

State Scholarship Commission—Continued

that their enrollment growth has been closely related to the number of state scholarship winners enrolled at their institutions.

Full-time enrollment for 81 private institutions was 60,883 for the fall of 1963 as compared with the earlier Master Plan estimate for 1965 of about 58,000 for 72 institutions. According to current estimates based upon reported enrollment for the fall of 1963, full-time enrollment at these 81 private institutions will exceed the Master Plan projections by from 20 to 30 percent. In part, the unanticipated growth of private institutions merely reflects the very conservative character of the earlier projections, but in some part it may also be attributed to the continued expansion of the state scholarship program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the budget as submitted.

DEPARTMENT OF EMPLOYMENT

ITEMS 130, 131, 132 and 133 of the Budget Bill

Budget page 427

**FOR SUPPORT OF THE DEPARTMENT OF EMPLOYMENT
FROM THE UNEMPLOYMENT COMPENSATION DISABILITY
FUND, THE DEPARTMENT OF EMPLOYMENT CONTINGENT
FUND AND THE UNEMPLOYMENT TRUST FUND**

Amount requested, Unemployment Compensation Disability Fund	
(130) -----	\$10,524,008
Amount requested, Unemployment Compensation Disability Fund	
(131) -----	1,306,800
Amount requested, Department of Employment Contingent Fund	
(132) -----	346,557
Amount requested, Unemployment Trust Fund (Reed Act funds)	
(133) -----	25,149
Total amount requested -----	\$12,202,514
Estimated to be expended in 1964-65 fiscal year -----	10,375,355
Increase (17.6 percent) -----	\$1,827,159
Recommended Reduction—state funds -----	\$3,250
Recommended Reduction—federal funds -----	3,345,174
TOTAL RECOMMENDED REDUCTION -----	\$3,348,424

Summary of Recommended Reductions

		<i>Budget</i>	
	<i>Amount</i>	<i>Page</i>	<i>Line</i>
From amount requested to maintain existing level of service:			
1. Traveling—in-state -----	\$2,500	440	79
Traveling—out-of-state -----	750	440	80
From amount requested for new or improved services:			
1. 419 Positions assigned MDTA functions -----	\$3,330,511	411	37
2. 1 Senior photographer -----	7,080	432	18
3. 1 Public health nurse II -----	7,583	439	48

PROGRAM PLANS AND BUDGET

This department proposes a total expenditure of \$841,577,946 in the 1965-66 fiscal year. These expenditures are supported by the Legisla-

Items 130-133**Employment****Department of Employment—Continued**

ture's appropriation from three funds and by statutory authority and federal grants from the remaining two sources as shown below :

Unemployment Compensation Disability Fund (support and interest) Items 130-131 -----	\$11,830,808
Unemployment Compensation Disability Fund (benefit payments) -----	225,000,000
Department of Employment Contingent Fund (pro rata, community service costs) Item 132 -----	346,557
Unemployment Trust Fund (Reed Act) (Department of Finance audit costs) Item 133 -----	25,149
Unemployment Fund (benefit payments) -----	536,650,000
Federal Grant for Administration -----	67,617,430
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	\$841,469,944
Reimbursements -----	108,002
	<hr/>
	\$841,577,946

Of the total expenditures proposed, approximately 1.4 percent is authorized by direct state appropriation for support and interest payments, 90.5 percent is paid out in benefits according to law and the remaining 8 percent is in the form of a federal grant for administrative support.

The department administers three major programs. These are the Public Employment Service program, the Unemployment Insurance program and the Disability Insurance program. The two first mentioned derive their support funds in the form of a federal grant, the latter or third program is supported by state appropriation. Service to the public under these programs is provided through approximately 139 local offices as well as a number of mobile offices used for farm placement. Units of the departmental organization located principally at Sacramento headquarters provide the so-called housekeeping services for all three programs.

Placement Program and Unemployment Insurance Program

These federally-supported programs are funded together by a grant for administration in the budget year in the amount of \$67,617,430.

The Placement program is implemented by the Public Employment Service personnel in local field offices and provides a central job demand and labor supply listing in communities wherein such offices are established. The department has made provision for increased emphasis on farm worker, youth and minority group placements in 1965-66 through addition of 550 new positions in fiscal year 1965-66.

The Unemployment Insurance program provides for payment of benefits to eligible persons unemployed through no fault of their own and is implemented through the activities of the personnel in the local field offices. The department estimates that under current law an amount of \$536,650,000 will be paid out in unemployment benefits as a result of 2,111,400 anticipated claims in fiscal year 1965-66. Department of Employment Contingent Fund expenditures requested in Item 132 of the budget are for pro rata shares of administrative charges for

Department of Employment—Continued

these programs and the 50 percent share of the community employment program is requested in the amount of \$346,557.

The cost of the statutory audits of these programs by the Department of Finance for which federal authorities deny support is again budgeted as in fiscal year 1962-63, from Reed Act funds in the amount of \$25,149 in Item 133.

Within these programs are activities related to portions of the federal Manpower Development and Training Act. This provides for $\frac{1}{3}$ state participation in training and allowance costs except for administrative costs which are fully-federally supported. No provision is made in this budget for this $\frac{1}{3}$ state participation. Other activities pertain to the Area Redevelopment Act retraining, payments of unemployment benefits for recently discharged servicemen and federal civil servants funded entirely by the federal government.

In addition, the department expects to engage in several new activities related to the Economic Opportunity Act of 1964 in the budget year. As it is not aware as to the extent of programs, no support funds for this activity are shown in this budget. This act's present provisions, in general, require that in fiscal year 1965-66, the state's share of the total cost will be 10 percent in funds, or in kind, and in the next succeeding fiscal year, the state's share increases to 50 percent. What the budgetary implications of this sharing may be in future years cannot be estimated until the total program is developed.

Disability Insurance Program

The remaining major program is the Disability Insurance program which is funded by state appropriation from the Unemployment Compensation Disability Fund. This program provides for payment of disability and hospital benefits to eligible persons to compensate in part for wage loss sustained because of unemployment due to sickness or injury. The expenditure proposed for administration of the program for the budget year is \$10,524,008. The proposed expenditure for benefits amounts to \$225 million.

To fund these benefits payments, an appropriation of \$1,306,800 is requested in Item 131 from the Unemployment Compensation Disability Insurance Fund to pay interest on loans to that fund. These borrowings during the budget year are estimated at a total of \$159 million and are prompted by the deficit condition of the fund after February 1965 due to insufficient revenue to meet these obligations. The administration will offer legislation to correct this situation during the current session.

REVIEW OF AGENCY ACCOMPLISHMENTS

Total estimated and authorized expenditures for fiscal year 1963-64 for all programs were \$664,589,948 and total actual expenditures for that year were \$757,281,386 indicating an overexpenditure of \$92,691,438.

Placement and Unemployment Insurance Programs

The department's presentation of the funds required for support of the administrative functions of the Public Employment Service and

Department of Employment—Continued

Unemployment Insurance program was \$54,638,078 and the proposed amount to be expended on benefits was \$415,900,000. These activities are funded by the payroll tax levied on employers. Actual expenditures for these activities were \$53,714,837 for administration indicating a savings of \$923,241, and \$492,498,454 was paid out in benefits indicating an underestimate of \$76,598,454 in this area. This underestimate was due, we are advised, to an unanticipated upward trend in the unemployment rate from 5.34 projected to 5.93 actual. The Public Employment Service activity reported 1,845,944 referrals and 1,030,847 placements in 1963-64, and assisted in the processing of the initial claims for unemployment. Recent revelations, however, have disclosed that these reported figures are inflated for the purpose of showing greater activity than actually occurred. The department is at present endeavoring to determine the extent of these inflationary placement figures, thus a revised figure is not available. The Unemployment Insurance activity handled and processed 1,968,587 initial claims for unemployment and in connection therewith made 748,210 nonmonetary determinations, handled 42,272 benefits appeals and processed 1,409,290 subject employer reports.

An amount of \$272,594 was appropriated from the Department of Employment Contingent Fund to defray costs of the 50 percent sharing in the community employment program and those pro rata charges denied by the federal government. In addition to the appropriated amount, \$1,010,675 on emergency authorization by the Department of Finance was expended for the purpose of supporting the agency due to an unexpected reduction of approximately \$1,100,000 in availability of federal funds.

Disability Insurance Program

The Disability Insurance program appropriation for 1963-64 was \$9,613,870 for administrative support and interest payments and estimated benefits to be paid of \$184,438,000. These funds are supported by a tax on individual's pay. Actual expenditures in these areas were \$8,697,777 for administrative support and interest indicating a savings of \$916,093, and \$202,370,318 paid in benefits or an underestimation of \$17,932,318 in paid benefits. This underestimate was caused by the adverse selection ruling as a result of which the state plan coverage increased from an estimated 85 percent to 93 percent of the covered employment. The Disability Insurance program processed a total of 594,858 claims, handled 3,783 appeals and 250,406 wage earner refunds.

The amount appropriated to pay interest on loans to the Disability Insurance Fund was \$26,700 of which \$218 was expended, the savings thus accruing (\$26,482) are included in the total savings indicated above.

ANALYSIS AND RECOMMENDATIONS

The proposed budget year expenditure, which is appropriated by the Legislature, exceeds the current year's by 17.6 percent. It must be pointed out that this increase is due largely to the condition of the Unemployment Compensation Fund requiring a 1138.7 percent increase in the amount requested to pay the interest on loans while the proposed

Department of Employment—Continued

support expenditure from this fund shows a 6.6 percent increase and the Department of Employment Contingent Fund proposed expenditure is down 13.5 percent. A shift in the funding of the Department of Finance audit of the Employment Service and Unemployment Insurance activity from the Contingent Fund to the Unemployment Trust Fund has the effect of providing relief of expenditure of state funds with less restrictive controls in the amounts requested and is reflected in the reduced expenditure from the Contingent Fund.

Unemployment Compensation Disability Fund Support, Item 130

The agency has requested an amount of \$10,524,008 for support of the Disability Insurance program. This amount is \$654,793, or 6.6 percent, above the current year estimate of expenditures.

The major portion, or 73 percent, of these funds provides the support for the Division of Disability and Hospital Benefits, the remainder is spread through the other organizational units of the department in relationship to the services provided.

<i>Traveling—in-state (budget page 440, line 79)</i> -----	\$97,335
<i>Traveling—out-of-state (budget page 440, line 80)</i> -----	2,500

The medical director and his professional staff of two have requested \$6,000 for in-state travel, an increase of \$2,500 over the amount budgeted for that program in the current year.

The \$2,500 requested for the out-of-state travel requirements is made up of \$1,250 to send two division personnel to the annual conference of the American Public Health Association and \$750 to send the medical director to the annual convention of the American Medical Association and \$500 to send a division representative to the annual conference of the American Association of State Compensation Insurance Funds.

We recommend that in-state travel funds be reduced by \$2,500 and that out-of-state travel funds be reduced by \$750 with a resultant total savings of \$3,250.

No justification has been offered for the \$2,500 increase in the in-state travel request of the medical director and staff which is in direct violation of the instructions in the Department of Finance price letter which states these travel costs should be budgeted at current year levels.

The division has scheduled attendance at the annual conference of the American Public Health Association for two of their personnel at a cost of \$1,250. It would appear the benefit to the state would not be impaired nor the administration of the division suffer if the attendance was limited to a single individual.

We recommend that Budget Item 130 be approved in the reduced amount of \$10,520,758.

Interest Payments From the Disability Fund, Item 131

The department has requested \$1,306,800 from the Disability Fund to pay the interest on loans of \$159 million to that fund. This borrowing was necessary to correct the deficit condition of the fund which exists from the end of February 1965 onward. The administration will

Department of Employment—Continued

recommend introduction of legislation to correct this condition during the current session. Just what the nature of the legislation may be is not known but it would appear that under any legislation offered, the necessity for borrowing will continue until such time as reserves will be large enough to overcome the present negative position of the fund.

We recommend approval as budgeted.

Department of Employment Contingent Fund Support, Item 132

The amount requested (\$346,557) for support of the department from the contingent fund is to defray those pro rata costs of state government assessed this special fund agency for which the federal government denies responsibility and those shared costs (on a 50 percent basis) of the community services program. The amount requested in the budget year is 13.5 percent below the estimated expenditure in the current year. We note the current year's expenditure included an emergency authorization of \$51,877 which we are advised is the cost of filling an exempt position not approved from federal funds, overhead costs of state printing, and the cost of the audit by the Department of Finance which the federal government has refused to fund. It is understood these costs, except for the audit costs, are included in the amount requested in the budget year. *We recommend approval as budgeted.*

Reed Act Fund Support (Unemployment Trust Fund), Item 133

Funds from this source have again become available to the state in fiscal year 1965-66 and with legislative authority may be expended for the purpose of conducting the statutory audits of activities of the Public Employment Service and Unemployment Insurance by the Department of Finance; an amount of \$25,149 is requested.

We recommend approval.

Federal Grants for Administration

These federal grants are based on budget requests presented to and approved by the Bureau of Employment Security of the U.S. Department of Labor. The basis of the requests as submitted by the department are extensively detailed estimates and projections of workload built up from a mass of very small work units. The amount requested is indicated as \$67,617,430, an 11 percent increase over the estimated current year's expenditures.

391 Established positions supported by MDTA Funds---	\$3,151,808
28 Proposed new positions supported by MDTA Funds--	178,703
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419 Total (budget page 411, line 37)-----	\$3,330,511

A total of 419 positions have been budgeted or requested to provide the administrative support for 21,600 MDTA trainees in fiscal 1965-66.

Administrative costs of this program are borne 100 percent by the federal funds but training allowances are not so supported. The department has estimated these training allowance costs to total \$10,424,000 for fiscal year 1965-66, of which the state's share under current law is \$3,474,667. No provision is made in this budget to pay these

Department of Employment—Continued

training allowance costs. Likewise, the training costs (instructors, space, etc.) under the Department of Education must be shared by the state on a one-third basis.

We recommend the abolishment of 391 established positions and deletion of 28 proposed new positions supported by federal grants under the Manpower Development and Training Act thus reducing this department's total budget by \$3,330,511.

No provision has been made in this departmental budget for the \$3,474,667 required for implementation of this program.

There is no need to provide staff to implement a program for which funds have not been budgeted.

Further, the department has indicated on a number of occasions that the funding and administration of the MDTA program by federal authorities has left much to be desired, indeed some 40 man-years have been diverted from other tasks (not the Disability Insurance Program) to provide the necessary support the program requires in the current year to meet the commitments of the state. Projects were approved, trainees screened, instructors chosen, etc., then funds were withheld necessitating an undue amount of readjustment. It appears Congress did not appropriate sufficient funds to support the program as conceived by the Department of Labor, as funds were limited for new projects after the end of the second quarter of the fiscal year.

The training offered under MDTA in California, although placement following training is high, is at variance with the 1964 national experience in that nationally 60.5 percent of the trainees were men and in California 27.6 percent. The Department of Employment estimates that of the total unemployed (417,000 in 1964) in California, 64 percent are men, thus it appears that the program has not emphasized the training of men in proportion to their percentage of the unemployed. In 1963-64, the department administered the payment of allowances of \$2,382,037 and 6,095 persons were enrolled in MDTA training courses. The estimates for the current year for these are \$7,616,000 in allowances and 16,000 enrollees or 3.8 percent of the unemployed.

1 Senior photographer (budget page 432, line 18)----- \$7,080

The department has established this position by administrative action in the current year and it brings their public information staff to a total of eight. Included in the current staff is the senior photographer, one information officer I, two information officer II, one radio, television, motion picture specialist, one graphic artist and two clerical positions.

The justification offered is that there is an increasing demand for informational motion pictures relating to programs of the agency including films for television use. The demand is reported especially active in connection with the Farm Placement Program.

We recommend that this position be disapproved and deleted from the budget request.

The department could accomplish this task by contract, thus saving the state a continuing ongoing cost of staff benefit contributions as well

Department of Employment—Continued

as the costs of acquisition and replacement of expensive cameras and equipment or could reclassify one of the information officer II positions to senior photographer.

1. Public health nurse I (budget page 439, line 48)----- \$7,583

The agency has again requested authority to establish this position in their Sacramento headquarters building although the position was denied during the 1964 Budget hearings on a policy basis. The justification is the same as offered to the Legislature in 1964, namely, to provide emergency services for occupants or visitors who may become ill or injured while in the building. To this justification is added the statement that it is submitted at the request of the Bureau of Employment Security of the Department of Labor and will be funded with federal funds.

We recommend this proposed new position be deleted.

Approval of a position of this classification for the purpose indicated in the justification still remains a precedent establishing policy decision.

After the experience of fiscal year 1963-64 relative to federal funding of support costs of the department, it appears federal funds for this state position can be withdrawn at any time and place the burden for its continued support on the state.

We recommend these federal funds be approved in the reduced amount of \$64,272,256.

POLICY OPTIONS

The fund statement for the Department of Employment Contingent Fund indicates an unappropriated balance of \$5,607,395 as of June 30, 1966. As a policy option available to the Legislature for a source of revenue which will relieve the need for an equivalent amount in new taxes, we recommend that the Budget Act be amended to reinstitute a control section similar to that adopted by the Legislature in the 1954 Budget Act and in several other subsequent Budget Acts. This control section would provide for a transfer of any excess over \$1 million in the Department of Employment Contingent Fund to the General Fund from time to time upon order of the State Controller. The principal reasons for this recommendation are as follows:

1. The Contingent Fund is composed of revenues from interest, penalties and fines in connection with the employment and disability payroll taxes, as distinguished from the primary tax. As such, they have been determined not to be trust funds and are available for appropriation by the Legislature for any purpose.

2. The allocation to the states of credits under the "Reed Act" which may be used to supplement administration and serve as a contingent reserve makes it less necessary today to retain the Contingent Fund purely for purposes of contingencies. In any case, \$1 million would appear to be ample as a contingent fund related to an operation which is a federal responsibility to support.

3. The existence of the Contingent Fund, particularly in the magnitude in which it now exists, results in a situation in which the Federal Bureau of Employment Security brings constant pressure on the state

Department of Employment—Continued

to use this fund for federal purposes rather than approval of federal grants for administration. The number of items financed from this fund because their expenditure has been disallowed by the Bureau of Employment Security illustrate this point. Appropriate control section language previously adopted by the Legislature to effect this transfer is as follows:

“SEC. ____ The unencumbered balance of the Department of Employment Contingent Fund which at any time during the 1965-66 fiscal year exceeds \$1,000,000 is hereby appropriated for transfer to the General Fund such transfer to be made from time to time upon order of the State Controller.”

COMMISSION ON MANPOWER, AUTOMATION AND TECHNOLOGY

ITEM 134 of the Budget Bill

Budget page 444

FOR SUPPORT OF THE COMMISSION ON MANPOWER, AUTOMATION AND TECHNOLOGY FROM THE DEPARTMENT OF EMPLOYMENT CONTINGENT FUND

Amount requested	-----	\$75,000
Estimated to be expended in 1964-65 fiscal year	-----	75,000

Increase	-----	None
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TOTAL RECOMMENDED REDUCTION	-----	None
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PROGRAM PLANS AND BUDGET

So far as we are able to determine this 29-member continuing commission has no specific program for 1965-66.

Because of the breadth and depth of the areas of interest expressed in the legislative declaration of policy in the statute establishing this commission and its relatively short existence, it has yet to determine exactly what program or programs it may follow in fiscal year 1965-66 and the budget request is in the same dollar amount as in the current year.

Should the commission, prior to the adjournment of the Legislature, through evaluation of the public hearings scheduled in the current year or based on recommendations of its various committees, determine a course or courses of action which may require additional funding for implementation, it has indicated it will initiate such a request.

The commission has requested \$75,000 for its support in fiscal year 1965-66. Included in this request is 0.6 of a position of temporary help which will then authorize a total of 0.8 of a full-time position for temporary help.

The mandatory language in the enabling legislation (Section 172, Labor Code) which established the commission, indicates three specific study areas and two fields for recommendation as to surveys. These are:

“(a) Study the introduction of modern production and distribution techniques in California to determine the impact of automated processes and other technological advancements on employment opportunities, the skill requirements of industry, business, and govern-

Commission on Manpower, Automation and Technology—Continued

ment, the displacement of employees, and the obsolescence of skills among members of the labor force.

“(b) Study and analyze the processes of adjustment to automation and other technological advancements in the state’s economy.

“(c) Study and analyze surveys of current public and private programs in the field of job training, retraining, and skill developments generally to evaluate their effectiveness in providing employable skills in reference to both the changing composition of the state’s labor force and the changing skill requirements of industry.

“(d) Recommend coordinated surveys in the various labor markets of the state to project as best possible the basic skill requirements of industry, business, and government sufficiently in advance of need, and in the approximate quantity needed, to the end that such projections shall provide a body of usable information for the development of sound job training, retraining, and skill development programs by labor and management and responsible government agencies. Such surveys shall consider, but shall not necessarily be limited to the consideration of, the skills presently available to industry, business, and government, the present skill requirements of industry and the future skill requirements of industry.

“(e) Encourage labor and management to undertake jointly similar surveys and projections within their respective industries and occupations to maintain a high level of private initiative in meeting the skill development requirements of both employees and employers.”

No specific program to carry out this directive is set out in the budget proposal for fiscal 1965–66.

The commission has the authority to direct studies by the Department of Industrial Relations, the Department of Employment and the Department of Education, each of which shall provide such staff as may be necessary to comply with requests for studies by the commission. No mention of use of this authority is contained in the budget proposal, nor to our knowledge, have any of the departments referred to above included costs for staff and services to the commission in their 1965–66 budget requests.

The commission, acting within its authority, may negotiate and approve research proposals which will be supported from the amount of \$27,500 budgeted for this purpose in 1965–66. No specific proposal or areas of research are offered as justification.

REVIEW OF COMMISSION ACCOMPLISHMENTS

Although the enabling legislation became effective in September 1963, the commission did not become operative as such until December of that year, thus, it had a maximum of seven months experience in fiscal year 1963–64. This interval has been referred to by the commission as its organizational period during which staff was selected (permanent staff was not employed prior to March 1964), space and equipment was acquired, etc. The full commission held three meetings during this period, in December 1963, and February and June of 1964. In addition, the commission’s steering committee held two meetings and its

Commission on Manpower, Automation and Technology—Continued

research committee held three meetings. These meetings were, in general, of an organizational and exploratory nature.

The legislative appropriation for the commission's support in 1963-64 was \$75,000 from the Department of Employment Contingent Fund; expenditures amounted to \$17,321.

ANALYSIS AND RECOMMENDATIONS

A review of the minutes of the commission meetings since its inception indicates efforts have been made toward defining areas of interest and priorities and the gathering of factual data on contractual agreement. The commission's annual report is not available for review.

In view of this commission's short existence and the magnitude and diversity of problems which confront it, a true evaluation of its worth and accomplishments cannot be made at this time.

We recommend approval as budgeted contingent upon the commission's selection of topics or areas of study which show possibilities of solution within a reasonable period of time and within the limited funds available.

POLICY OPTIONS

An option is offered in respect to discontinuance of support for this continuing commission. In essence, the commission duplicates at state level the provisions of the federal Manpower Development and Training Act expressed in Section 102 of that act relating to evaluation of, information on and research of the problems associated with the objectives of technological progress while avoiding or minimizing individual hardship and widespread unemployment.

The resources of state government are readily available for the solution of these problems provided executive direction is present to specify the coordination required and provide the guidance to achieve these ends. No commission is required to implement this action. The agencies of state government to which the commission turns for its basic data and recommendations are the Departments of Employment, Education, Industrial Relations, the Institute of Industrial Relations of the University of California, the State Advisory Council to the Department of Employment, the State Manpower Advisory Committee and the state coordinator for the Economic Opportunity Act of 1964 and these agencies are available to the administration at all times.

The problem confronting the state in regard to the use, education and training of its manpower potential is a small part of the total national problem in this area which the Secretary of Labor has been directed to solve. The state's activity in support of national objectives can be accomplished more economically by direction and coordination of the existing resources of state government in lieu of the commission approach for state solutions. It must be recognized that the commission's present full time staff of one professional position and its clerical support position cannot handle the volume and detail of the commission's program (or programs of the scope and nature set forth in the enabling act) for very long without borrowing staff from its supporting agencies or requesting an increase in staff with resulting increases in expenditures.