property taxes (Government Code Sec. 15606).
4. Summon assessors to meet with its representatives at least once a year (Government Code Sec. 15607).
5. Instruct, advise and direct assessors in their duties (Government Code Sec. 15608).
6. Visit cities and counties to inspect properties, as necessary (Government Code Sec. 15611).
7. May inspect the work of local assessors and collectors (Government Code Sec. 15612).
8. Make surveys in each county to determine the adequacy of the practices of county assessors (Government Code Sec. 15640-15645).
9. Process affidavits for welfare exemptions (Revenue and Taxation Code Sec. 254.5).
10. Issue data to assessors relating to costs of property (Revenue and Taxation Code Sec. 401.5).

During 1957-58 the agency indicates that it proposes to use its available manpower for the following functions to the extent indicated for each:

General Activities—Continued

Table 2—Man-years by Function 1958-59

<i>Function</i>	<i>Man-years</i>
Direct time, requested activities	
a. Appraisal instruction in offices of local assessors	8.9
b. Procedures and systems instruction in county assessors office	1.0
Total	9.9
Direct time, mandatory activities	
c. Preparing assessors handbooks and forms	0.4
d. Preparing appraisal manual	0.5
e. Preparation of appraisal and cost data	1.5
f. Consultation with local assessors	0.3
g. Conferences and meetings	0.6
h. Updating assessment surveys	0.3
i. Processing welfare exemptions	0.5
Total	4.1
Other time	
j. Administrative and services	10.0
k. Unfilled positions and loaned to research and statistics	2.0
Total man-years	26.0

It appears to us that under the various provisions of the law summarized earlier the State is obligated to perform certain functions for the counties, which we believe to be those covered by items (c) to (i) in the foregoing.

Items (a) and (b), however, represent work performed at the request of the counties and involve extensive work in the offices of local assessors, such as conducting classes of instruction for assessors in assessment procedures and the devising and installation of complete systems. A characteristic of this type of work is that it is limited to the smaller counties, since apparently, Los Angeles, San Francisco and Alameda Counties, which together contain about 52 percent of the locally assessed property in the State, do not require such assistance.

We believe that the entire program of assistance to county assessors should be reappraised at the present time in view of the financial condition of the State, and that the State should be obligated to furnish only those minimum services required by law which we consider to be those indicated in items (c) to (i) in Table 2, and that the counties should be billed for items (a) and (b) in Table 2 in the same manner as for contract mapping services under Section 15624 of the Government Code which reads as follows:

"When requested by the legislative body of any county, city, or city and county to render advisory or other service, other than those services specified in this chapter, the board may contract, at not less than cost and subject to regulations approved by the Director of Finance, to render such services.

"All money received by the Board of Equalization pursuant to such contracts shall be paid into the State Treasury to the credit and in augmentation of the current appropriation of the board."

This section was added by Chapter 655, Statutes of 1951.

## General Activities—Continued

*We recommend a reduction of \$112,000 in the budget of the assistance unit of the Division of Assessment Standards (budget page 276, line 44).*

The amount is intended to reflect the salaries and related expenses of the 9.9 units of personnel shown in Table 2 under the heading "direct time, requested activities" and is calculated at  $1\frac{1}{2}\%$  of the total proposed budget for 1958-59 of \$290,227.

If this recommendation is adopted in principle, we suggest that the amount be reviewed in detail by the Department of Finance to determine whether any amounts should be included from the manpower designated as "administrative and services" item (j) in Table 2.

Contract mapping services for counties on a wholly reimbursable basis started in 1947-48 and the amounts of the reimbursements which the counties are paying are shown on budget page 276, line 72, and are as follows:

1956-57 (actual)	-----	\$260,329
1957-58 (estimated)	-----	457,615
1958-59 (proposed)	-----	473,358

## Sales Tax Division

This division administers the State Sales and Use Tax Law and the Bradley-Burns Uniform Local Sales and Use Tax Law for counties on a contract basis, of which there were 47 at January 1, 1958, and for 293 cities within these counties. Approximately 85 percent of the total state tax base is included in these 47 counties. The principal counties not covered under Bradley-Burns are Fresno, San Mateo and San Francisco, which between them account for about 13 percent of the total state tax base.

The State is reimbursed for its costs of administration of the Bradley-Burns Law at the rate of one-fourth the total cost of administration of both the state and local sales taxes in the contracting counties. These reimbursements are shown on budget page 278, line 51, as reductions in the cost of administration of the Sales Tax Division and are as follows:

1956-57 (actual)	-----	\$2,465,798
1957-58 (estimated)	-----	2,835,000
1958-59 (proposed)	-----	2,860,000

As we pointed out in our 1957-58 analysis, we believe it would be much more realistic to treat these items as revenues to the State's General Fund rather than as reimbursements, since it would give better budgetary control.

The Sales Tax Division consists of a headquarters office with a staff of 461.5 for 1957-58 and a field staff in California of 1,355.8. Included in the headquarters office for purposes of budget presentation is a staff of 36 auditors and four clerks located in Chicago and New York for purposes of making audits of taxpayers having taxable transactions in California but maintaining their principal records at points outside the State.

General Activities—Continued

The staff assigned to these audits has gradually been increased from seven auditors in 1947-48 to 36 in 1958-59. This increase has been brought about almost entirely by administrative action of the agency, with the approval of the Department of Finance, in transferring positions previously authorized for audit work in California to the out-of-state staff, rather than by requesting that additional positions be added for this specific purpose at the time each budget request was submitted. The out-of-state audits have been about twice as productive of revenue per dollar of cost over the last seven years as indicated in Table 3.

The Sales Tax Division has a legal unit which includes nine attorneys, while there is also a staff of eight attorneys in the Division of General Administration. Likewise, the Sales Tax Division has a procedures unit which included four auditors and three administrative analysts on July 10, 1957, while the Division of Administration has three administrative analysts and three auditors in its administrative analysis section. It appears to us that there may be some overlap in the work involved in these activities and we recommend that they be studied with a view to possible economies.

Also, there is a unit in the Sales Tax Division in headquarters which consisted of 13 auditors and four clerks at July 10, 1957, engaged in reviewing field audit reports received from district offices in California. These reports have already been reviewed at least once, and in some instances twice, by reviewers in the district offices, and we believe there is a definite possibility that this headquarters review is largely an unnecessary duplication and could be eliminated if the agency were to adopt the procedure used by the Department of Employment in administration of the unemployment insurance tax and place responsibility for finalizing deficiency assessments on its district offices. We recommend that a study be made of this matter, with a report to the next session of the Legislature, since a saving of approximately \$115,000 per year in salaries alone could result from the elimination of this activity.

The budget for the Sales Tax Division district offices recommends the elimination of 12 positions for 1958-59, budget page 278, lines 17 to 22, at a saving in salaries of \$61,224, a recommendation in which we concur. The four auditor II positions are eliminated to provide funds for additional adding machines for use in the field which will increase the production of the remaining staff, while the three accountant-auditor I positions are eliminated because of a cutback in the work of the Division of Highway Taxes, due to changes in the law, since the Sales Tax Division auditors perform a substantial amount of audit work for the Division of Highway Taxes.

The data relating to the sales tax audit program presented in the tables which follow is based on detailed cost and revenue records which the agency has maintained for the last seven years, and which we believe to be valuable, both from the standpoint of management and budgetary control. The net revenue shown represents the actual collections as nearly as these can be approximated, by adjusting for can-

## General Activities—Continued

cellations resulting from both office review and board action as well as estimated uncollectibles, while the costs include audit collection costs as well as overhead items not included in expenditures budgeted directly for the agency and are compiled generally on the same basis used when the State bills outside agencies for the costs of services performed.

Table 3 indicates that for the seven-year period California audits average \$1.60 in revenue per dollar of cost, out-of-state audits \$3.38, and total audits \$1.68. It also indicates that the revenue per dollar of cost has increased over the last three years for California audits and for total audits, which may indicate an improvement in audit selection methods on an overall basis.

Table 4 shows revenue per dollar of cost from the field audit program for 1956-57, by district, and indicates a wide disparity between districts in this respect. This disparity although not so pronounced, is still apparent from the data in Table 5, which shows the same information for the seven-year period ended June 30, 1957.

The data in Tables 4 and 5 indicates to us that there is still considerable room for improvement in the deployment of the audit staff on a geographical basis, and that the pattern of field organization, conditioned as it is on the geographical boundaries of the equalization districts, has cost and is costing the State money by reason of loss in revenue from audit pickups to the extent that it has retarded such a redeployment.

The Woodland district, shown in Table 5 but not in Table 4, was discontinued as of July 1, 1956, and its territory transferred part to Santa Rosa and part to Marysville, while the Sacramento and Stockton districts were consolidated as of April 1, 1956, although costs and revenues were reported separately for the entire 1955-56 Fiscal Year. For 1956-57 revenues were reported separately but costs were not segregated. For purposes of Tables 4 and 5 costs per hour were assumed to have been the same in both sections of the combined district, and operations shown separately for comparative purposes.

Table 3. Summary of Sales Tax Audit Results, by Years, 1950-51 to 1956-57

Year	Audit hours	Man- years	Costs		Net revenue	
			Total	Per hour	Total	Per dollar of cost
(1)	(2)	(3)	(4)	(5)	(6)	(7)
California audits:						
1950-51-----	913,829	507.7	\$4,335,774	\$4.74	\$7,683,786	\$1.77
1951-52-----	837,647	465.4	4,620,989	5.52	7,280,715	1.58
1952-53-----	848,966	471.6	5,301,944	6.25	7,525,672	1.42
1953-54-----	835,732	464.3	5,416,139	6.48	8,239,479	1.52
1954-55-----	821,970	456.7	5,426,314	6.60	8,086,010	1.49
1955-56-----	754,970	419.4	5,307,720	7.03	8,596,599	1.62
1956-57-----	754,958	419.4	5,792,164	7.67	10,354,023	1.79
Totals-----	5,768,072	457.8	\$36,201,044	\$6.28	\$57,766,284	\$1.60

General Activities—Continued

Table 3. Summary of Sales Tax Audit Results, by Years,  
1950-51 to 1956-57—Continued

1950-51 to 1956-57—Continued					Net revenue	
Year	Audit hours	Man-years	Costs		Per dollar	
(1)	(2)	(3)	Total	Per hour	Total	of cost
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Out-of-state audits:						
1950-51-----	28,120	15.6	\$176,867	\$6.29	\$815,930	\$4.61
1951-52-----	22,830	12.7	186,929	8.19	691,476	3.70
1952-53-----	24,443	13.6	214,055	8.76	806,153	3.77
1953-54-----	23,691	13.2	197,583	8.34	572,934	2.90
1954-55-----	24,189	13.4	207,542	8.58	448,168	2.16
1955-56-----	41,039	22.8	339,803	8.28	1,309,908	3.85
1956-57-----	44,801	24.9	419,337	9.36	1,247,932	2.98
Totals-----	209,113	16.6	\$1,742,116	\$8.33	\$5,892,501	\$3.38
Total audits:						
1950-51-----	941,949	523.3	\$4,512,641	\$4.79	\$8,499,716	\$1.88
1951-52-----	860,477	478.1	4,807,918	5.59	7,972,191	1.66
1952-53-----	873,409	485.2	5,515,999	6.32	8,331,825	1.51
1953-54-----	859,423	477.5	5,613,722	6.53	8,812,413	1.57
1954-55-----	846,159	470.1	5,633,856	6.66	8,534,178	1.51
1955-56-----	796,009	442.2	5,647,523	7.10	9,906,507	1.75
1956-57-----	799,759	444.3	6,211,501	7.77	11,601,955	1.87
Totals-----	5,977,185	474.4	\$37,943,160	\$6.35	\$63,658,785	\$1.68

Table 4. Sales Tax Field Audit Revenue and Cost, by Districts, 1956-57

District	Net revenue	Audit cost	Revenue per \$1 of cost
Santa Rosa-----	\$398,852	\$167,745	\$2.38
Los Angeles-----	5,003,024	2,213,245	2.26
Redding-----	180,960	85,823	2.11
Marysville-----	261,152	137,473	1.90
Oakland-----	880,865	495,905	1.78
San Jose-----	567,633	338,787	1.68
San Diego-----	494,068	321,470	1.54
San Bernardino-----	482,364	326,811	1.48
Fresno-----	453,498	330,752	1.37
San Francisco-----	1,064,207	849,455	1.25
Stockton-----	270,835	226,737	1.19
Santa Barbara-----	137,192	135,409	1.01
Sacramento-----	159,373	162,552	.98
Totals California-----	\$10,354,023	\$5,792,164	\$1.79
Out-of-state-----	1,247,932	419,337	2.98
Totals-----	\$11,601,955	\$6,211,501	\$1.87



## General Activities—Continued

Table 5. Sales Tax Field Audit Revenue and Cost by District,  
for Seven Years Ended June 30, 1957

<i>District</i>	<i>Net revenue</i>	<i>Audit cost</i>	<i>Revenue per \$1 of cost</i>
Los Angeles -----	\$24,939,455	\$14,513,554	\$1.72
San Bernardino -----	3,334,799	1,979,668	1.68
Santa Rosa -----	1,828,206	1,105,192	1.65
Redding -----	818,986	497,187	1.65
Stockton -----	2,076,708	1,281,479	1.62
Marysville -----	1,190,736	753,372	1.58
Oakland -----	4,916,178	3,137,164	1.57
San Jose -----	3,082,566	2,003,444	1.54
San Francisco -----	7,390,528	4,889,193	1.51
Fresno -----	2,608,054	1,766,861	1.48
Woodland -----	887,429	629,783	1.41
San Diego -----	2,680,208	2,001,841	1.34
Sacramento -----	1,150,239	908,240	1.27
Santa Barbara -----	862,192	734,066	1.17
Totals California -----	\$57,766,284	\$36,201,044	\$1.60
Out-of-state -----	5,892,501	1,742,116	3.38
Totals -----	\$63,658,785	\$37,943,160	\$1.68

## Economies and Improvements Requiring Legislation

We believe that the most significant legislation in the interest of economies and improvements in tax administration would be the creation of an independent board of tax appeals and a new department of revenue to administer all taxes now administered by the Board of Equalization, the Franchise Tax Board and the State Controller, headed by a director appointed by and responsible to the Governor. A constitutional amendment would be required to accomplish this with respect to taxes on insurance companies and alcoholic beverages but administration of all the other taxes involved could be transferred to such a department by statute.

One of the principal advantages which would result from creation of such a department would be that it would make possible the pooling of all audit resources for use on the particular taxes where they would produce the most in revenue. At the present time such a redeployment is not possible, or at least has never been considered, because the major taxes involved are administered by separate agencies.

A comparison between the audit results from sales tax audits, personal income tax audits and bank and corporation tax audits for the six-year period ended June 30, 1957 will illustrate this point.

## Audit Revenues and Costs, Six Years Ended June 30, 1957

<i>Tax</i>	<i>Revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Bank and Corporation Tax -----	\$43,348,067	\$3,019,557	\$14.36
Personal Income Tax -----	33,011,877	7,663,375	4.31
Subtotal -----	\$76,359,944	\$10,682,932	\$7.15
Sales Tax -----	55,159,069	33,430,519	1.65
Total -----	\$131,519,013	\$44,113,451	\$2.98

General Activities—Continued

We believe that, in general, a high ratio of revenue to cost indicates the likelihood that an expansion of the program would be profitable while a low ratio, on the other hand, indicates the likelihood that a program could be curtailed with a minimum loss of revenue. It follows that a higher overall yield from a given audit effort, as between several different taxes, would result from a deployment of the staff which gave consideration to these ratios, and we believe that, as a practical matter, this can only be done effectively where administration of the taxes involved is under a single head.

We believe that the table indicates that a shift in manpower from sales tax audits to audits of the other two taxes would be productive of substantial additional revenue at no added cost.

It follows that by failure to concentrate the administration of these major taxes in a single agency the State is losing money.

Short of such a complete reorganization of revenue administration at the state level, substantial economies would result from the following changes, which would eliminate duplications resulting from the participation of more than one agency in the administration of a given tax.

(1) Transfer collection of the transportation tax from the Controller to the Board of Equalization.

(2) Transfer collection and refund of the gasoline tax from the Controller to the Board of Equalization.

(3) Make the insurance tax a self-assessed tax payable to the Insurance Commissioner with the return, eliminate assessment by the Board of Equalization and collection by the Controller, and permit the Board of Equalization to hear appeals. Recommendations regarding changes in administration of the insurance tax are discussed in detail in our analysis of the Insurance Commissioner's budget, budget bill item 207, and those relating to the first two items in our analysis of the Controller's budget, budget bill item 109.

If the Board of Equalization is to continue to function as a major state agency, we recommend that the Legislature take appropriate action to redistrict the State into four districts as nearly equal in population as practical in order to equalize the workload of the individual board members.

BOARD OF EQUALIZATION

ITEM 116 of the Budget Bill

Budget page 279

FOR SUPPORT OF DIVISION OF HIGHWAY TAXES FROM THE  
MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested	\$944,093
Estimated to be expended in 1957-58 Fiscal Year	1,025,992
Decrease (8.0 percent)	\$81,899

**Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued  
Summary of Increase**

	Total increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages -----	—\$52,986	—\$52,986	—	281 9
Operating expense -----	—16,539	—16,539	—	281 11
Equipment -----	—16,746	—16,746	—	281 13
<b>Total -----</b>	<b>—\$86,271</b>	<b>—\$86,271</b>	<b>—</b>	
Reimbursements:				
Motor Vehicle Fuel Fund----	5,036	5,036	—	
Itinerant Merchants Fund----	—664	—664	—	
<b>Total decrease -----</b>	<b>—\$81,899</b>	<b>—\$81,899</b>	<b>—</b>	

**RECOMMENDED REDUCTIONS**----- None

**GENERAL SUMMARY**

The Division of Highway Taxes assesses and collects the use fuel tax (diesel tax), assesses the motor vehicle transportation tax (truck tax), assesses the motor vehicle fuel tax (gasoline tax) and administers the Itinerant Merchants Act (Sections 16300 to 16451 of the Business and Professions Code).

Its activities are supported by appropriations from the following three funds:

	Budget Bill	Total expenditures by funds		
Fund	Item No.	1957-58	1958-59	Increase
Motor vehicle transportation tax	116	\$1,025,992	\$944,093	—\$81,899
Itinerant merchants -----	117	20,497	21,161	664
Motor vehicle fuel -----	118	894,508	889,472	—5,036
Total -----		\$1,940,997	\$1,854,726	—\$86,271

The total expenditure program for the Division of Highway Taxes of \$1,854,726, for 1958-59 is shown with supporting detail in one section of the budget pages 279 and 280, whereas the changes for each fund are shown separately. The decrease of \$86,271 for the total program represents a decrease of 4.4 percent.

The division was created in February, 1953, by consolidation of the former Motor Vehicle Fuel Tax Division and Motor Vehicle Transportation Tax Division, which placed under a single administrator activities formerly carried on separately under two administrators. We had previously recommended such a consolidation in our 1953-54 analysis since we believed that greater efficiency and economy would result from integrating the administration of the two taxes involving truckers, particularly the field audit work, a result which seems to have been achieved.

Administration of the Itinerant Merchants Act was transferred from the Public Utilities Commission to the Board of Equalization in 1951, since it is concerned primarily with the licensing of certain truck operations, an activity closely related to other activities of the Division of Highway Taxes.

While the Division of Highway Taxes performs the major administrative functions relating to the gasoline tax and the transportation tax, the State Controller collects these two taxes and also makes re-

Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

funds of gasoline tax for nonhighway use. This separation of functions we believe to be an anachronism which serves no useful purpose, and makes for unnecessary duplication of facilities, increased costs, and less effective administration, both from the standpoint of the taxpayer and the State. No such separation between agencies of administrative functions relating to a single tax characterizes the administration of other major state taxes such as the sales tax, personal income tax, bank and corporation tax and unemployment and disability insurance taxes.

In our analysis of the budget for the Controller's Office we are recommending that consideration be given to legislation which would transfer the functions now performed by that office which relate to gasoline tax and transportation tax to the Board of Equalization and point out that we believe substantial savings in administrative costs would result from such a transfer.

The 1957 Legislature made certain changes in the tax laws administered by this division, which affect its work.

Chapter 1067 reduced the rate of the transportation tax from 3 percent to 1½ percent and eliminated the weight fee credit, effective January 1, 1958.

Chapter 1830, in effect September 11, 1957, amends the use fuel tax law to provide for collection of the tax from vendors rather than users, in certain instances.

Chapter 1202, in effect September 11, 1957, amends the use fuel tax law to permit the board to require returns and payment of the tax for periods other than the mandatory monthly period formerly required by the law. This means that the board could require returns on an annual basis, where appropriate. This chapter also exempts fuel used in vehicles where the vehicle is operated exclusively off the highway.

ANALYSIS

The budget for the headquarters office, page 280, lines 5 to 20, proposes a reduction of six in the clerical personnel for 1958-59, effective on various dates, as well as the conversion of an auditor II position to an intermediate clerk position, effective August 1, 1958, a total decrease in salaries of \$23,892 for the budget year.

This reduction is intended to give recognition to the decreased workload resulting from the elimination of the weight fee credit, and we believe it to be proper.

The budget for the districts, page 280, lines 56 to 65, proposes to eliminate 13 auditor positions and one clerk, effective July 1, 1958, at a savings in salaries of \$81,260. This reduction is intended to give recognition to the fact that auditing with the tax rate set at 1½ percent instead of 3 percent will reduce the pickup by half, disregarding the elimination of the weight fee credit, and that many of the audits which approached the point of diminishing returns at the 3 percent rate will cost more to make than they will produce in the way of added revenue when the rate is reduced to 1½ percent. We believe this reduction to be justified.

## Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued

Table 6 summarizes the results of transportation tax audits for the last four fiscal years, while Table 7 summarizes the results of all audits for 1956-57.

Table 6. Transportation Tax Audits, by Fiscal Years, Four Years Ended June 30, 1957

<i>Fiscal year</i>	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
1953-54-----	5,388	45,873	\$817,284	\$365,604	\$2.24
1954-55-----	4,053	39,295	719,120	282,138	2.55
1955-56-----	3,594	38,949	721,575	331,845	2.17
1956-57-----	3,335	41,407	831,300	407,255	2.04
Totals-----	16,365	165,524	\$3,089,279	\$1,386,846	\$2.23

Table 7. Division of Highway Taxes, Summary of Audits by Programs, 1956-57

<i>Program</i>	<i>Number of audits</i>	<i>Audit hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Transportation tax ----	3,335	41,407	\$831,300	\$407,255	\$2.04
Use Fuel Tax:					
Users-----	2,307	24,407	483,119	274,516	1.76
Vendors-----	72	1,149	4,602	12,923	.36
Fuel Tax:					
Distributors-----	247	17,564	75,002	124,969	.60
Limited distributors --	49	1,719	4,987	12,231	.41
Producers and brokers--	14	274	--	1,949	--
Totals-----	6,024	86,520	\$1,399,010	\$833,843	\$1.68

The data in Table 6 indicates a downward trend in the ratio of revenue to cost during the last three years, and also suggests that if the rate had been  $1\frac{1}{2}$  percent instead of 3 percent during this period, with audit costs remaining the same, the net recovery would have been very low, which furnishes additional confirmation of the wisdom of curtailing the program in the future.

We believe that Chapter 1830, Statutes of 1957, will have a definite impact on the costs of administration of the use fuel tax.

At present the tax yields about \$17,000,000 per year, and prior to September 11, 1957, about \$25,000 of this was collected from vendors and the remainder from about 9,600 users.

It is estimated that after September 11, 1957, about \$7,000,000 per year will be collected from approximately 860 vendors and the remaining \$10,000,000 from users. This will result from the fact that Chapter 1830 requires the vendor to pay the tax on the basis of deliveries into the fuel tanks of all users, which he was only required to do in the case of unlicensed users under the old law.

Users are still required to file returns under the new law but many of them, i.e., those operating wholly inside the State and not maintaining their own storage facilities will have no tax to report, and, on the basis of a study made in 1951, we believe it is probable there may be as many as 6,400 users in this category. If this should develop to be the fact, these users could be placed on an annual reporting basis under Chapter 1202, Statutes of 1957, which permits the board to do this,

**Division of Highway Taxes—Motor Vehicle Transportation Tax—Continued**

and the State would then be required to process 6,400 returns per year instead of 12 times that number or 76,800, which should result in some savings.

We are not prepared to recommend a budget cut at this time, based on this premise, since the data on which these estimates are based is not current, and not precisely in point, but we believe such a result is entirely possible, and we recommend that if it should eventuate during the budget year the agency and the Department of Finance should take administrative action to effect any indicated savings.

Under the new law the \$10,000,000 in tax not collected from the 860 vendors will be collected from users, those having their own bulk storage facilities, of which we estimate there are approximately 2,000 on the basis of the 1951 data, and those involved in interstate hauls.

It is entirely possible, therefore, that the number of taxpayers from whom the State will be collecting use fuel tax as the result of the passage of Chapter 1067, will be reduced from around 10,000 to between 3,000 and 4,000, which should result in some ultimate savings in administrative costs.

The emergency authorization of \$19,392 for 1957-58 shown on budget page 281, line 46, is for increased services performed by General Fund activities.

**BOARD OF EQUALIZATION**

**ITEM 117 of the Budget Bill**

Budget page 281

**FOR SUPPORT OF DIVISION OF HIGHWAY TAXES FROM THE  
ITINERANT MERCHANTS FUND**

Amount requested .....	\$21,161
Estimated to be expended in 1957-58 Fiscal Year .....	20,497

Increase (3.2 percent) .....	\$664
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<b>RECOMMENDED REDUCTIONS</b> .....	None
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**ANALYSIS**

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the law regulating the activities of "itinerant merchants," the expenditures for which are paid out of that fund in the first instance and included in the detailed budget data supporting Item 116 of the Budget Bill.

Under the law regulating itinerant merchants (Sections 16300 to 16451 of the Business and Professions Code), an itinerant merchant is defined as a person who buys "farm products" for sale and transports them upon a public highway in a motor vehicle across county lines for purpose of sale. Such a person is presently required to pay an annual license fee of \$20 for each motor vehicle to be used by him in the conduct of his business, which is placed in the Itinerant Merchants Fund from which all appropriations for administration are made.

## BOARD OF EQUALIZATION

ITEM 118 of the Budget Bill

Budget page 281

FOR SUPPORT OF DIVISION OF HIGHWAY TAXES FROM THE  
MOTOR VEHICLE FUEL FUND

Amount requested .....	\$889,472
Estimated to be expended in 1957-58 Fiscal Year .....	894,508
Decrease (0.6 percent) .....	\$5,036

RECOMMENDED REDUCTIONS..... None

## ANALYSIS

This appropriation is to reimburse the Motor Vehicle Transportation Tax Fund for costs of administration of the gasoline tax and the diesel fuel tax, the expenditures for which are paid out of that fund in the first instance and included in the detailed data supporting Item 116 of the Budget Bill.

The emergency authorization for 1957-58, of \$79,529 shown on budget page 281, line 71, is approximately two-thirds for salary increases and one-third for increased services by General Fund activities.

## DEPARTMENT OF FINANCE

ITEM 119 of the Budget Bill

Budget page 283

FOR SUPPORT OF DEPARTMENT OF FINANCE FROM THE  
GENERAL FUND

Amount requested .....	\$7,129,843
Estimated to be expended in 1957-58 Fiscal Year .....	6,948,265
Increase (2.6 percent) .....	\$181,578

## Summary of Increase

	Total Increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages .....	\$259,111	\$259,111	--	291 57
Operating expense .....	193,954	193,954	--	291 59
Equipment .....	27,067	27,067	--	291 61
Less increased reimbursements .....	229,147	229,147	--	
Less increased support from other funds .....	15,273	15,273	--	
Total increase .....	\$181,578	\$181,578	--	

RECOMMENDED REDUCTIONS..... None

## GENERAL SUMMARY

The Department of Finance is within the executive branch of government and has the major function of supervising the fiscal and management operations of most state agencies. These general powers and duties are contained in Section 13070 of the Government Code.

The department is composed of the following divisions:

- Administration Division;
- Audits Division;
- Budget Division;
- Buildings and Grounds Division;
- Communications Division;

## General Summary—Continued

Fairs and Expositions Division;  
Local Allocations Division;  
Organization and Cost Control Division;  
Property Acquisition Division;  
Purchasing Division;  
State Lands Division;  
Printing Division.

For reasons of efficiency, we recommend that serious consideration be given to a reorganization of this department. The growth of the State of California has created many complex fiscal and management problems which could be more efficiently handled if the Director of Finance were relieved of some of the many widespread functions he now directs. Apart from these duties, the Director of Finance is an ex officio member of many boards and commissions, and attends meetings of other agencies. Following is a list of these boards, commissions and agencies:

1. State Board of Control;
2. Governor's Council;
3. Franchise Tax Board;
4. Wildlife Conservation Board;
5. California State Communications Advisory Board;
6. Board of Administration, State Employees' Retirement System;
7. Veterans' Finance Committee of 1943;
8. State Public Works Board;
9. State Lands Commission;
10. California Toll Bridge Authority;
11. State Allocation Board;
12. School Building Finance Committee;
13. San Francisco Harbor Bond Finance Board;
14. San Francisco World Trade Center Authority;
15. Board of Review, Correction and Equalization (oil and gas tax conservation);
16. Retirement Investment Board (State Teachers' Retirement System);
17. Pooled Money Investment Board.

Official Organizations of Which the Director of Finance Is an  
Ex Officio Member But Which Do Not Hold Meetings

18. Board of Public Building Reconstruction;
19. Surplus War Property Procurement Advisory Board;
20. Committee on State Purchases from California Industries for the Blind;
21. State Forest Purchase Committee;
22. Los Angeles World Trade Center Authority;
23. Veterans' Welfare Finance Committee;
24. State Highway Finance Board;
25. State Park Finance Board;
26. Unemployment Relief Finance Committee.



## General Summary—Continued

## Other Committee Meetings Which the Director of Finance Attends

1. California State Traffic Safety Co-ordinating Committee;
2. State Building Construction Planning Committee;
3. The State Advisory Committee on Training (In-service);
4. Disaster Council (Civilian Defense);
5. Board of Directors, State Fair and Exposition.

We believe that the director should be relieved of his duties in connection with the above, with the exception of those which would require decisions on matters of significant financial complexity or magnitude.

## ANALYSIS

The total increase in expenditures for general and special funds is \$196,851 for the Fiscal Year 1958-59, excluding Employees' Retirement contributions.

The increase in expenditures for the general fund is \$181,578 or 2.6 percent over 1957-58. Increases in salaries and wages and operating expense are offset to a great extent by increases in reimbursements.

The increase in salaries and wages results from the request for 15 additional positions and normal salary adjustments. Our analysis of this request is as follows.

2 *Building Maintenance men, Division of Buildings and Grounds* ----- \$8,592

The positions are needed to do the necessary maintenance work on additional buildings and additional rented space in Sacramento. They will also be used to deliver supplies to craftsmen which will relieve the craftsmen of these duties and permit them to spend more time on their particular special crafts.

3 *Janitors* ----- \$9,726

These positions are requested due to increased space being occupied by the State.

1 *Telephone Operator* ----- \$3,372

Coverage on the switchboard must be increased due to the installation of another position on the switchboard and an increase in legislative business.

1 *Stationary Engineer* ----- \$3,030

1 *Electrician* ----- 3,030

---

\$6,060

These positions are requested for the new state building annex in San Francisco. Although the building will not be completed until the early fall of 1959, it is necessary for these men to be put on the job as of January 1, 1959, to become familiar with the heating, ventilating, plumbing and electrical equipment prior to occupancy of the building.

## General Summary—Continued

2 Intermediate Stenographers ----- \$7,080

These are requested on a workload basis for typing reports in the Division of Organization and Cost Control.

1 Junior Right-of-Way Agent ----- \$3,488

1 Intermediate Stenographer ----- 3,372

\$6,860

The 1957-58 Legislature added funds to acquire four new college sites and additional property for five other state colleges. These positions are requested to handle this increased workload. However, the department is requesting these positions for one year only.

1 Business Service Officer II ----- \$8,112

2 Buyer Trainees ----- 9,024

\$17,136

These positions are requested for the Purchasing Division.

The business service officer II was established in the current fiscal year and the position is requested to be continued. The duties of this position are to co-ordinate the purchasing of federal surplus property for the eligible state institutions. We believe that substantial savings will result to the State if this function is properly performed.

The two buyer trainee positions are requested on a workload increase basis. The division shows an overall increase of 10 percent, for the first quarter of the current year, of purchase orders, price requests and final bids. We believe these two positions are properly justified.

Significant increases in operating expense are as follows:

	Amount
Automobile insurance premiums -----	\$58,106
Central telephone exchange -----	112,425

#### Organization and Cost Control Division

This division was created by Chapter 1857, Statutes of 1955. The provisions appear in Sections 13875-13881 of the Government Code.

In general, the function of the division is to provide consultation and co-ordination to the departments and agencies of the State Government with respect to organization planning and the development and application of controls over manpower and costs, as directed or requested to conduct studies in such field, and in the field of application of classifications to jobs and positions; and to conduct research and exchange of information in the field of management.

It is significant to note that the statute provides that in the field of manpower and costs control, the division shall:

“(b) Develop and foster the adoption of improved methods, procedures, and performance standards to achieve more efficient accomplishment of necessary work and more effective utilization of manpower.

“(e) At appropriate intervals, report on the effectiveness of manpower and cost control measurers [sic] by each state agency.”

## General Summary—Continued

We believe that a yearly summarized report covering what has been accomplished under (b) and specifically pointing out where resulting savings are reflected in the agency budgets should be made available.

We recommend approval of the item as submitted.

**Department of Finance**  
**GENERAL ACTIVITIES**

ITEM 120 of the Budget Bill

Budget page 292

**FOR ADDITIONAL SUPPORT OF THE DEPARTMENT OF FINANCE  
FROM THE FAIR AND EXPOSITION FUND**

Amount requested .....	\$201,742
Estimated to be expended in 1957-58 Fiscal Year .....	199,654
<hr/>	
Increase (1.0 percent) .....	\$2,088

**RECOMMENDED REDUCTIONS** ..... None

**ANALYSIS**

The amount of \$70,000 of the total requested represents the cost of auditing the fair activities. The balance of \$131,742 is for support of the Fair and Expositions Division. The increase over the amount of \$185,344 requested for the current fiscal year is due mostly to salary increase granted in the Fiscal Year 1957-58. The level of service remains the same.

We recommend approval of this item as budgeted; however, we repeat our recommendation made in an earlier analysis that the budget review given to these fair activities be strengthened and co-ordinated with the State's general financial policy as reflected in the annual budgets. The number of local fairs should, in our opinion, be reduced and less money be spent on this activity. No comprehensive overall program has been developed by this division for a statewide local fair function. This urgently needs to be done with an object of reducing costs.

**Department of Finance**  
**GENERAL ACTIVITIES**

ITEM 121 of the Budget Bill

Budget page 289

**FOR SUPPORT OF LOCAL ALLOCATION DIVISION, DEPARTMENT OF  
FINANCE, FROM THE POSTWAR UNEMPLOYMENT AND CONSTRUCTION FUND**

Amount requested .....	\$8,238
Estimated to be expended in 1957-58 Fiscal Year .....	16,865
<hr/>	
Decrease (51.2 percent) .....	\$8,627

**RECOMMENDED REDUCTIONS** ..... None

**ANALYSIS**

In addition to the support from the Postwar Unemployment and Construction Fund, support is also received from the General Fund and the School Building Aid Fund.

**Local Allocation Division—Continued**

As shown by the decrease, the activity financed from this fund is reaching completion. It is estimated that only 1.3 percent of the total staff time of the Local Allocations Division will be devoted to this program in 1958-59.

We recommend approval of this item as budgeted.

**Department of Finance  
GENERAL ACTIVITIES**

ITEM 122 of the Budget Bill

Budget page 289

**FOR SUPPORT OF LOCAL ALLOCATIONS DIVISION, DEPARTMENT OF  
FINANCE, FROM THE STATE SCHOOL BUILDING AID FUND**

Amount requested .....	\$609,611
Estimated to be expended in 1957-58 Fiscal Year .....	587,799
 Increase (3.7 percent) .....	 \$21,812

**RECOMMENDED REDUCTIONS** ..... None

**ANALYSIS**

The requested budget of the Local Allocation Division is \$609,611, or an increase of \$21,812 over estimated expenditures in the current fiscal year.

The increase is due primarily to salary increases with minor increases in operating and equipment expense.

The functions of this division are concerned mostly with school construction needs of the State when the State provides financial assistance. Ninety-seven percent of the personnel time of this division will be devoted to the school building aid program during the Fiscal Year 1958-59.

It is estimated that pupil enrollment in the public schools will increase 167,000 from 1958 to 1959. This will continue the present high construction requirements for school buildings. Furthermore, a great number of obsolete facilities will be replaced and additional construction will be required to reduce the present overcrowding.

The workload of this division was increased slightly by legislative action at the 1957 Session. Building area allowances for high schools were increased and equipment was added to the facilities which may be acquired by state aid. Eight new positions were authorized by the Department of Finance during the current year to take care of increased workload.

We recommend approval of the item as budgeted.

**Department of Finance  
STATE FAIR AND EXPOSITION**

ITEM 123 of the Budget Bill

Budget page 293

**FOR SUPPORT OF STATE FAIR AND EXPOSITION FROM THE  
STATE FAIR FUND**

Amount requested .....	\$2,093,097
Estimated to be expended in 1957-58 Fiscal Year .....	2,150,955
 Decrease (2.7 percent) .....	 \$57,858

## State Fair and Exposition—Continued

## Summary of Increase

	Total Increase	INCREASE DUE TO		Budget page	Line No.
		Workload or salary adjustments	New services		
Salaries and wages-----	—\$45,112	—\$60,958	\$15,846	297	35
Operating expense-----	—192,025	—220,896	28,871	297	37
Equipment-----	—5,631	—5,631	--	297	39
Add decreased reimbursement----	184,910	184,910	--	297	48
Total increase-----	—\$57,858	—\$102,575	\$44,717		

## RECOMMENDED REDUCTIONS

Reduction in budgeted increases-----	\$1,302
Improved efficiency and policy reappraisal-----	9,725

Total reductions----- \$11,027

## ANALYSIS

The recommended reduction of \$11,027 consists of the following amounts in the categories indicated:

	Amount	Budget	
		Page	Line
Operating expenses			
Sew-it-yourself contest-----	\$9,725	296	62
Equipment			
5 Barricades-----	250	297	39
1 Electric typewriter-----	437	297	39
1 Turnstile-----	615	297	39
Total reductions-----	\$11,027		

## GENERAL SUMMARY

The California State Fair operates under the authority contained in Article 1, Sections 70 through 77, of the Agriculture Code, Statutes of 1953. Financing is provided by Sections 19622 and 19625 of the Business and Professions Code which authorizes subventions from the Fair and Exposition Fund. Until the 1957 Regular Session of the Legislature, the fair's allocation was \$125,000, supplemented by an additional \$15,000 for a junior show.

The statutes were amended in 1957 to increase the support for the California State Fair to \$250,000, the \$15,000 remaining unchanged. Support, exclusive of the junior show, therefore, was raised by 100 percent.

## ANALYSIS

The present budget includes under the function "new fair planning" items for salaries and wages and operating expenses for both 1957-58 and 1958-59, as shown in the table below:

	1957-58	1958-59	Increase	Percent
Salaries and wages-----	\$17,326	\$33,172	\$15,846	91.5
Operating expenses-----	101,855	113,400	28,871	28.3

## State Fair and Exposition—Continued

The 1957-58 Governor's Budget did not include these figures and they result from the action of the 1957 General Session of the Legislature which appropriated preliminary funds for the new fair site. In the present budget, the 1957-58 interim expenditure is reflected, and the agency shows, a complete offset from capital outlay funds.

As the table below will indicate, the operation of the fair consistently reflects a mounting deficit reaching, on an estimated basis for 1957-58, \$773,151. The estimated drop in this deficit for the Fiscal Year 1958-59 is accounted for by some curtailment in fair expenditures in anticipation of the move to the American River site:

<i>Fiscal year</i>	Comparison of Total Expenditures and Revenues			<i>Revenues as percent of expenditures</i>
	<i>Expenditures</i>	<i>Revenues</i>	<i>Deficit</i>	
1952-53-----	\$1,890,797	\$1,265,236	\$625,561	66.9
1953-54-----	1,895,223	1,352,177	543,046	71.3
1954-55-----	1,964,428	1,281,100	683,328	65.2
1955-56-----	1,876,802	1,264,887	611,915	67.4
1956-57-----	2,104,397	1,470,357	634,040	70.0
1957-58-----	2,206,748	1,433,597	773,151	65.0
1958-59-----	2,146,451	1,472,550	673,901	68.6

The statutory support can be misleading unless the figures in the table are examined. The statutory support allocation derives from the Fair and Exposition Fund as an annual transfer to the State Fair Fund while the remainder of the deficit is budgeted for and is, therefore, a further subvention from the Fair and Exposition Fund by appropriation through the Budget Act.

It would be erroneous to conclude that since part of the operational cost of the fair is amortized by subvention, the deficit is less. It must be recognized that the source of support funds is immaterial and represents a direct cost to the taxpayer unless it is revenue-produced by the agency making the expenditures.

It will be seen, when examining the table, that revenues are still offsetting only about two-thirds of the cost of operating the State Fair and Exposition. The improvement estimated for 1958-59 over 1957-58 is negligible in view of the policy of retrenchment announced by the agency.

While in theory there may be no objection to the expenditure of reasonable sums of public money for partial support of a fair of general public interest, we cannot recommend the managing of such a fair at ever increasing annual expenditures which, in turn, result in greater deficits.

For several years our analysis has consistently pointed out that the California State Fair on its present site can be operated, if not at a profit, at a minimum support subvention and deficit. It has been demonstrated on the basis of sound economic principles that revision in management approach and programing could reduce if not entirely eliminate this fiscal drain.

## State Fair and Exposition—Continued

Attention is invited to the table shown below which compares the California State Fair and the Iowa State Fair in major fiscal items.

	1956 Fairs	Iowa	State Fair California
Total paid attendance -----		475,433	463,779
Dollar revenue -----		\$238,326	\$232,117
Admission price -----		\$0.50 to \$5	\$0.50
Support -----		\$50,000	\$687,000
Profit -----		\$250,904	—\$681,620
Statutory allocations -----		\$50,000	\$140,000

It is proper here to make an explanatory comment relative to the admission charges at the two fairs. Iowa's range from \$0.50 to \$5 is confusing until it is understood that all parking is within the Iowa State Fairgrounds. Pedestrian general admissions are on an equal basis with California—\$0.50. Automobiles pass through the gates at the following charges: car and driver, \$1; automobile for week, \$5. Proceeds from parking and from paid attendance are included in dollar revenue shown for the Iowa State Fair. Even if parking receipts at the California State Fair were added, the \$31,957 from this source would not materially reduce the \$681,620 deficit and certainly it would have no effect upon one of the major revenue-producing items of the fair: total paid attendance.

The most significant feature of this comparison is the profit column. Where the Iowa State Fair develops only 11,654 more paid admissions to the grounds, it produces a profit of \$250,904 against a loss of \$681,620 for the California State Fair. As with the California State Fair, Iowa's thematic programing is agricultural. Attention to these figures can result in only one conclusion: California State Fair management needs to re-examine its entire programing approach. As we have pointed out in previous analyses, more selectivity is essential in the exhibits. Strong competition and the screening of entries at the district and county fair level is one method of insuring that the highest quality is represented in competition at the California State Fair. We believe that the "come one, come all" policy will continue to fail in its purpose of arousing broad attendance interest throughout the State.

In curtailing expenditures, the State Fair has reduced its budget request by \$60,297 for the 1958-59 Fiscal Year. Even with this proposed economy, the agency forecasts increased revenues in the amount of \$38,953 plus additional attendance over last year of 9,725 visitors.

While the agency bases its policy of retrenchment on preparation for the new fair at the American River site and so is making no budget requests for additional buildings or construction at the present plant, we find that one of the largest reductions is in programing. We find that for one item alone, the night show, expenditures have been reduced by \$40,630. If the agency, with substantial reductions of this nature can predict higher revenues and attendance, we question why such economies were not effected in prior years, thereby resulting in lower deficits. Our previous analyses have continually recommended such reappraisals in expenditures for attractions and events, emphasizing the need for both economy and improved quality in fair enter-

**State Fair and Exposition—Continued**

tainment. This present approach by management would indicate the soundness of our consistent position that the fiscal arrangements at the fair have not been good financially from the point of view of recognized business practice.

The most prominent argument advanced by the agency in justification for moving to the American River site is the advantage of producing a fair in a modern plant with adequate facilities. The validity of this is questionable when the poor fiscal condition of the California State Fair rests upon an inadequate production. It is not to be expected that any more revenue will be developed regardless of the facilities unless a more realistic management policy is instituted.

In part, new legislation may be required which will remove the statutory requirement that the California State Fair place its emphasis entirely on agriculture. From California's employment statistics, we learn that only 9.7 percent of the employed population is engaged in agriculture; 90.3 percent is found in such enterprises as construction, manufacturing, transportation, wholesale and retail trade, etc. Manufacturing and wholesale and retail trade alone account for 43.7 percent of employment.

The 1958-59 budget information presented by the fair gives no breakdown on admissions or revenues. However, the agency advises that their total estimated paid admission figure is distributed as follows:

Revenues	
Grounds .....	\$234,000
Grandstand	
Afternoon .....	87,000
Evening .....	48,000
Horse show .....	20,000
	<hr/>
	\$389,000

On a purely "rule-of-thumb" basis, the agency forecasts a total paid and unpaid attendance of 825,000 for the 1958-59 Fiscal Year; but no distribution has been made as set out in the revenue listing above.

The following table shows the deficit condition of the operation of the California State Fair and Exposition since the Fiscal Year 1951-52:

<i>Fiscal year</i>	<i>Deficit</i>	<i>Total paid adult attendance</i>	<i>Per capita cost of deficit</i>
1951-52 .....	\$587,300	481,862	\$1.22
1952-53 .....	625,561	481,575	1.30
1953-54 .....	542,596	473,099	1.15
1954-55 .....	683,328	505,567	1.36
1955-56 .....	611,915	373,363	1.64
1956-57 .....	634,040	463,779	1.37
1957-58 * .....	773,151	458,275	1.69
1958-59 * .....	673,901	468,000	1.44
Totals .....	\$5,131,792	3,705,520	\$1.38

\* Estimate.



## State Fair and Exposition—Continued

The agency estimates that it will sustain a cost of \$1.44 for each paying visitor entering the fairgrounds in 1958-59. Only two prior years in the last eight delineated in the table have shown a higher per capita deficit.

## Operating Expenses

Operating expenses are scheduled at \$1,288,957 for 1958-59. This is a decrease of \$192,025 or 13 percent under the amount of \$1,480,982 estimated to be expended in the 1957-58 Fiscal Year.

The request by function for operating expenses is indicated below:

Function	1957-58	1958-59	Increase	
			Amount	Percent
Administration -----	\$77,961	\$78,569	\$608	0.8
New fair planning -----	84,529	113,400	28,871	34.2
Exhibits -----	259,492	264,935	5,443	2.1
Horse show -----	46,076	45,392	-684	-1.5
Operations -----	302,894	139,613	-163,281	-53.9
Public service, health and safety	150,650	121,800	-28,850	-19.2
Promotions -----	121,900	122,300	400	0.3
Commercial space -----	7,850	8,750	900	11.5
Attractions and special events	166,272	130,161	-36,111	-21.7
Concessions -----	6,300	6,300	--	--
Racing -----	257,058	257,737	679	0.3
Totals -----	\$1,480,982	\$1,288,957	\$192,025	13.0

## Items of Increase in Operating Expense Over \$1,000

Function and item	Increase	
	1958-59 over 1957-58	Percent
Exhibits		
Premiums and awards -----	\$7,045	3.3
Attractions and special events		
Sew-it-yourself contest -----	4,400	122.0
Total increase in items having over \$1,000 increase -----	\$11,445	

## Sew-it-yourself Contest

The above table shows that the fair this year proposes to have a sew-it-yourself contest, and we refer to our 1957-58 analysis, wherein this attraction was thoroughly discussed. We again call attention to the fact that the contest is not competitive on the level expected at the California State Fair where only the selected best entries should receive the prestige of the premiums and awards. As the table indicates, the sew-it-yourself contest involves an increase in operating expense for this item of 122 percent with an expected revenue in entry fees of approximately \$1,500.

Both from a programming and fiscal point of view, this event is not produced on sound business principles. In the 1957-58 Fiscal Year, the agency budgeted \$12,500 for this item and expected a return of from \$1,200 to \$4,000 in revenue. The Legislature reduced the amount in the Governor's Budget to \$4,400 for this contest to be held at the 1957 fair. No contest was held. In obvious circumvention of the Legislature's intent, the agency expended the \$4,400 in preparatory costs such as printing, advertising, etc., for the sew-it-yourself attraction at the 1958 fair and, in the current budget, is asking for an additional \$9,725. This

**State Fair and Exposition—Continued**

results in a total expenditure for this function of \$14,125 or \$1,625 more than the agency originally estimated the contest would need. For this \$14,125 expenditure, the estimated return is \$1,500.

We question why the agency failed to produce the attraction within the sum allocated by the Legislature after review by legislative committees, but rather used the budgeted amount simply as a down payment against the item in a subsequent year wherein additional money is requested over and above their own original evaluation.

*We, therefore, recommend that the sew-it-yourself contest be deleted from the fair program at a saving of \$9,725.*

**New Fair Site Costs**

Action by the 1957-58 Legislature provided preliminary funds for the construction of a new establishment for the California State Fair and Exposition on the American River site. Estimates regarding the final cost of this plant have varied from the Stanford Research Institute Report, which indicates a capital outlay of 20 to 24 million dollars to the agency's latest quotations in the press of 75 million dollars.

It is proposed by the agency that the fair on the American River site will be prepared to open in 1960. We regard this prediction as extremely optimistic. No major construction of any consequence has been initiated and the ingress and egress highway work appears to be entirely in the planning stage. This latter feature is, of course, essential if anticipated attendance is to be accommodated. In our opinion, it is more realistic to expect a fully developed new fair in not less than five or six years, especially in view of the construction problems involved, not to mention a very real financing problem. Under optimum operating conditions, the new fair is expected to return a "profit" of only \$200,000, according to the Stanford Research Institute. This profit is an estimate based upon increased attendance, new programing, etc. We refer to the Iowa State Fair's profit of \$250,904 in 1956 on a relatively comparable site to the present California State Fair.

The California State Fair has leaned heavily on the Stanford Research Institute report to justify removal to the new fair site. We think some reference to the report is appropriate here. The Research Institute states:

"The increase in attendance (at the new site) will be brought about by the interest generated in the new concepts, events, attractions, and facilities offered by the fair, with resulting increases in revenue from each fair function."

With the possible exception of "facilities," we must inquire why the new concepts, events, and attractions cannot be introduced at the present installation. What better way to test their effectiveness in developing the increased attendance with the resulting increases in revenue?

If present management policies are applied at the new site, it appears likely that little or no profit will be realized. Instead, a mounting deficit to be absorbed by the State Fair Fund is a distinct possibility. Consequently, attention is invited to our analysis for the 1957-58 Fiscal Year, and prior years as well, wherein we pointed out the necessity for a change of management policy. Such a change must be effected at either site.

## State Fair and Exposition Fund—Continued

The construction period at the new site implies the continued operation of the fair at the present location. Unless the recommended changes are made, the deficit for these years must be added to the overall cost of erecting and producing a fair at the new site. This entire construction and operational program is a fiscal liability of considerable magnitude to the State of California as the following figures will show. For a period of seven years, 1951-57 inclusive, the total deficit incurred by the State Fair was \$4,544,942 or an average of \$649,277 per year.

The indications seem to suggest that the fair must continue to operate on its present site for at least five more years. Using the average yearly deficit figure quoted above, the State Fair will lose an estimated additional \$3,246,385 between now and full operation on the new site.

With the ever-pressing need for tax dollars to finance other on-going programs which we believe have a much higher public priority than fairs generally, it appears poor fiscal policy to sustain such a sizable loss during the transition period from the old site to the new.

*We believe that serious legislative consideration should be given toward substantially curtailing activities at the present site during the transition period to permit management to devote its prime activities toward a proper development of program and facilities at the new site, or, if the Legislature should desire to reconsider its action in going ahead with the new State Fair, to redirect the program on the present site.*

Both in the press and in state publications, the agency management has confined itself to discussion of the construction and architectural features of the fair on the new site.

The D. Jackson Faustman report, "Traffic, Transit, and Parking Plan, American River Site," referred to in our 1957-58 analysis, for which the Division of Architecture paid \$10,000 in 1956, contemplates major highway alterations, additions and improvements. No cost estimate was even submitted but the substantial expenditure involved is obvious to anyone examining the magnitude of the survey's proposal.

All these factors indicate that the ultimate true cost to the State of opening the gates at the new fair site has not been realistically estimated.

## Passes

We once again call attention to the revenue loss continually sustained by the State Fair's persistence in its present pass policy.

## Comparison of Passes Honored to Attendance

Year	Total attendance	Number paid adult admissions	Percent paid admissions to total attendance	Passes honored	Percent of passes to paid admissions
1951	762,029	481,862	63.2	137,688	28.6
1952	778,256	481,575	61.9	131,401	27.3
1953	767,251	473,099	61.7	134,375	28.4
1954	812,204	503,567	62.0	135,684	26.9
1955	752,303	442,139	58.8	139,495	31.6
1956	823,887	463,779	56.2	158,959	34.2
1957	818,202	458,275	56.0	161,151	35.6

## State Fair and Exposition Fund—Continued

This table covers a period of seven years from 1951 through 1957. Paid admissions dropped 5,504 under 1956, but, despite the fiscal loss, the fair issued 161,151 passes, or 2,192 more passes in 1957 than in the prior year, raising the percentage of passes against paid admissions to 35.6 percent, the highest ratio in seven years. In 1951 this ratio was only 28.6 percent as the table will show. We cannot reconcile the continuation of the "pass system" and its consequent loss in 1957 of approximately \$80,577 related to general admissions alone. This would nearly support the figure of \$97,850 budgeted for advertising and public relations in 1958-59.

The pass situation grows increasingly worse. *We must continue to recommend the elimination of all passes at the California State Fair and Exposition and that an all-pay no-exemption gate policy be established.*

This is in line with the policy followed at other fairs successful both from a fiscal, programing and attendance standpoint. It is exemplified by the Iowa State Fair previously mentioned in a comparative table above.

*In accordance with our interpretation of no new services in relation to equipment requests, we recommend deletion of \$1,302 from the equipment budget at this agency.*

## Department of Finance

## CALIFORNIA STATE FAIR AND EXPOSITION

ITEM 124 of the Budget Bill

Budget page 298

## FOR AUGMENTATION OF THE STATE FAIR FUND FROM THE FAIR AND EXPOSITION FUND

Amount requested .....	\$274,000
Estimated to be expended in 1957-58 Fiscal Year .....	488,900
Decrease (44.0 percent) .....	\$214,900

## RECOMMENDED REDUCTIONS

Reduction in budgeted increases .....	\$11,027
Improved efficiency and policy reappraisal .....	None
Total reductions .....	\$11,027

## ANALYSIS

The decrease in the amount requested is directly affected by the increase in the statutory support for the California State Fair and Exposition. The 1957 Legislature increased the fair allocation 100 percent, raising the subvention from \$125,000 to \$250,000.

It is recommended that \$11,027 be deducted from the \$274,000, resulting in a total amount of \$262,937 to be transferred from the remainder in the Fair and Exposition Fund. This is in balance with the recommended reduction of \$11,027 in the overall fair budget.

**Department of Finance**  
**SIXTH DISTRICT AGRICULTURAL ASSOCIATION**

ITEM 125 of the Budget Bill

Budget page 298

**FOR SUPPORT OF SIXTH DISTRICT AGRICULTURAL ASSOCIATION  
 FROM THE SIXTH DISTRICT AGRICULTURAL ASSOCIATION FUND**

\* Amount requested ----- \$405,655  
 \* Estimated to be expended in 1957-58 Fiscal Year ----- 139,776

Increase (190.2 percent) ----- \$265,879

\* Does not include \$125,000 continuing appropriation.

**Summary of Increase**

	Total increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages -----	\$32,746	\$21,306	\$11,440	300 48
Operating expense -----	237,604	904	236,700	300 50
Equipment -----	-4,471	-1,096	-3,375	300 52
 Total increase -----	 \$265,879	 \$21,114	 \$244,765	

**RECOMMENDED REDUCTIONS**

Reduction in budgeted increases ----- \$7,626  
 Improved efficiency and policy reappraisal ----- 201,809

Total reductions ----- \$209,435

**ANALYSIS**

The recommended reduction of \$303,333 consists of the following amounts in the categories indicated:

	Amount	Budget	
		Page	Line
Salaries and wages			
0.5 Museum guard -----	\$1,770	299	45
Operating expense			
Night patrol -----	5,000	299	57
Equipment			
Chairs -----	103	299	61
Wooden desk (refinish) -----	153	299	61
Engravograph -----	350	299	61
Weed sprayer -----	250	299	61
Improved efficiency and policy reappraisal			
Industrial and trade exposition -----	295,707 *	300	37
	 \$303,333		

\* Total proposed expenditures for the Trade Fair amount to \$295,707. Anticipated revenues from this source total \$226,000 leaving a net loss of \$69,707. This latter sum, coupled with the proposed reserves of \$132,102, amounts to \$201,809, which is the net amount by which this appropriation item should be reduced as a result of the elimination of the Trade Fair. This accounts for the difference between recommended reductions of \$201,809 on policy and the total cost shown above.

It should be noted that, even with the recommended deletion of the above 0.5 position, the agency will still receive the benefit of a total of two new positions involving a cost of \$7,806 in salaries and wages.

The Sixth District Agricultural Association operates under the authority granted in Article 2, Sections 80 through 92, of the Agricultural Code as amended by the Statutes of 1957.

The present function of the Sixth District is the maintenance and operation of the California Museum of Science and Industry in Los Angeles.

## Sixth District Agricultural Association—Continued

Total expenditures including retirement costs for 1958-59 are scheduled at \$547,119 or an increase of 190.2 percent over the \$139,776 expenditure program for 1957-58. That the proposed 1958-59 Budget is practically double the prior year is accounted for by the inclusion of the funds required to produce the new Industrial Trade Fair and Exposition.

The following table shows the relationship between total revenues and support costs for five budget years:

	1954-55	1955-56	1956-57	1957-58	1958-59
Total expenditures* ---	\$137,502	\$155,645	\$193,176	\$278,417	\$547,119
Total revenues -----	118,642	147,686	158,421	158,675	415,850
Excess of expenditures over revenues -----	\$18,860	\$7,959	\$34,755	\$119,742	\$131,269
Revenues as percent of total expenditures --	86	94.8	82.0	57.0	76.0

\* Includes contributions to State Employees' Retirement Fund.

The above table shows an adverse trend. The percentage of revenues to total expenditures was only 57.0 percent in the Fiscal Year 1957-58. The rise to 76.0 percent in the proposed 1958-59 Budget is extremely speculative since it contemplates the presentation of the trade fair. Even with this added attendance inducement, the estimated revenues are still 18.8 percent below the agency's best recent year, 1955-56. Management should therefore reappraise operating policies and avoid any expense for new services unless associated with a sound revenue producing function to offset increasing costs.

The 5.5 proposed new positions are shown by function as follows:

Functions and positions	Budget		
	Amount	Page	Line
Museum operation			
1 Exhibit design installer-----	\$4,512	299	43
0.5 Janitor -----	1,608	299	44
0.5 Museum guard * -----	1,770	299	45
0.5 Intermediate account clerk-----	1,686	299	74
Industrial and trade exposition			
3 Temporary help -----	11,440	300	14
5.5 Totals -----	\$21,016		

\* Recommended for deletion.

## Museum Guard

The agency now has authorized one head museum guard, six museum guards and 2.2 museum guards (intermittent) at a total budgeted cost in salaries and wages of \$38,924 for the Fiscal Year 1958-59.

The agency originally requested one full-time museum guard at a salary of \$3,540, their justification being based upon the statement that additional workload was anticipated with the 100 percent utilization of the second floor art gallery as a permanent exhibit area; and, further, that the head guard would be freed from a permanent guard post to perform other more essential duties relative to his position.

It is our understanding that the Sixth District has not been getting the proper service from the guards. It has been further alleged that the guards lacked proper training; also that the salary was insufficient. If these are so, the effect of granting the request would be to subsidize

**Sixth District Agricultural Association—Continued**

inefficiency in personnel by increasing the staff to compensate for it. The department has authorized 0.5 position at a cost of \$1,770 based upon the agency's justification.

*We recommend the deletion of this position, reducing salary and wages \$1,770.*

It is suggested that management correct the lack of satisfactory performance in its present guard complement.

**Industrial and Trade Exposition**

For this function, the agency now has 4.2 permanent positions: one industrial and trade exposition co-ordinator, three technician and clerk positions and 0.2 temporary help at a total estimated cost for 1958-59 of \$21,942. In the present budget, three temporary help positions are requested at a salary and wages expenditure of \$11,440 or total for salaries and wages of \$33,382. Proposed operating expenditures are \$261,700 while additional equipment is figured at \$625. The total amount budgeted for this exposition is \$295,707.

The 1957 Legislature appropriated \$125,000 for each of the Fiscal Years 1957-58 and 1958-59 in order that the Sixth District would be enabled to conduct an Industrial and Trade Exposition for both fiscal periods.

In order to present this fair, a new enterprise for the Sixth District, the above substantial expenditure is contemplated although revenues are anticipated to be \$131,269 less than the Sixth District and the Exposition will expend in 1958-59.

We question the fiscal advisability of attempting to introduce the Trade Fair in the 1958-59 Fiscal Year. The expenditure of state funds for new programs of this kind, which are unquestionably of low priority in terms of other state fiscal requirements, does not appear warranted at this time in view of the general financial situation of the State Government. The State's program of fairs has now reached the point where it is making a heavy drain on the State's General Fund. The establishment of any new fair programs will probably add to this problem.

*Therefore, we recommend deletion of the salaries and wages, operating expenses and equipment for the Industrial and Trade Exposition at the Sixth District Agricultural Association and abandonment of the Trade Fair in this fiscal year for a total net savings in 1958-59 of \$200,809 after adjusting for changed revenues. We recommend that before 1959 the Legislature should make a comprehensive study of the statewide fairs program with projection of future costs and available revenues.*

*Night patrol (budget page 299, line 57)----- \$5,000*

The agency's request for night patrol service was reviewed in detail. It was determined that there are 10 control points in the museum building, plus the parking area where, according to the Sixth District, employees have had cars tampered with. The agency request contemplates two patrolmen for security supervision of the described premises during the night.

## Sixth District Agricultural Association—Continued

In view of the distances between control points and the vicinity to be covered, two patrolmen appear to be entirely inadequate if this need exists. Also, the hours involved are 11.40 p.m. to 8 a.m. when no employees would normally be parking personal automobiles on state business.

The State of California has never provided special protection for employees' property when the employee was on private business or pleasure. We do not feel that the agency has presented adequate justification where state property itself is concerned; and, were the hazard actually in existence, the proposed security is not sufficient to afford needed coverage.

*We therefore recommend deletion of the \$5,000 requested for the initiation of this patrol service.*

*Equipment (budget page 300, line 52)----- \$6,168*

The budget as originally submitted by the agency requested \$6,403 for equipment exclusive of the industrial and trade exposition. A total of \$2,685 or 41.9 percent was for *additional* items. The balance of \$3,718 or 58.1 percent was for replacement items.

The Department of Finance reduced this equipment request by \$235 to \$6,168 now budgeted for this item.

*In accordance with our interpretation of no new service in relation to equipment requests, we recommend deletion of \$856 from the equipment budget at this facility.*

The agency, under Administration, Office Equipment, requested \$188 for a worn wooden desk replacement. We are recommending allowance of \$35 to cover the cost of refinishing. The balance of \$153 is included in our reduction figure of \$856 above.

Net reductions for the Sixth District total \$7,626. This sum, together with the net reduction of \$201,809 for the Trade Fair, a total of \$209,435, is the adjustment to be made in the total transfer item of \$154,000, thereby reducing that transfer item to \$85,565.

## Department of Finance

## SIXTH DISTRICT AGRICULTURAL ASSOCIATION

ITEM 126 of the Budget Bill

Budget page 301

FOR SUPPORT OF SIXTH DISTRICT AGRICULTURAL ASSOCIATION  
FROM THE FAIR AND EXPOSITION FUND

Amount requested -----	\$154,000
Estimated to be expended in 1957-58 Fiscal Year-----	135,000

Increase (14.1 percent)-----	\$19,000
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RECOMMENDED REDUCTIONS -----	\$154,000
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## ANALYSIS

The sum of \$154,000 is budgeted to be transferred from the Fair and Exposition Fund and the increase of \$19,000 or 14.1 percent over 1957-58 does not clearly show the real fiscal implication involved. The 1957-58 and 1958-59 figures include the Industrial and Trade Exposi-



## Sixth District Agricultural Association—Continued

tion so that the increase is actually 57.1 percent more than 1956-57 when only the Sixth District Agricultural Association was budgeted.

*In line with our discussion concerning the Trade Fair in the previous item, we recommend deletion of the entire amount requested by this transfer item.*

**Department of Finance**  
**FAIRS CLASSIFICATION COMMITTEE**

ITEM 127 of the Budget Bill

Budget page 303

**FOR SUPPORT OF FAIRS CLASSIFICATION COMMITTEE FROM THE  
FAIR AND EXPOSITION FUND**

Amount requested .....	\$8,000
Estimated to be expended in 1957-58 Fiscal Year .....	1,500
<b>Increase (433.3 percent) .....</b>	<b>\$6,500</b>

**Summary of Increase**

	Total increase	INCREASE DUE TO Workload or salary adjustments	New services	Budget Line page No.
Salaries and wages .....	\$800	\$800	--	303 32
Operating expense .....	5,700	5,700	--	303 39
<b>Total increase .....</b>	<b>\$6,500</b>	<b>\$6,500</b>	<b>--</b>	

**RECOMMENDED REDUCTIONS** ..... None

**ANALYSIS**

The Fairs Classification Committee was created by Chapter 1717, Statutes of 1955, and consists of the Director of Finance, the Chief of the Fairs and Exposition Division, and seven appointed members from areas designated in the statutes.

This is a committee to study and classify the district and county fairs partially supported by subventions as provided for by Section 92 of the Agricultural Code.

Although the increase of \$6,500 in the 1958-59 Budget is 433.3 percent greater than the amount for 1957-58, it is for traveling, and 0.1 of a clerical position and consultant service.

The amount appears in order since the committee will be enabled to inspect and review fair operations, not only while fairs are being presented but also during the interim periods.

*Additional study of the fairs is needed and we recommend approval of the budget as submitted.*

**Department of Finance**  
**STATE LANDS DIVISION**

ITEM 128 of the Budget Bill

Budget page 304

**FOR SUPPORT OF STATE LANDS DIVISION FROM THE STATE  
LANDS ACT FUND**

Amount requested .....	\$830,964
Estimated to be expended in 1957-58 Fiscal Year .....	820,704
<b>Increase (1.3 percent) .....</b>	<b>\$10,260</b>

## State Lands Division—Continued

## Summary of Increase

	Total Increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages .....	\$22,276	\$22,276	—	305 16
Operating expense .....	—20,076	—20,076	—	305 29
Equipment .....	—5,140	—5,140	—	305 31
Add decreased reimbursements...	13,200	13,200	—	305 38
Total increase .....	\$10,260	\$10,260	—	

**RECOMMENDED REDUCTIONS** ..... None

**ANALYSIS**

The Division of State Lands is requesting five proposed new positions based on an increase in workload. These proposed new positions and the justifications are as follows:

*1 Junior counsel for the executive staff* ..... \$5,565

Prior to the establishment of this position in March, 1957, the assistant executive officer was handling litigatory transactions. The detail of preparing legal papers and actions requires the knowledge of an employee with legal training. At present, there is an active caseload of 200 transactions involving litigation.

*1 Intermediate stenographer-clerk (administrative services)* ... \$3,540

This position has been established on a yearly basis since 1953-54 Fiscal Year. Due to the overall increase in agency business and work done on a reimbursable basis, this position is being established as a proposed new position on a permanent basis.

*1 Senior oil and gas engineer* ..... \$8,112

*1 Assistant mining geologist* ..... 5,772

The senior oil and gas engineer is required to relieve the mineral resources engineer from the work involved in the administration of approximately 90 existing leases now on production.

The mineral resources engineer is fully occupied directing the activities of the development of new areas, such as issuance of new leases for oil and gas extraction. He also supervises the operations of the Mineral Resources Section, including the activities at Long Beach.

The assistant mining geologist will process the new workload of prospecting permits and mineral leases for the extraction of minerals other than oil and gas. Both field and office work will be performed by this geologist. The present backlog in this activity is estimated to represent two man-years' work.

*1 Senior typist-clerk (Land Sales and Records Section)* ..... \$4,092

Considerable backlog on land sales has developed in this section, and, as a result, applications to purchase are being canceled. The funds of prospective purchasers are tied up without interest because of this delay.

As of August 1, 1957, approximately \$957,000 of applicants' money was on deposit.

We recommend approval of these items as budgeted.

## FRANCHISE TAX BOARD

ITEM 129 of the Budget Bill

Budget page 307

FOR SUPPORT OF FRANCHISE TAX BOARD FROM THE  
GENERAL FUND

Amount requested .....	\$6,140,851
Estimated to be expended in 1957-58 Fiscal Year .....	5,993,984
Increase (2.5 percent) .....	\$146,867

## Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages .....	\$202,957	\$135,493	\$67,464	310 24
Operating expense .....	—50,452	—50,452	—	310 26
Equipment .....	—5,638	—5,638	—	310 28
Total increase .....	\$146,867	\$79,403	\$67,464	

## RECOMMENDED REDUCTIONS

Reduction in budgeted increases .....	\$5,364
Improved efficiency and policy reappraisal .....	1,034
Total reductions .....	\$6,398

## Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
Administration:			
1 Junior counsel .....	\$5,364	308	12
Reduce traveling out of State .....	1,034	308	27
Total reductions .....	\$6,398		

## GENERAL SUMMARY

The Franchise Tax Board was created by Chapter 1188, Statutes of 1949 (the provisions of which are now incorporated in Government Code Sections 15700-15702), and consists of the State Controller, the Director of Finance and the chairman of the State Board of Equalization. It administers all provisions of the State Personal Income Tax Law and the Bank and Corporation Tax Law. Administrative appeals from its decisions on tax matters are made to the Board of Equalization. Two of the three members of the Franchise Tax Board are also members of the latter board, a condition which raises a serious question as to the soundness of the administrative appeals process.

Under the law, the board, with the consent and approval of two-thirds of the Senate, may appoint an executive officer, exempt from civil service, who shall perform such duties as are delegated to him by the board. Pursuant to Sections 17002 and 17003 of the Administrative Code the board has delegated to the executive officer, subject to its general supervision, all duties imposed on it by law except the following:

- “(a) To adopt rules and regulations;
- “(b) To prescribe the extent, if any, to which any ruling or regulation shall be applied without retroactive effect;
- “(c) To determine the rate of tax on banks and financial corporations in accordance with the provisions of Section 23186 of the Bank and Corporation Tax Law;

## Franchise Tax Board—Continued

“(d) To appoint and remove an executive officer in accordance with the provisions of Section 2, Chapter 1188, 1949 Statutes.

“(e) Any power or duty which by any provision of law shall be exercised or performed only by the board.”

As presently organized the agency consists of two divisions located in Sacramento, (1) the administration division with an authorized staff of 203.4 which includes the executive officer and his immediate staff, an accounting, statistical, legal, appeals and review, and special investigations sections, and (2) an operations division with an authorized staff of 610.4 which performs the line functions involved in tax administration such as processing tax returns, desk and field auditing of returns and collection of delinquent taxes.

The operations division is headed by an assistant executive officer and reporting directly to him are the assistant chief of operations, who is in immediate charge of the operations division in Sacramento, and two regional directors, one in charge of the Los Angeles office and the other in charge of the San Francisco office.

Treated as a part of the operations division in Sacramento for budgetary purposes are the field audit activities in Chicago and New York, in each of which a staff of three examiners II and a clerk is maintained, and the field audit activities in the 19 counties from Sacramento north to the Oregon line, exclusive of the coastal counties.

The Los Angeles region covers San Luis Obispo, Kern and San Bernardino Counties and all those to the south of these, as well as Inyo and Mono Counties, while the San Francisco region includes all of the remainder of the State excluding the counties serviced out of Sacramento.

The distribution of the staff in the Los Angeles region on October 30, 1957, by class and location, including temporary help, was as follows:

<i>Location</i>	<i>Regional director</i>	<i>Examiner and field representative</i>	<i>Technicians and clerks</i>	<i>Total</i>
Los Angeles -----	1	69	68	138
Long Beach -----	--	6	3	9
San Diego -----	--	5	2	7
Santa Barbara -----	--	1	1	2
San Bernardino -----	--	2	1	3
Bakersfield -----	--	2	1	3
Totals -----	1	85	76	162

The distribution of the staff in the San Francisco region on October 30, 1957, by class and location, including temporary help, was as follows:

<i>Location</i>	<i>Regional director</i>	<i>Examiner and field representative</i>	<i>Technicians and clerks</i>	<i>Total</i>
San Francisco -----	1	50	50	101
Oakland -----	--	6	2	8
Fresno -----	--	2	1	3
San Jose -----	--	5	1	6
Santa Rosa -----	--	2	1	3
Stockton -----	--	3	1	4
Totals -----	1	68	56	125

## Franchise Tax Board—Continued

Differences between the totals shown in the foregoing and those shown as authorized positions for 1957-58 for each region on budget page 309 are due to vacancies and seasonal fluctuations in temporary help.

In each of the regions a single individual, the regional director, is responsible for all activities and the staff is organized on a functional rather than a tax law basis with a high degree of integration of the activities carried on under each law.

The present organization of the agency is the result of a reorganization which has been in process during the last two years.

In our 1953-54 analysis on pages 246-7 and 554-557, we pointed out what we believed to be certain deficiencies in the organizational structure of the agency, suggested ways in which we thought the organization could be improved, and recommended a study by what is now termed the Division of Organization and Cost Control of the Department of Finance.

At that time the field activities in each region were carried on by three divisions, Personal Income Tax, Franchise Tax, and Collections, each with a separate field chief reporting to his corresponding division chief in Sacramento. It appeared to us that this resulted in the field operations of the agency being conducted independently of one another, to a considerable degree at least, and we indicated that it was our belief that a more effective and economical administration might result from a single chief of field operations in headquarters and a single chief in each region, responsible for all field activities and reporting to the single headquarters chief, and that such an organizational structure should lead to a greater degree of integration of field operations, such as the use of the same auditors for audits under both tax laws.

The management study by the Department of Finance "Central and Field Organization-Franchise Tax Board" (A. N. 615) issued on February 15, 1955, the recommendations of which are listed in detail on page 326 of our 1956-57 analysis, contains these recommendations among others, and the present organization of the agency embodies these basic concepts.

The existing civil service classifications for examiners, which are reflected for the first time in the current budget are indicative of integration in the audit activity, both in headquarters and in the field. Where formerly a parallel series of classes existed, i.e., income tax auditor II, income tax auditor III, supervising income tax auditor I, and franchise tax auditor II, franchise tax auditor III and supervising franchise tax auditor I, there is now a single series for work on both taxes, as follows:

Income and corporation tax auditor II.

Income and corporation tax auditor III.

Supervising income and corporation tax auditor I.

It is interesting to note that while there was some opposition to the integration of the work of the auditors in the past, on the part of both

## Franchise Tax Board—Continued

management and rank and file, the present reaction appears to be favorable on the part of both, since management feels that the plan provides a more flexible and more efficient staff while the rank and file seem to feel that more varied work assignments result in broader opportunities for advancement.

We believe the agency deserves credit for adopting an organizational pattern which appears to us to make for the most effective and economical type of tax administration possible within the limitations of existing law and we believe the reorganization in the Franchise Tax Board, which has resulted in the integrated administration of two taxes, is an indication of the improvements which could result on a larger scale if California had a single department of revenue to administer all state taxes.

## ANALYSIS

Because of seasonal fluctuations in the workload of this agency it has always been necessary for it to make extensive use of temporary help.

The relationship between permanent and temporary help authorized for the 1957-58 Fiscal Year by the Budget Act of 1957 and as currently authorized, is as follows:

	<i>Per Budget Act of 1957</i>	<i>Per current budget</i>	<i>Increase or (—) decrease</i>
Permanent positions .....	909	931	22
Man-years of temporary help.....	199.4	174.1	—25.3
Totals .....	1,108.4	1,105.1	—3.3

The net increase of 22 in permanent positions is all at the clerical level and was more than offset by the decrease in temporary help. We recommend that, wherever justified, this conversion of temporary clerical help to permanent positions be continued since it results in more effective administration.

Increases in temporary help for 1958-59 are requested as follows, by division:

<i>Division</i>	<i>Man-years</i>	<i>Amount</i>
Administration .....	2.8	\$8,456
Operations .....	6.1	18,199
Los Angeles Regional Office.....	1.3	3,970
San Francisco Regional Office.....	.6	1,851
Total .....	10.8	\$32,476

The foregoing request is all for positions at the junior clerical level at an average salary of \$251 per month and is all for anticipated workload increases.

We recommend approval of these positions.

## Administration

This division includes the legal staff consisting of a chief counsel and six attorneys in Sacramento who prepare briefs for cases on appeal to the Board of Equalization, opinions, and proposed measures to be submitted to the Legislature. There have been no increases in the number

## Franchise Tax Board—Continued

of attorneys in the legal section since 1945. An additional junior counsel position is requested to assist in elimination of an existing backlog in the presentation of cases for hearings and drafting of legal memoranda.

*We recommend elimination of one junior counsel position, budget page 308, line 12, for \$5,364.*

While we are aware of an increase in workload in recent years, we believe the increase can be handled without an increase in staff for the following reasons:

1. Staff time devoted to drafting proposed legislation can be curtailed by more extensive use of the Office of Legislative Counsel, which is well equipped to do this work.

2. The existing associate tax counsel position in the San Francisco regional office should be transferred to headquarters where he could be utilized full time to better advantage on work for the legal staff. The fact that such a position is not needed in a regional office is evidenced by the absence of such a position in Los Angeles, which has a 30 percent larger staff than San Francisco, and is farther from headquarters. The mere fact that an associate counsel is available in San Francisco must result in his devoting a substantial amount of his time to regional problems which should either be referred to headquarters or solved without consultation as is the procedure in Los Angeles.

*We recommend a reduction in out-of-state travel of \$1,034, budget page 308, line 27.*

Funds of \$2,069 are budgeted during both the current and budget years to provide for the attendance of two staff members at each of two conventions outside the State.

In line with our current recommendations for a reappraisal of existing practices, and in line with comparable recommendations we are making for other agencies we recommend that funds be provided for one man only to attend such conferences.

## Operations

The operations division consists of three major units, with currently authorized staff, as follows:

<i>Location</i>	<i>Staff</i>
Sacramento headquarters .....	610.4
Los Angeles region .....	164.6
San Francisco region .....	126.7
Total .....	901.7

This division is headed by an assistant executive officer (operations), a civil service position, with a maximum salary of \$15,000 per year, and is responsible for the line functions of the agency which have to do with tax administration such as processing of tax returns and related reports, desk and field audit of the returns and collection of delinquent taxes.

## Franchise Tax Board—Continued

The audit function which accounts for about 36 percent of the total costs of the agency, and is one of its most important activities, includes the following authorized staff, by classes for 1957-58, exclusive of administrative personnel. Adjustments made in the current year are indicated in the following table:

Class	Salary range	Authorized positions, 1957-58		
		Per 1957-58 Budget	Per current budget	Increase or (—) decrease
Supervising income and corporation tax auditor I -----	\$676-821	21	22	1
Income and corporation tax auditor III -----	613-745	51	52	1
Income and corporation tax auditor II -----	505-613	105	113	8
Out-of-state income and franchise tax examiner II -----	505-613	6	6	-
Junior accountant-auditor; account- ant-auditor I -----	395-505	68	62	-6
Totals -----		251	255	4

Funds for the increase of four in the number of auditors over that provided for in the Budget Act of 1957 were provided by abolishing two positions of district supervisor of collection (\$505-613) and two positions of senior field representative (\$436-530).

Of the six out-of-state income and franchise tax examiner II positions, which for budgetary purposes are included in the headquarters operating section, three are located in New York and three in Chicago for the purpose of making audits of corporations whose headquarters, and consequently whose basic accounting records are maintained outside of California and, accordingly, cannot be audited locally. Many of these corporations are very large and the audits are productive of substantial additional revenue because of failure on their part to apply correctly the formula for allocating to California its proper proportion of their taxable income and the proper amount of tax.

This program was first authorized by the Legislature for the 1950-51 Fiscal Year, and for the five-year period, 1952-53 to 1956-57, has produced \$25.80 revenue per dollar of cost in New York and \$26.21 in Chicago. (See Table 5.)

The agency is now requesting 10 additional out-of-state income and franchise tax examiner II positions: five for the Chicago office and five for the New York office, in order to expand this program and increase the coverage from the present approximately 10 percent of the total tax base to a coverage of approximately 20 percent.

In view of the indicated increase in revenue from the out-of-state audit program, we recommend approval of the requested new staff. However, we believe that an analysis of the costs of operation and revenue from the various types of audit activities as is presented in the following pages, will indicate an ability administratively to shift emphasis from the lower yield aspects of the program to the higher yield aspects such as the out-of-state audit. Furthermore, we believe that this type of analysis indicates the desirability of considering the shifting



## Franchise Tax Board—Continued

of staff not only between tax programs administered within a single agency, but as between tax programs administered by separate agencies, such as, for instance, the sales tax audit program administered by the Board of Equalization, the revenue-cost ratio for which is lower than that for the least productive part of personal income tax and bank and corporation tax audits.

At this point, we believe it is worth while to point out that the high return on bank and corporation tax audits may be indicative of an administrative deficiency of another sort.

It is our belief that the types of taxpayers involved in these audits underreport their tax for two principal reasons:

- (1) Because they are misinformed as to how the tax applies; or
- (2) Because they are not in agreement with the rules or formulae used by the agency in calculating the tax and desire to appeal the matter at the administrative level or to the courts.

In either case, effort spent in properly informing taxpayers in the first instance would tend to make for better self-assessments and lower audit-pick-ups and we believe it is entirely possible that more effort spent along these lines would be more productive in the long run than increased audit activity. We believe this is a phase of tax administration that has not been fully exploited in the past and recommend that careful study be made of its various aspects.

There are several types of audit activity carried on by the Franchise Tax Board which are much less productive of revenue than the out-of-state allocation audits, as indicated in the tables which follow, and it is our belief that the agency might well be able to expand the latter program by reassignment of its existing staff without any added cost particularly since all audit activities are now integrated under a single chief of operations.

Table 1 summarizes revenues and costs of activities relating to bank and corporation tax for 1956-57, while Table 3 gives similar information regarding personal income tax. The two tables together account for all costs incurred and all revenues produced by the agency during 1956-57. Tables 2 and 4 give comparable information for the six-year period, 1951-52 to 1956-57 inclusive.

Table 5 details revenues and costs of the allocation audit activity under the Bank and Corporation Tax Law by location and fiscal year for the five-year period 1952-53 to 1956-57. Detail by location is not available for 1951-52, although the total revenue from allocation audits for that year was \$2,507,090, produced at a cost of \$192,465, or at the rate of \$13.03 in revenue for each dollar of cost.

As indicated in Table 5, allocation audits in New York averaged \$25.80 in revenue for each dollar of cost and those in Chicago \$26.21 during the five-year period, while the total revenue from both locations amounted to \$7,745,760, produced at a cost of \$297,868, or at the rate of \$26, for each dollar of cost.

## Franchise Tax Board—Continued

On the other hand, as indicated in Table 3, audit activities under the Personal Income Tax Law for the Fiscal Year 1956-57, produced only \$2.75, for each dollar of cost, while for the six-year period ended June 30, 1957, they produced an average of \$4.31 per dollar of cost, as indicated in Table 4.

On the basis of these figures we think it reasonable to assume that if audit effort representing \$100,000 in cost, for example, were to be transferred from the least profitable audit activities in the personal income tax field to the corporation tax audit work in New York and Chicago the State might lose as much as \$400,000 in revenue per year on the one hand, but it should gain \$2,600,000, in revenue per year, or a net gain of \$2,200,000. We are inclined to believe that, as a practical matter, such a shift might be made without any appreciable loss of revenue from personal income tax audits, if the shift were carefully made.

The data in Tables 1, 2, 3, and 4 are based on cost and revenue records which have been maintained by the agency, starting in 1951-52. The costs shown include certain overhead items not included in the budgeted expenditures of the agency, but are compiled on the basis generally used when the State bills other jurisdictions for services rendered. While the revenues will not agree with comparable amounts in the printed budget because of slight differences in timing, these differences can be reconciled.

In preparing the tables estimated losses from uncollectible audit revenue have been disregarded. These were as follows for 1956-57:

Bank and corporation tax.....	\$258,476
Personal income tax .....	80,447
Total .....	\$338,923

Also not included in revenues is \$5,401,991 (\$1,134,831, corporation tax and \$4,267,160, personal income tax), representing proposed assessments which are on appeal, with the possibility of substantial downward adjustments due to the controversial nature of the items involved. Most of this amount represents assessments levied under Section 17297, Revenue and Taxation Code, which prohibits deductions from taxable income to taxpayers engaged in illegal activities (bookmaking, pin ball operations and the like), and the assessments will be treated as revenues when the correct amounts are finally determined.

In Tables 1, 2, 3, and 4 the activities shown under "basic" are the minimum required by law, such as processing, self-assessments, recording payments, supplying forms, etc., while those shown under "non-audit enforcement" and "audit" are enforcement activities intended to produce added revenue, the only difference being that the first are largely clerical operations while the "audit" activity requires technically trained auditors.

We believe the type of information shown in these tables is valuable, both from the management and budgetary standpoints and that the agency should be commended for maintaining the kind of records from which it can be derived.

## Franchise Tax Board—Continued

Table 1. Bank and Corporation Tax, Summary of Activities, 1956-57

<i>Class of activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Basic:					
Service operation ----	76,558	110,450	\$160,922,326	\$316,973	\$507.68
Formal refund claims--	895	7,958	—1,795,459	25,366	—7.08
Exempt corporations --	--	1,755	--	6,163	--
Processing nonsubver- sive declarations ---	--	10,639	--	29,620	--
Totals -----	77,453	130,802	\$159,126,867	\$378,122	\$420.83
Nonaudit enforcement:					
Assessments corrected--	1,467	17,220	\$475,165	\$45,221	\$10.51
New accounts -----	501	3,716	178,570	10,789	16.55
Totals -----	1,968	20,936	\$653,735	\$56,010	\$11.67
Audit:					
General audit -----	78,332	79,444	\$2,934,643	\$281,493	\$10.43
Allocation audit ----	12,488	89,915	5,930,819	348,286	17.03
Totals -----	90,820	169,359	\$8,865,462	\$629,779	\$14.08
Grand totals ----	170,241	321,097	\$168,646,064	\$1,063,911	\$158.52

Table 2. Bank and Corporation Tax, Summary of Activities,  
Six Years Ended June 30, 1957

<i>Class of activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
Basic:					
Service operation ----	346,258	523,717	\$762,216,618	\$1,374,554	\$544.52
Formal refund claims--	5,418	52,133	—6,850,215	141,249	—48.50
Exempt corporations --	--	68,214	--	156,767	--
Processing nonsubver- sive declarations ---	--	29,367	--	78,609	--
Totals -----	351,676	673,431	\$755,366,403	\$1,751,179	\$431.35
Nonaudit enforcement:					
Assessments corrected--	6,739	116,589	\$2,014,409	\$266,468	\$7.56
New accounts -----	3,338	36,556	973,263	86,608	11.24
Totals -----	10,077	153,145	\$2,987,672	\$353,076	\$8.46
Audit:					
General audit -----	323,583	394,312	\$11,302,783	\$1,298,977	\$8.70
Allocation audit ----	39,068	444,205	30,236,513	1,564,497	19.33
Delinquents and arbit- raries (5 years) --	44,079	54,308	1,808,771	156,083	11.59
Totals -----	406,730	892,825	\$43,348,067	\$3,019,557	\$14.36
Grand totals ----	768,483	1,719,401	\$801,702,142	\$5,123,812	\$156.47

# Franchise Tax

Item 129

## Franchise Tax Board—Continued

Table 3. Personal Income Tax, Summary of Activities, 1956-57

Activity	Cases	Hours	Net revenue	Cost	Revenue per \$1 of cost
<b>Basic:</b>					
Service operations	3,348,825	651,423	\$137,105,414	\$1,761,607	\$77.83
Refund claims allowed	8,243	38,981	—385,606	120,825	—3.19
Totals	3,357,068	690,404	\$136,719,808	\$1,882,432	\$72.63
<b>Nonaudit enforcement:</b>					
<b>Sacramento:</b>					
Information at source	10,183	31,116	\$193,044	\$73,249	\$2.64
Federal comparison project	11,254	18,759	336,781	57,889	5.82
Preliminary examination	65,293	83,657	422,689	203,381	2.08
<b>Los Angeles:</b>					
Information at source	81,303	204,832	1,626,273	478,879	3.40
Federal comparison project	31,756	84,271	669,002	203,723	3.28
<b>San Francisco:</b>					
Information at source	42,121	102,825	757,532	241,878	3.13
Federal comparison project	20,190	40,636	387,552	106,630	3.63
Totals	262,100	566,096	\$4,392,873	\$1,365,629	\$3.22
<b>Audit:</b>					
<b>Headquarters:</b>					
Drawer audit	1,198,080	146,141	\$989,015	\$436,828	\$2.26
RAR unit	7,739	42,452	554,758	126,772	4.38
Specialist section	15,865	27,141	263,379	85,013	3.10
<b>Los Angeles:</b>					
Field audit	5,208	91,217	843,571	305,632	2.76
Residence and withholding	867	21,453	327,681	76,624	4.28
<b>San Francisco:</b>					
Field audit	5,198	84,470	668,139	285,004	2.34
Residence and withholding	872	14,518	168,076	50,146	3.35
<b>Sacramento:</b>					
Field audit	1,847	16,960	99,884	56,113	1.78
Totals	1,235,676	444,352	\$3,914,503	\$1,422,132	\$2.75
Grand Totals	4,854,844	1,700,852	\$145,027,184	\$4,670,193	\$31.05

## Franchise Tax Board—Continued

Table 4. Personal Income Tax, Summary of Activities, Six Years  
Ended June 30, 1957

<i>Activity</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
<b>Basic:</b>					
Service operations	16,594,423	3,225,660	\$626,749,061	\$7,960,727	\$78.73
Refund claims allowed	38,192	199,251	—3,202,994	563,937	—5.68
Totals	16,632,615	3,424,911	\$623,546,067	\$8,524,664	\$73.15
<b>Nonaudit enforcement:</b>					
<b>Sacramento:</b>					
Information at source	72,356	173,679	\$1,392,004	\$429,970	\$3.24
Federal comparison (3 years)	21,600	48,678	688,262	140,001	4.92
Preliminary examination	248,065	481,092	1,746,871	975,784	1.79
<b>Los Angeles:</b>					
Information at source	479,594	852,896	8,928,079	1,818,380	4.91
Federal comparison (3 years)	62,094	195,870	1,382,519	437,216	3.16
Miscellaneous (5 years)	20,629	80,771	542,216	173,534	3.12
<b>San Francisco:</b>					
Information at source	296,863	507,119	5,408,353	1,095,709	4.94
Federal comparison (3 years)	57,430	167,658	1,255,601	370,440	3.39
Miscellaneous (5 years)	9,222	110,642	329,408	260,909	1.26
Totals	1,267,853	2,618,405	\$21,673,313	\$5,701,943	\$3.80
<b>Audit:</b>					
<b>Headquarters:</b>					
Drawer audit	9,193,881	970,269	\$7,397,124	\$2,490,038	\$2.97
RAR unit	48,872	280,046	4,929,651	722,110	6.83
Specialists section	212,241	176,680	2,385,242	484,260	4.93
Primary audit (5 years)	34,106	59,288	292,388	147,838	1.98
<b>Los Angeles:</b>					
Field audit	55,663	551,796	7,475,714	1,584,402	4.72
Residence and withholding	4,574	126,014	5,010,288	381,777	13.12
<b>San Francisco:</b>					
Field audit	38,153	485,740	3,055,081	1,469,980	2.08
Residence and withholding	3,567	72,306	2,018,442	227,744	8.86
<b>Sacramento:</b>					
Field audit	6,568	49,771	447,947	155,226	2.89
Totals	9,597,625	2,771,910	\$33,011,877	\$7,663,375	\$4.31
Grand Totals	27,498,093	8,815,226	\$678,231,257	\$21,889,982	\$30.98

## Franchise Tax Board—Continued

Table 5. Bank and Corporation Tax, Allocation Audit Activity by Location and Fiscal Year, 1952-53 to 1956-57

<i>Location</i>	<i>Cases</i>	<i>Hours</i>	<i>Net revenue</i>	<i>Cost</i>	<i>Revenue per \$1 of cost</i>
<b>Sacramento</b>					
1952-53-----	2,487	36,487	\$1,347,027	\$114,243	\$11.79
1953-54-----	2,845	43,539	1,508,624	135,076	11.17
1954-55-----	2,742	38,072	2,580,981	128,031	19.77
1955-56-----	11,413	40,737	2,229,138	142,012	15.70
1956-57-----	11,485	36,069	2,014,210	131,842	15.28
<b>Total-----</b>	<b>30,972</b>	<b>194,904</b>	<b>\$9,629,980</b>	<b>\$651,204</b>	<b>\$14.79</b>
<b>Los Angeles</b>					
1952-53-----	397	11,997	\$964,076	\$39,114	\$24.65
1953-54-----	268	11,038	550,428	37,068	14.85
1954-55-----	252	12,989	548,367	45,679	12.00
1955-56-----	403	14,427	1,846,776	54,946	33.61
1956-57-----	307	13,370	726,659	51,429	14.13
<b>Total-----</b>	<b>1,627</b>	<b>63,821</b>	<b>\$4,636,306</b>	<b>\$228,236</b>	<b>\$20.31</b>
<b>San Francisco</b>					
1952-53-----	251	8,536	\$835,522	\$28,180	\$29.65
1953-54-----	344	8,411	2,124,635	30,278	70.17
1954-55-----	371	9,674	1,131,694	35,799	31.61
1955-56-----	312	9,779	736,753	39,542	18.63
1956-57-----	313	15,515	888,773	60,925	14.59
<b>Total-----</b>	<b>1,591</b>	<b>51,915</b>	<b>\$5,717,377</b>	<b>\$194,724</b>	<b>\$29.36</b>
<b>New York</b>					
1952-53-----	173	3,347	\$589,158	\$17,225	\$34.20
1953-54-----	146	4,308	751,601	21,656	34.71
1954-55-----	163	7,122	192,620	22,559	8.54
1955-56-----	249	9,452	454,547	36,347	12.51
1956-57-----	195	12,908	1,884,587	52,316	36.02
<b>Total-----</b>	<b>926</b>	<b>37,137</b>	<b>\$3,872,513</b>	<b>\$150,103</b>	<b>\$25.80</b>
<b>Chicago</b>					
1952-53-----	134	2,792	\$616,492	\$11,800	\$52.25
1953-54-----	174	6,141	673,927	23,944	23.46
1954-55-----	109	5,902	395,423	18,815	21.02
1955-56-----	161	9,368	1,765,815	36,432	48.47
1956-57-----	188	12,053	416,590	51,774	8.05
<b>Total-----</b>	<b>766</b>	<b>36,256</b>	<b>\$3,873,247</b>	<b>\$147,765</b>	<b>\$26.21</b>
<b>Grand Total-----</b>	<b>35,882</b>	<b>384,033</b>	<b>\$27,729,423</b>	<b>\$1,372,032</b>	<b>\$20.21</b>

## Economies and Improvements Requiring Legislation

As we have previously pointed out on a number of occasions, we believe substantial economies and improvements in state tax administration would result if all major state taxes were to be administered by a department of revenue headed by a single director appointed by and responsible to the Governor.

## Franchise Tax Board—Continued

Such an agency would make possible on a larger scale the type of integrated field operations which the Franchise Tax Board has developed for the administration of the taxes for which it is responsible.

Such a department would make possible substantial increases in revenue at no additional cost by the channeling of its combined audit resources into areas where they would be most productive, with shifts from time to time to meet changing conditions. Specifically, it appears to us that the shift of substantial audit manpower at the present time, from sales tax audits to bank and corporation tax audits, would result in a significant increase in revenues to the State, at least in the immediate future, without any damaging effects on sales tax administration.

## STATE TREASURER

ITEM 130 of the Budget Bill

Budget page 311

## FOR SUPPORT OF STATE TREASURER FROM THE GENERAL FUND

Amount requested .....	\$432,038
Estimated to be expended in 1957-58 Fiscal Year .....	385,134
Increase (12.2 percent) .....	\$46,904

## Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages .....	\$17,527	\$17,527	--	311 44
Operating expense .....	8,009	8,009	--	311 57
Equipment .....	21,368	21,368	--	311 59
Total increase .....	\$46,904	\$46,904	--	

RECOMMENDED REDUCTIONS..... None

## GENERAL SUMMARY

The Office of the State Treasurer was created by the Constitution adopted in 1849.

The State Treasurer is chairman of the Pooled Money Investment Board and a member of the Veterans Finance Committee, School Building Finance Committee, and the San Francisco Harbor Bond Finance Board.

The administrative duties are performed by the State Treasurer, a deputy, and an assistant. The principal functions of the office are carried out by the Cashiering, Deposit, Bond and Accounting Sections.

Principal functions of the office are:

1. Receipt, deposit and disbursement of state moneys.
2. Investment of the State's funds—with consent and advice of others for the most part.
3. Safekeeping of securities of the State, pledged collateral and personal property held in trust.
4. Servicing the bonded debt of the State.

## ANALYSIS

Two new proposed positions, one a general accountant III, and an intermediate stenographer, are requested for the Fiscal Year 1958-59.

## State Treasurer—Continued

The duties of the accountant and stenographer will be to assist the Treasury Cashier and Investment Officer. The Treasury Cashier administers the pooled money investment program established by Chapter 1703, Statutes of 1955. Investments and interest earned have increased considerably since the program began. Part of this increase is due to the general rise in interest rates, but a more active investment program is also responsible. The accountant will assist the cashier to develop timely information of cashier receipts and needs for future periods. This information should result in an increase in investments with a greater return of interest to the State. The stenographer will type reports and furnish other clerical assistance to the cashier and accountant.

The existing position of staff assistant at \$13,800 was added last year because of the unusual amount of activity associated with the creation of the pooled money investment program. The Treasurer also became very active in attempting to provide better fiscal information to be made available to bankers and prospective institutional investors to improve the market for state bonds. This staff assistant would appear to be justified for another year based on the forecast of an active program of this nature.

The increase in equipment is due in part to the purchase of IBM equipment now in use on a rental basis. The purchase price should be amortized over a period of 3.7 years and from that period on a saving should result. The major portion of the balance is to be spent on equipment for the two new positions and additional lockers for storage of state securities.

We recommend approval of the amount budgeted.

## DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

ITEM 131 of the Budget Bill

Budget page 313

FOR SUPPORT OF THE CALIFORNIA HIGHWAY PATROL FROM  
THE MOTOR VEHICLE FUND

Amount requested .....	\$26,925,442
Estimated to be expended in 1957-58 Fiscal Year .....	23,445,630
Increase (14.8 percent) .....	\$3,479,812

## Summary of Increase

	Total increase	INCREASE DUE TO		Budget Line page No.
		Workload or salary adjustments	New services	
Salaries and wages .....	\$2,468,268	\$2,468,268	--	317 32
Operating expense .....	1,046,775	1,046,775	--	317 34
Equipment .....	—22,511	—22,511	--	317 36
Less increased reimbursements .....	—12,720	—12,720	--	317 45
Total increase .....	\$3,479,812	\$3,479,812	--	

## RECOMMENDED REDUCTIONS

Reduction in budgeted increases .....	\$1,282,668
Improved efficiency and policy reappraisal .....	None
Total reductions .....	\$1,282,668