Commission on Manpower, Automation and Technology—Continued

The Secretary of Labor has been directed under Title I of the Manpower Development and Training Act to implement a national study, research and evaluation program with the same objectives expressed in the state statute governing this commission. In addition, as pointed out above, there already exists a state Manpower Advisory Committee which could coordinate any state activities in this sphere. The problems of automation and technological change as they affect manpower deployment is only part of the larger national problem which the Secretary of Labor is directed to solve. The provision of state support for activities which are essentially national in scope would appear to be superfluous. The state cannot reasonably expect to either compete with or complement in a significant manner the work of the federal government in this area with its vastly greater resources and its existing statutory requirements and policy commitments to the resolution of this problem. *Accordingly, we recommend disapproval of the entire item for a savings to the Employment Contingent Fund of $76,898 (budget page 397, line 38).*

BOARD OF CONTROL

ITEM 103 of the Budget Bill **Budget page 399**

FOR SUPPORT OF THE BOARD OF CONTROL FROM THE GENERAL FUND

AMOUNT REQUESTED IN BUDGET BILL		$31,138
Budget request before identified adjustments	$31,776	
Increase to recognize full workload change	2,822	
Budget as adjusted for workload change	$34,598	
Adjustment—undetailed reduction (10 percent)	3,460	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		None
BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING		$3,460

GENERAL PROGRAM STATEMENT

The Board of Control is a three-member board comprising the State Controller, the Director of the Department of General Services and one member appointed by the Governor from the general public. It has responsibility under three programs:

1. Claims against the state.
2. Rulemaking.
3. Miscellaneous fiscal matters.

PROGRAM ANALYSIS AND RECOMMENDATIONS

A total expenditure program of $41,926 is proposed for this agency which is comprised of the net amount of $31,138 requested by this item and $10,788 to be allocated from Item 255 for administrative costs related to tort liability claims.

1. Claims

The board receives, processes and acts upon all claims made against the state. It exercises the power to adjudicate tort liability claims and directs payment of such claims out of funds appropriated for that

Board of Control—Continued

purpose under Item 255. It refers other claims it approves to the Legislature for payment out of various funds. It is required to report all approvals and settlements of tort claims, and all rejected claims regardless of type, to the Legislature on the first day of each regular session. It adopts rules and regulations governing the presentation, audit, and payment of claims.

Because the claims program consumes the vast majority of personnel time the number of claims received is the best workload indicator.

The undetailed "increase to recognize full workload change—$2,822" includes one-half an intermediate clerk position, which is included in the summary which follows:

	Actual 1964–65	*Actual 1965–66*	*Estimated 1966–67*	*Proposed 1967–68*
Claims received	1,459	1,640	1,740	1,850
Man-years	3.8	4.3	4.3	4.8
Claims/man-years	384	381	405	385

In addition to the man-years shown for 1966–67, approximately two man-months of uncompensated overtime have been recorded.

We recommend approval of the 0.5 intermediate clerk positions included in workload increase, budget page 399, line 10.

2. Rulemaking

The board adopts rules and regulations governing travel and meal expenses, merit awards, and various other matters of general state interest.

Effective October 1, 1966, the board amended its rules to increase travel allowances for state employees. This resulted in an increase in General Fund state costs during 1966–67 of an estimated $1,240,000 for which no budgetary provision had previously been made. *We recommend that any future actions of the board which involve significant cost increases become effective not earlier than the start of a new fiscal year in order that legislative review and adequate budgetary provision may be made for such cost increases.*

3. Miscellaneous Fiscal Matters

The board also performs a number of miscellaneous functions, including the processing of refunds and cancellations, discharge of accounts receivable of the state, approval of purchase and sales of bonds, sale and disposal of unclaimed property, the merit award program, and the transfer of funds between component institutions within the Department of Corrections, the Youth Authority, the state colleges, and the Department of Mental Hygiene.

STATE CONTROLLER

ITEM 104 of the Budget Bill **Budget page 400**

FOR SUPPORT OF THE STATE CONTROLLER FROM THE GENERAL FUND

Amount requested in Budget Bill		$4,751,787
Budget request before identified adjustments	$5,175,937	
Increase to recognize full workload change	103,826	
Budget as adjusted for workload change	$5,279,763	
Adjustment—undetailed reduction (10%)	527,976	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET $128,572

BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING $399,404

Summary of Recommended Reductions

		Amount	Budget Page	Budget Line
Administration Division:				
Associate research analyst		$12,588	400	65
Disbursements Division:				
2 Intermediate account clerks, payroll section, (included in increase to recognize full workload change)		9,048	400	21
Inheritance and Gift Tax Division:				
Conference costs		3,500	404	31
Tax-deeded Lands Division:				
Salaries and wages:				
5 District managers	$52,884		406	26
1 Senior clerk	6,360		406	26
2.5 Intermediate stenographers	14,796		406	26
1 Intermediate clerk	5,181		406	26
	$79,221			
Operating expenses	24,215	$103,436	406	41

Our recommendation for changing administration of the inheritance tax will produce major savings in future years.

GENERAL PROGRAM STATEMENT

The State Controller, who is elected on a statewide basis, is provided for by Article V, Section 11 of the Constitution (Article V, Section 17 before the November 8, 1966, amendments). His primary responsibility is to act as the disbursing officer of the state. This stems from the following constitutional provisions:

Article XIII, Section 20, which provides that every state agency ". . . shall be subject to the regulations and requirements with respect to the filing of claims with the State Controller . . . ."

Article XIII, Section 21 which provides that "No money shall be drawn from the Treasury but in consequence of appropriation made by law, and upon warrants drawn thereon by the Controller . . . ."

These provisions were included in Article IV, Section la and Article IV, Section 22, respectively, before the November 8, 1966, amendments.

All other responsibilities of this office are statutory except membership on one board and one commission, as noted later.

The major duties of this office may be categorized as follows:

A. Fiscal Control. (1) acts as accounting officer for the state, (2) makes apportionments to local government, (3) collects fiscal informa-

State Controller—Continued

tion and prepares financial statements, (4) preaudits expenditures from the State Treasury, (5) audits subvention expenditures at local level, (6) maintains records of outstanding warrants drawn on the Treasury, and (7) administers the Uniform State Payroll System.

B. Tax Administration. (1) administers inheritance and gift taxes, (2) administers the refund of the gasoline tax to nonhighway users, and (3) collects the motor vehicle transportation and various other taxes.

C. Fiscal Affairs: Local Government. (1) administers budgeting and uniform accounting procedures for counties, (2) collects and publishes local government financial information, (3) assists special districts in developing uniform auditing and accounting practices, and (4) administers the laws relating to land deeded to the state.

In addition to the agency responsibilities, the State Controller serves as a member of 20 boards, commissions and committees. Of these, his membership is required by the Constitution on the State Board of Equalization and Reapportionment Commission, and by statute on 18 other bodies, including the Franchise Tax Board, State Lands Commission, Pooled Money Investment Board, State Board of Control, and Teachers' Retirement Board.

Organization of the Controller's Office

This office is composed of eight divisions. These are presented in Table 1, together with information on the classification and distribution of authorized personnel.

Table 1

Classification of Authorized Personnel, by Division 1967–68

Division	*Admin. and staff*	*Legal*	*EDP*	*Acct.*	*Clerical*	*Temp. help*	*Total*
Administration	7	2	--	2	23.5	0.2	34.7
Accounting	2	--	--	32	24	1.2	59.2
Audits	2	--	--	55	20	0.9	77.9
Disbursements	2	--	21	15	13.4	9.0	181.0
Inheritance and Gift Tax	4	24	--	30	64.5	1.0	123.5
Tax Collection and Refund	3	--	--	22	50	0.2	75.2
Local Government Fiscal Affairs	4	--	--	31	6	0.1	41.1
Tax-deeded Land	2	--	--	--	16.5	0.3	18.8
	26	26	21	187	338.5	12.9	611.4 *

* Includes 1967–68 workload increase adjustment.

Overall growth of the agency, both in terms of its support from various funds and its staffing, is presented in Table 2. Workload increase for 1967–68 is included. The table demonstrates that the greatest rates of growth in staffing over a five-year period have been in Local Government Fiscal Affairs (primarily financed from special funds) and Inheritance and Gift Tax Divisions. Table 3 gives the proposed 1967–68 expenditures by division, including workload increase, and broken down into General Fund and special fund support.

Table 2

Man-years and Expenditures by Fund, 1963–64 through 1967–68 (Includes 1967–68 Workload Increase)

Division	*1963–64*	*1964–65*	*1965–66*	*Estimated 1966–67*	*Proposed 1967–68*	*1967–68 over 1963–64*	*Average annual increase*
				Man-Years			
Administration	33.2	32.1	33.2	34.2	34.2	1.0	0.8%
Accounting	54.2	55.3	54.7	56.2	56.7	2.5	1.2
Audits	71.3	71.3	71.2	74.4	76.6	5.3	1.9
Disbursements	175.0	168.0	172.0	175.5	179.5	4.5	0.6
Inheritance and Gift Tax	108.6	110.2	118.0	120.8	122.1	13.5	3.1
Tax Collection and Refund	73.5	72.4	71.9	73.0	72.2	–1.3	–0.5
Local Government Fiscal Affairs	28.4	33.0	35.6	39.4	39.1	10.7	9.4
Tax-Deeded Land	19.9	19.2	18.2	18.6	18.8	–1.1	–1.4
Total	564.1	561.5	574.8	592.1	599.2	13.1	1.6%
				Expenditure by Fund (in thousands)			
General	$4,529.7	$4,720.7	$4,790.1	$5,082.9	$5,279.7	$750.0	4.1%
Motor Vehicle Fuel	706.7	793.2	835.3	932.6	961.5	254.8	9.0
Motor Vehicle Transportation	139.7	136.5	126.4	130.1	135.2	–4.5	–0.8
School Building Aid	158.4	169.1	177.3	198.5	198.7	40.3	6.6
Aeronautics	--	--	13.6	43.3	50.6	50.6	136.1
Total	$5,534.5	$5,819.5	$5,942.5	$6,387.4	$6,625.7	$1,091.2	4.9%

State Controller—Continued

Table 3

Proposed 1967–68 Expenditures, by Division and Fund

Division	*General Funds*	*Special funds*	*Total*
Administration	$404,852	$41,878	$446,730
Accounting	687,995	50,197	738,192
Audits	605,745	157,473	763,218
Disbursements	1,604,221	----	1,604,221
Inheritance and Gift Tax	1,442,926	----	1,442,926
Local Government Fiscal Affairs	252,968	361,835	614,803
Tax Collection and Refund	46,835	734,550	781,385
Tax-Deeded Land	206,637	----	206,637
Subtotals	$5,252,179	$1,345,933	$6,598,112
Reduction of salary savings—unallocated	27,584	--	27,584
Total	$5,279,763	$1,345,933	$6,625,696

Increase to Recognize Full Workload Change

An undetailed "Increase to recognize full workload change, $103,826" appears on budget page 400, line 21, as an adjustment to the General Fund appropriation. Details of this adjustment are found in Table 4, by division. We have reviewed the justification underlying these requests and they appear justified.

Table 4

Detail of Increase to Recognize Full Workload Change During 1967–68, by Division

Division	*New Positions*	*Personal Services*	*Operating Expenses*	*Equipment*	*Total*
Administration			$1,187	$300	$1,487
Accounting			2,012	971	2,983
Audits	2.2	$16,207	763	906	17,876
Disbursements	4	21,926	13,564	5,963	41,453
Inheritance and gift tax	1	7,352		2,325	9,677
Local Government Fiscal Affairs				250	250
Tax Collection and Refund			2,225	100	2,325
Tax-deeded Land			91	100	191
Total	7.2	$45,485	$19,842	$10,915	$76,242
Reduction of salary savings		27,584			27,584
Grand Total		$73,069	$19,842	$10,915	$103,826

ANALYSIS AND RECOMMENDATIONS

Administration Division

This division supplies legal, research, personnel and accounting services plus general administrative direction for the seven other divisions of the agency. In addition, it furnishes assistance to the Controller pertaining to his duties as a member on various boards and commissions. Authorized 34.7 positions for the current and budget years, it has experienced no recent significant changes in function or staffing.

We recommend the deletion of the associate research analyst position, budget page 400, line 65, $12,588, further identified in the Salary Supplement page 374, line 27. The position is now vacant. It has been used

State Controller—Continued

to provide support directly to the Controller with respect to his responsibilities on various boards and commissions. This support could properly be the function of one of the two civil service-exempt positions appointed by the Controller, either the chief deputy controller (annual salary of $24,336) or the assistant deputy controller (annual salary of $18,008).

Accounting Division

Contained within this division are the following bureaus, listed with positions authorized over a three-year period.

Bureau	*1965–66*	*1966–67*	*1967–68*
1. Control Accounts	36.0	37.0	37.0
2. Financial Analysis	8.0	8.0	8.0
3. Unclaimed Property	10.0	10.2	10.2
Administrative—unallocated	4.0	4.0	4.0
Totals	58.0	59.2	59.2

1. Control Accounts

The Controller maintains the control accounts covering the approximately 160 funds in the State Treasury. Deposits into and withdrawals from these funds are examined for propriety and recorded in these accounts.

2. Financial Analysis

The Controller's office prepares an annual report of the state's financial affairs, together with related preliminary annual, semiannual, quarterly, and monthly reports, and compiles data for the apportionment to local agencies of various revenues from state sources and moneys received from the federal government. It also administers the Judges' Retirement System and estimates future cash receipts and expenditures under the Pooled Money Investment Program.

3. Unclaimed Property

Under this bureau the agency administers (1) the Uniform Disposition of Unclaimed Property Act, which requires the reporting and surrender of certain unclaimed and abandoned property, and (2) the laws relating to the estates of deceased persons, which require that estate assets that are unclaimed or for which no legal heirs exist shall escheat to the state.

Of the 10.2 positions budgeted in 1967–68, two positions are authorized for a compliance program under the Uniform Disposition of Unclaimed Property Act. They were first authorized for 1965–66, but continuing litigation has suspended their use. The agency expects resolution of the legal action in time for use of these positions in 1967–68.

Audits Division

This division contains two bureaus. Their staffing is summarized below by authorized personnel man-years:

Bureau	*1965–66*	*1966–67*	*1967–68*
Claim audits	37.0	37.0	37.0
Field audits	32.7	33.7	35.9
Administrative—unallocated	5.0	5.0	5.0
Totals	**74.7**	**75.7**	**77.9**

State Controller—Continued

1. Claim Audits

All state expenditures are audited prior to payment to establish that the charge is for an authorized purpose and that an appropriation exists from which the claim may be paid.

The following summary demonstrates increased output for the section:

	1965–66		1966–67	1967–68
	Estimated	*Actual*	*Revised*	*Proposed*
Audit positions	17	17	17	17
Claim schedules	183,522	179,590	184,080	188,682
Schedules per auditor	10,795	10,564	10,828	11,099

2. Field Audits

Funds advanced or paid to local agencies by the State Controller under various statutes establishing subvention programs are audited to determine that the records show proper accounting and disbursing of funds by local jurisdictions, including municipal and justice courts. In addition, an internal audit of each division of the State Controller's office is conducted as an aid to agency management.

Without the 2.2 new positions requested to recognize full workload change, the number of proposed local water project and community mental health (Short-Doyle) audits would have to be reduced. In addition, the bureau has been charged with responsibility for auditing two new subvention programs created by the Junior College Construction Acts of 1963 and 1965, and by the Legal Assistance to Indigents Act of 1965. The agency estimates that two positions should be expended for this new work alone. Since only two positions are requested, however, the agency may have to backlog audits in one or more of these areas. The two auditor I positions and the 0.2 position of temporary help appear justified on a workload basis.

Disbursements Division

The Controller issues warrants drawn on the State Treasury and administers the uniform state payroll system. The three sections of this division contain the following number of authorized positions.

Section	*1965–66*	*1966–67*	*1967–68*
1. General disbursements	32	32	33
2. Payroll	126	127	129
3. Electronic data processing	14	14	15
Administrative—Unallocated	4	4	4
Totals	176	177	181

1. General Disbursements

Master controls are maintained over all state disbursements as well as separate daily controls of bank reconciliation, agency trust accounts and fund accounting transactions. The actual drawing of warrants is computerized and entirely accomplished in Sacramento.

Table 5 measures the achieved and projected output of this section.

State Controller—Continued

Table 5

General Disbursements Section—Output Units (in thousands)

Activity	1965–66 Actual	1966–67 Revised	1967–68 Proposed
Vendor disbursements	$1,226.6	$1,275.7	$1,326.7
Veterans' educational assistance	61.7	61.7	61.7
Motor Vehicle fuel tax refunds	77.0	65.4	65.4
Retirement roll payments	795.8	875.3	962.9
Unemployment compensation disability refunds	98.1	88.3	88.3
Total	$2,259.2	$2,366.4	$2,505.0

One additional intermediate clerk position is requested to recognize full workload change for use in the expanding retirement roll payments activity. This appears justified on a workload basis.

2. Payroll

The Controller's office makes salary and wage payments totaling $876 million for approximately 135,000 state employees. This section's activities include a preaudit of personnel transactions of state employees, and the maintenance of 25,000 U.S. Savings Bond accounts and the issuance of 16,000 bonds monthly. The amount currently budgeted for this section represents about 20 percent of the total agency budget or 127 personnel man-years.

The primary workload indicator to measure personnel needs is the number of payroll and position transactions. On the average, this factor has increased by 6 percent per year over the past three fiscal years.

Table 6 gives 1967–68 output based on a 6-percent projected increase and a 2-percent projected increase in the savings bonds issuance output.

Table 6

Payroll Function—Output Units (thousands)

Activity	1965–66 Actual	1966–67 Revised	1967–68 Estimated
Payroll and position transactions	$1,580.1	$1,674.9	$1,775.4
Savings bonds issued	189.2	193.0	196.9
Total output	$1,769.3	$1,867.9	$1,972.3

Two additional positions are requested for this activity during 1967–68. These are requested on the basis that the workload will increase at the same rate as in the past three fiscal years. This workload in turn is directly related to the number of state employees in the payroll system and since present indications are that there could very well be no increase in this number we do not believe the positions are justified.

We recommend deletion of two intermediate account clerk positions for the disbursements division included in the increase to recognize full workload change, budget page 400, line 21, $9,048, plus related costs.

State Controller—Continued

reasonably be expected to perform the service as a part of their obligation to their customer.

The financial aspects of this proposal are that the state would experience a total gain of over $1,665,000 per year by abolishing commissions paid to county treasurers, gift and inheritance tax fees paid to appraisers, and by receiving inheritance tax receipts at an earlier date.

The components of this gain are as follows:

Source	*Amount*
County treasurer commissions (decrease in cost)	$720,000
Inheritance and gift tax appraisal fees (increase in revenue)	195,000
Interest value of earlier receipt of taxes (increase in revenue)	750,000
Total	$1,665,000

From this total gain the state would have to deduct the cost of policing the self-assessed returns, and to give consents to transfer property which are now handled by the county treasurers. No reliable estimates of these additionals costs are available at this time, but they probably would range between $500,000 and $750,000 per year. Therefore, the net gain to the state from the self-assessed method would probably range between $915,000 and $1,165,000 per year. These costs and savings are the so-called full year effects and they will not be realized in 1967–68, even if this program is adopted, because it will take approximately two years to phase out the existing appraiser system.

If the existing probate appraisal fees paid to inheritance tax appraisers under Section 609 of the Probate Code are continued in effect and transferred to the General Fund, the state would gain an additional $4 million in revenue per year. If these fees are abolished the estates would save this amount which would be, in effect, a tax reduction of $4 million.

We recommend that state compensation to inheritance tax appraisers under Section 14772 of the Revenue and Taxation Code be discontinued immediately.

Inheritance tax appraisers, who serve as court appointed appraisers for both inheritance tax and probate purposes, are compensated from two sources:

(1) Fees paid by the individual estate, calculated according to the gross value of the estate (Probate Code Section 609), which amounted to $3,445,000 as reported by the appraisers for calendar year 1965.

(2) Fees paid out of the state's inheritance tax receipts (Revenue and Taxation Code Section 14772). These fees are based on claims which must be approved by the Controller and are calculated on a quarterly cumulative basis by the Controller. Total Section 14772 fees of about $190,000 are paid annually. These fees represent only 5.5 percent of the appraiser total gross income from both sources.

Section 14772 fees are distributed as follows:

(1) The appraiser determines a fee in each estate, the amount of which depends upon the taxable value of the estate and the county in which it is located.

State Controller—Continued

(2) Quarterly claims submitted by the appraisers are determined on the basis of the appraiser's prior calendar year gross income. Appraisers with gross earnings over $17,500 are limited to an annual total of $400 in Section 14772 fees. Those below $17,500 earn up to a maximum of $3,200 annually.

Existing law, Revenue and Taxation Code Section 14771, provides that "The Controller shall appoint at least one person in each county to act as an inheritance tax appraiser for the county . . ." We believe that the wording of this section does not necessarily preclude the Controller from appointing the same individual to act as the appraiser in more than one county.

Section 14772 of the Revenue and Taxation Code reads as follows:

> "For the services performed by him pursuant to this part, the inheritance tax appraiser shall be paid out of the inheritance tax money in the hands of the treasurer of the county in which he acts:
>
> "(a) Such reasonable compensation as the superior court of the county, or a judge of that court, shall fix.
>
> "(b) Such actual and necessary traveling and other incidental expenses, including fees paid to witnesses subpenaed by him, as the court or judge shall allow.
>
> "No payment shall be made unless the claim for payment is first approved by the Controller.
>
> Any payment under this section is in addition to any other payment to the appraiser pursuant to Section 609 of the Probate Code."

We believe it would be possible for the Controller to terminate all compensation to appraisers under this section of the law by simply refusing to approve any claims.

While it is our view that the foregoing changes could probably be effected immediately by administrative action of the Controller we would further recommend that if our major recommendation is not adopted the law should be changed to accomplish these purposes.

Table 9 shows the amount for 1965 of Section 14772 fees within the various gross income classes.

Table 9

Amount of Section 14772 Payments, by Gross Income Class

Gross income class	*No. of appraisers*	*1965 Sec. 14772 fees*	*Percent of total fees*
$50,000 and over	12	$3,700	2.2%
40,000–49,999	22	9,117	5.5
30,000–39,999	30	22,600	13.6
20,000–29,999	19	27,708	16.7
10,000–19,999	27	55,981	33.7
0– 9,999	40	46,927	28.3
Totals	150	$166,033 *	100.0%

* Does not conform to actual cash disbursement for the same period due to lack of uniformity in reporting practices of appraisers.

Compensation under Section 14772 has been used by the Controller primarily to subsidize appraisers with lower gross earnings. These appraisers are primarily in the less populous and low workload counties.

State Controller—Continued

Appraisers with high probate earnings appear to have no need for additional assistance from the state. Appraisers with lower probate earnings, do not have sufficient workload to justify additional state assistance. If the Controller appointed appraisers on the basis of workload rather than geography, then the so-called problem of ''insufficient incomes'' would be largely eliminated.

We recommend that the annual appraisers' conference costs, budget page 404, line 28, be deleted for a General Fund savings of $3,500.

These conference funds are used to finance the travel and per diem expenses of the staff of the inheritance and gift tax division and inheritance tax appraisers in connection with an annual conference. Deletion of this appropriation is in line with our past policy of eliminating the appraisers' portion of this expense as an inappropriate expenditure for employees who are not state employees. It is also consistent with our policy option, in which the present inheritance tax appraiser system could be replaced by a system of self-appraisal.

2. Gift Tax

The gift tax is a levy upon the transfer of property and it supplements the inheritance tax. This tax is reported by the donor and the liability is determined by the agency. Almost all administration connected with this tax is conducted in Sacramento.

Table 10
Gift Tax Examiner Workload

	Estimated 1965–66	*Actual 1965–66*	*Original 1966–67*	*Revised 1966–67*	*Estimated 1967–68*
Gift tax returns	9,848	10,108	10,537	10,917	11,790
Gift tax audits	10,303	8,620	10,818	9,600	11,300
Gift tax examiners	5	5	5	5	6
Returns per examiner	1,970	2,022	2,107	2,183	1,965
Audits per examiner	2,061	1,724	2,164	1,920	1,883

Local Government Fiscal Affairs Division

Supported both by General and Motor Vehicle Fuel Funds, this division includes the following functions:

1. Financial reports—Reporting city, county and special district financial transactions and prescribing reporting procedures for counties and special districts.
2. Gas tax reviews—Administers provisions of the Collier-Burns Highway Act requiring local jurisdictions to report city and county streets and roads, financial transactions, and administers the fiscal audit provisions of the Collier-Unruh Local Transportation Development Act.
3. Uniform accounting and budgeting—Prescribes uniform accounting procedures for special districts and administers the laws relating to county budgets.

Table 11 indicates the distribution of staff by function, 1965–66 to 1967–68.

State Controller—Continued

Table 11

Distribution of Staff, Local Government Fiscal Affairs Division by Function 1965–66 to 1967–68

Function	*1965–66*	*1966–67*	*1967–68*
1. Financial reports	19.7	19.7	19.7
2. Gas tax reviews	15.1	15.1	15.1
3. Uniform accounting and budgeting	5.3	4.3	4.3
Administrative—unallocated	2.0	2.0	2.0
Totals	42.1	41.1	41.1

1. Financial Reports

This function includes the collection, compilation, publication and free distribution of the consolidated reports of the financial transactions of cities, counties, street and road construction of cities and counties, special districts, irrigation districts and school districts. To a large degree, the usefulness of these reports follows the development of uniform accounting procedures within the reporting jurisdictions.

2. Gas Tax Reviews

This function, which is supported by the Motor Vehicle Fuel Fund, consists almost entirely of auditing at the local government level. Its staff, and audits completed are shown in Table No. 12.

Table 12

Gas Tax Review, Man-years and Audits

	1965–66 Actual	*1966–67 Revised*	*1967–68 Proposed*
Collier-Burns Act			
Audits	1,259	1,400	1,400
Man-years	3.3	3.7	3.7
Audits per man-year	382	378	378
Collier-Unruh Act			
Audits	674	1,700	1,700
Man-years	6.4	10.4	10.4
Audits per man-year	105	163	163

The workload under the Collier-Unruh Act is dependent upon the number of engineering reports completed by the Division of Highways, with whom the Controller shares statutory responsibility for insuring the compliance of cities and counties.

3. Uniform Accounting and Budgeting

The Controller must devise and supervise the installation of uniform budgeting and accounting procedures for all counties, and prescribe uniform accounting and reporting procedures for special districts other than school districts. Also included in this function is the certification of irrigation and water district bonds and the semiannual settlement of state-county financial accounts.

Tax Collection and Refund Division

The following summary shows the staffing of the two functions of this division:

State Controller—Continued

Function	*1965–66*	*1966–67*	*1967–68*
1. Tax collection	14.5	13.5	13.5
2. Gasoline tax refunds	58.7	59.7	59.7
3. Administrative—unallocated	2.0	2.0	2.0
Totals	75.2	75.2	75.2

1. Tax Collection

The Controller accounts for and collects delinquencies for several taxes assessed by other agencies, mainly the State Board of Equalization.

Table 13 demonstrates that 85 percent of the manpower is to be spent on collecting the motor vehicle transportation (truck) tax in 1967–68.

Table 13
Distribution of Personnel Man-years, Tax Collection Function, 1967–68

	Man-years	*Percent of total*
Truck tax	11.5	85.2
Motor vehicle fuel (gas) tax	.5	3.7
Insurance tax	1.0	7.4
Petroleum and gas tax	.5	3.7
	13.5	100.0

This function utilized four tax representatives in a field capacity. All four are used in truck tax collection.

We recommend that the tax collection function of this division be transferred from the State Controller's office to the State Board of Equalization, and the 13.5 authorized positions abolished. Implementation of this recommendation would save approximately $17,000 in General Fund expenditures, $135,000 in Motor Vehicle Transportation Tax Fund expenditures and an undetermined amount from Motor Vehicle Fuel Fund expenditures during 1967–68.

The State Board of Equalization is charged with administering the sales and use, use-fuel, cigarette and alcoholic beverage taxes. It also administers the truck tax, except for collections, and the gasoline tax, except for collections and refunds for nonhighway use. Respecting these latter taxes, the board receives tax returns, assesses the tax and audits taxpayers. The board is currently using 854 man-years in all phases of its tax compliance program. About 205 man-years are used statewide solely for the collection of taxes. Eighty-five positions are given to truck tax administration. Of these, 4.5 man-years are assigned to preliminary truck tax collection work. As a result of this extensive staff in compliance and collection activity, the Board of Equalization is well suited to absorb the Controller's tax collection work with no or a very modest increase in staff.

2. Gasoline Tax Refunds

The major part of the division's manpower is directed at the partially computerized processing of approximately 70,000 claims per year

State Controller—Continued

for refund of gasoline taxes paid by nonhighway users. Sales and use taxes are offset against these refunds. Thirty-one of the function's 59.7 positions perform a field audit on approximately 3,000 selected claims annually.

Tax-deeded Lands Division

This division works primarily with local officials in the field of property tax administration. However its objective is limited to preserving the local property tax base through restoration of tax delinquent properties to the local tax rolls. In seeking this objective, the division performs the following activities:

1. Receives from and maintains county tax collector lists of properties upon which real property tax payments are delinquent (referred to as "tax-sold" properties), a headquarters activity,
2. Receives and maintains abstracts of deeds upon real property where the delinquency persists for five years (referred to as "tax-deeded" property), a headquarters activity,
3. Encourages redemption of property by owners of tax-delinquent or former owners of tax-deeded lands, both a headquarters and field activity,
4. Advises county tax officials on procedures and the law pertaining to tax delinquent and deeded property, both a headquarters and field activity,
5. Leases and manages tax-deeded property, both a headquarters and field activity, and
6. Authorizes the public sale of tax-deeded property by counties, a headquarters activity.

The division, formerly organized as the Redemption Tax Division of the Office of the Controller in about 1895, has always kept records of delinquent and deeded properties. Due to the great volume of tax-delinquent property transferred to the state during the depression years of the 1930's, the division entered the field of property management in 1935. The size of the inventory of tax-deeded lands and the size of the staff for support given the division has steadily fallen in recent years as shown in Tables 14 and 15.

Table 14

Expenditures and Revenues,* Division of Tax-deeded Lands in Selected Fiscal Years

Fiscal Year	*Positions Filled*	*Expenditures*	*Income*	
			Rentals	*Fees*
1941–42	48	$103,475	$224,203	--
1946–47	49.7	180,984	77,630	$160,808
1951–52	37.5	192.709	25,548	247,057
1956–57	29	182,370	18,446	177,700
1961–62	23.1	204,002	20,370	223,443
1965–66	18.2	194,210	24,703	269,659

* Rental income is paid to counties; fees from redemption and sale are paid to the state.

State Controller—Continued

Table 15

Inventory of Tax-deeded Lands on Selected Dates

Year	*Acres*	*Lots*	*Miscellaneous*
Jan. 1, 1945	2,508,415	352,589	4,003
Jan. 1, 1950	1,294,042	195,957	3,942
Jan. 1, 1955	350,789	113,491	1,192
Jan. 1, 1960	148,712	58,951	1,203
June 30, 1966	81,518	30,710	4,571

The increase in redemption of delinquent property has kept pace with the increase in new delinquencies, thus keeping the annual number of deedings over the past four years relatively constant (about 4,000 per year).

Justification for the Division of Tax-deeded Lands

The personnel of the division is organized into a headquarters office in Sacramento and five field offices, located in San Bernardino, Los Angeles, Fresno, Oakland, and Sacramento as follows:

Nature of Position	*Number authorized 1966–67 and 1967–68*	*Number filled January 1, 1967*	*1967–68 expenditures*
Sacramento Headquarters:			
Chief of division	1	1	
Assistant chief	1	1	
*Clerical	7.0	7.0	
Temporary help	0.3	--	
Total—Headquarters	9.3	9.0	$95,520
Field Offices:			
District manager	5	4	
Clerical	4.5	4.5	
Total—Field offices	9.5	8.5	110,926
Division Totals	18.8	17.5	$206,446
Workload increase			$191

* 0.5 man-year of clerical support given to the Sacramento field district manager is physically located within the headquarters office.

A further cutback in staffing is contemplated in 1967–68. Legislation proposed by the agency, if enacted in the 1967 Session, would relieve it of most of the workload associated with record keeping for tax-delinquent property. Savings of 2.5 clerical positions are forecast in the headquarters office.

Headquarters Operation

Inasmuch as the state is the owner of tax-deeded real property, its present practice of recording it and approving it for public sale seems justified. The advice to local tax official activity is based on the need to maintain uniform county administration of the laws pertaining to tax-deeded property.

State Controller—Continued

Field Operation

The five field offices engage in the activities noted in Table 16 to the degree represented.

Its activities are grouped as follows, the extent of each being indicated by the percentage of time of field managers applicable thereto:

1. Restoring property to local tax base	76.7%
2. Advising county tax officials on law and administration	18.7
3. Miscellaneous	4.6
Total	100.0%

The first is further subdivided into (a) encouraging redemption of tax-deeded property and (b) managing tax-deeded properties.

Table 16 indicates the output for 1965–66 of the various activities conducted under each function.

Table 16

Field Office Functions, Output by Function, 1965–66

1. (a) Restoring property to local tax base by encouraging redemption of tax-delinquent property.

(1) Predeed letters prepared	3,842
(2) Public contacts (telephone, personal, letters sent)	2,032

1. (b) Restoring property to local tax base by managing tax-deeded properties.

(1) Properties visited	1,166
(2) Inspection reports completed	605
(3) Demand letters prepared	554
(4) Leases executed	42
(5) Public contacts (telephone, personal, letters sent)	3,048

2. Advising county tax officials on law and administration.

(1) Contacts with local officials:—telephone	874
—personal	3,367
—letters sent	265
(2) Deeds verified	4,129
(3) Cancellations of tax sales received	47

1. Restoring Property to Local Tax Base

The field offices operate to have property redeemed in two ways: (1) by sending out predeed letters to owners on the tax-delinquent lists just prior to the running of the five-year period; and (2) by managing tax-deeded property so as to encourage former owners to redeem.

It is our belief, supported by the following evidence, that the activities of the five field offices of the division are wasteful and ineffective in achieving the objective of restoration.

a. Encouraging redemption of tax-delinquent property. The agency contends that the 1965 mailing of 3,268 predeed letters to owners of about-to-be-deeded land resulted in 1,255 redemptions or partial payment of back taxes. The letter in question is a one-page form sent by ordinary mail to less than one-half of the properties on the predeed list. This letter duplicates a county notice required by Section 3358, Revenue and Taxation Code, to be sent by registered mail to all owners 21 to 35 days prior to deeding, which in turn supplements newspaper publication of predeed notices by the county. The agency's letter is intentionally timed to go out a week or two in advance of the county's mailing date. The "success rate" of the agency's letter is a calculation made by the agency's district managers based upon a subjective determination of which notice motivated the owner's redemption or payment action. It is clear that such statistics are self-serving and that the advantage of mailing a one-page form letter duplicating the county's notice is illusory. In any event, the mailing of a duplicate notice is no justification for the existence of district offices, as the mailing could be accomplished by the headquarters office.

b. Tax-deeded land management. The agency contends that its activity in sending out demand letters, visiting and inspecting the property, renting of property, and contacting former owners to encourage redemption prior to public sale, all aid in restoring the local property tax base.

(1) *Demand letters.* This one-page form letter informs the former owner that the title to the property and associated rights of ownership have been transferred to the state. The agency claims that 563 letters sent in 1965 resulted in 253 redemptions. Although surrender of the premises is demanded, rarely is the property occupied. Clearly, such a small volume of form letters could be distributed by the headquarters office at little cost.

(2) *Inspection, renting and contacting former owners.* It may be argued that the state has a legitimate interest in evaluating the location, nature, and value of its own land, and using it. However, there are only three things that can happen to the land: (1) it may be sold at public auction by the county and placed on the county tax roll, (2) it will lie dormant because it has no value, (3) it will be used by the state for its own purposes. A discussion of these possibilities exposes the fallacy of the present management pattern.

First, if tax-deeded land has value and can be sold at public auction, the county, as the party which stands to benefit, should have the primary job of evaluating the property to determine its tax potential. Table 15 shows that the urgency existing 30 years ago to restore the local tax base is long past, as inventory has greatly decreased. Table 17, a sampling of tax-deeded property made by this office, demonstrates the low tax potential of such property as remains. The county government has greater ability to determine value through its assessment machinery. In any event, it is the county and not the state which receives the delinquent taxes, interest and penalties thereon, rental receipts and proceeds from public sale.

Table 17

Sample of Assessed Values on Tax-deeded Lands*, Improved and Unimproved, Sacramento and Los Angeles Districts, 1967

	Range of assessed values				
	$0–99	*$100–499*	*$500–2,499*	*Over $2,500*	*Total No.*
Number of properties in sample:					
Sacramento district (17 counties)	32	23	9	4	68
Los Angeles district (4 counties)	41	14	10	2	67
Total, by value category	73	37	19	6	135
Percent of total	54.1	27.4	14.1	4.4	100%

* Random sample of lands selected from files of tax-deeded lands (1/20 of Sacramento district properties; 1/18 of Los Angeles district properties).

Second, no legitimate argument can be made on behalf of managing property which has no value or little value. Table 17 demonstrates that about 80 percent of tax-deeded property is assessed at less than $500. The sample also showed that only 20, or 15 percent, of these properties have improvements. Of these improved properties, 11 were assessed at less than $500, indicating that they are not occupied by dwellings. Lacking improvements and tenants, it is obvious that the bulk of tax-deeded property requires little or no management.

Third, use of the lands by the state is not profitable. Rental income is negligible (see Table 14) and is paid to the county. Demand for use of such properties by third parties is low. If, in the unlikely event the state acquires a special use for such property, a member of the headquarters staff (or any qualified state employee, for that matter) could inspect the property.

2. Advice to County Officials

Data previously presented in this analysis shows that approximately 20 percent or one man-year of the five district managers' time is given to assisting local tax officials. Much of this time is spent in travel. There appears to be justification for continuing the advice function but we believe this activity should be centered in the headquarters office.

RECOMMENDATION

The five district offices should be abolished, for a savings to the General Fund of $103,436.

Expenditures	*Amount*	*Budget Page*	*Budget Line*
Salaries and wages			
5 district managers	$52,884	406	32
1 senior clerk	6,360	406	32
2.5 intermediate stenographers	14,796	406	32
1 intermediate typist-clerk	5,181	406	32
Subtotal	$79,221		
Operating expenses	$24,215	406	41
	$103,436		

State Controller—Continued

Of field office operating expenses, $2,000 has been retained to fund the increased travel of headquarters personnel for advice to local tax collectors. It should also be noted that our recommendation leaves untouched 0.5 clerical position in the headquarters office devoted to field operations. This extra manpower may be used by the headquarters office to meet whatever extra workload results from closing of the field offices.

Recommendation That Division Be Transferred

The Division of Tax-Deeded Lands is the smallest within the agency, proposing to utilize but 18.8 man-years in 1967–68. The Controller's office has stated its plans to introduce legislation further reducing the headquarters staff by 2.5 positions. If the recommendations of this office are adopted respecting district offices, the staff will be further reduced by 9.5 positions to 6.8 positions. The division has become so small in size and function that the need for its transfer is manifest.

It is our recommendation that the division, with such staff and funding as is ultimately budgeted for 1967–68, be abolished as a separate division within the Controller's office, and be transferred to the Assessment Standards Division in the State Board of Equalization.

The Assessments Standards Division in the State Board of Equalization is assigned the responsibility of assisting and advising county assessors in property tax matter. It is authorized 36 positions in the current year. Members of this office travel to county assessors' offices to give advice and assistance.

The range, contact with county officials, and advisory function of the board's present personnel are ideal conditions favoring the immediate absorption of the tax-deeded land program.

STATE CONTROLLER

ITEM 105 of the Budget Bill **Budget page 400**

FOR SUPPORT OF THE STATE CONTROLLER FROM THE MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested	$135,178
Estimated to be expended in 1966–67 fiscal year	130,091
Increase (3.9 percent)	$5,087
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS AND RECOMMENDATIONS

This appropriation is for the cost of collecting the Motor Vehicle Transportation (truck) tax. We have recommended to the Legislature, in our discussion of Item 104, that the function of collecting this tax be transferred to the State Board of Equalization. If this is done, then it is our further recommendation that the appropriation under this item be eliminated.

STATE CONTROLLER

ITEM 106 of the Budget Bill — Budget page 400

FOR SUPPORT OF THE STATE CONTROLLER FROM THE MOTOR VEHICLE FUEL FUND

Amount requested	$961,528
Estimated to be expended in 1966–67 fiscal year	932,633
Increase (3.0 percent)	$28,895
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS AND RECOMMENDATIONS

This appropriation is for administering the gasoline tax audits and gasoline tax refund functions, the details of which are included under Item 104.

We recommend approval.

STATE CONTROLLER

ITEM 107 of the Budget Bill — Budget page 400

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

Amount requested	$198,661
Estimated to be expended in 1966–67 fiscal year	198,491
Increase (0.1 percent)	$170
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS AND RECOMMENDATIONS

This appropriation covers the auditing and accounting of the expenditures of school districts for property financed by state loans under the State School Building Aid Program. These activities are included under Item 104.

We recommend approval.

STATE CONTROLLER

ITEM 108 of the Budget Bill — Budget page 400

FOR SUPPORT OF THE STATE CONTROLLER FROM THE AERONAUTICS FUND

Amount requested	$50,566
Estimated to be expended in 1966–67 fiscal year	43,304
Increase (16.7 percent)	$7,262
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS AND RECOMMENDATIONS

This appropriation covers the auditing and accounting activities for the airport asistance program, which are included under Items 104.

We recommend approval.

BOARD OF EQUALIZATION

ITEM 109 of the Budget Bill **Budget page 408**

FOR SUPPORT OF THE BOARD OF EQUALIZATION FROM THE GENERAL FUND

67-68

Amount requested in Budget Bill		$18,598,304
Budget request before identified adjustments	$19,957,209	
Increase to recognize full workload change	707,573	
Budget as adjusted for workload change	$20,664,782	
Adjustment—undetailed reduction (10 percent)	2,066,478	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		$532,891
BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING		$1,533,587

Summary of Recommended Reductions

	Amount	*Budget Page*	*Budget Line*
Administration			
Delete 1 intermediate typist-clerk	$4,980	408	15
Business Taxes			
Delete 1 tax auditor III	11,412	408	15
Delete 12 intermediate clerks	59,760	410	20
Delete 4.6 auditor-student trainees	30,500	410	11
Reduce reimbursements to Department of Harbors and Watercraft	41,193	410	41
Delete 30 district auditor postions	299,730	410	28
Property Taxes—AB 80			
Delete 1 out-of-state auditor III	11,412	408	15
Delete 1 senior real property appraiser	13,212	408	15
Delete 1 associate real property appraiser	10,872	408	15
Place existing training staff on reimbursable basis	38,408	411	10
Delete 1 associate administrative analyst	11,412	408	15

The creation of a Department of Revenue could result in substantial administrative savings in future years.

GENERAL PROGRAM STATEMENT

The board is composed of four elected members from areas known as equalization districts and a fifth ex officio member, the State Controller. While the board establishes overall policy, each district member has a statutory obligation (Government Code Section 15623) to investigate, only within his district, the administration, enforcement and operation of all tax laws administered by the board. The executive secretary, under the policy guidance of the board, directs the staff of this agency which is equivalent to 2,365 full-time positions during the current fiscal year.

The board has five general areas of responsibility:

1. To administer or participate in the administration of the business and property taxes shown in Table 1.
2. To effect intercounty equalization of locally assessed property subject to ad valorem taxation.
3. To value public utility and railroad properties and then to apportion the values among local property taxing districts.
4. To partially supervise (the extent was broadened by AB 80 of the 1966 First Extraordinary Session) the activities of county assessors.

Board of Equalization—Continued

5. To serve as an appeals body from the decisions of the Franchise Tax Board in personal income and franchise tax cases.

Table 1 shows the state taxes collected by the board, the net (after deduction of reimbursements for collecting the local sales tax) board costs of administering these taxes, and the ratio of costs to revenue. The data in this table indicates that the least expensive business tax is the levy on gasoline which is collected primarily from manufacturers. By contrast, the most expensive tax is the levy on for-hire truck operators where the costs consume over 5 percent of the revenue. These cost figures do not include the expenses of the State Controller's office which participates in the administration of the truck tax and the gasoline tax. This table also indicates that the board spent more in its property tax programs before AB 80 (Ch. 147, 1966 1st Ex. Sess.) than it collected from the private car tax which is a property tax levy on railroad cars used in this state but not owned by the railroad companies.

Table 1

The Cost and Revenues of Tax Programs Administered by the Board of Equalization, 1965–66

Tax program	*State revenue (thousands)*	*Net board costs (thousands)*	*Cost as a percent of revenue*
1. Business taxes			
Retail sales and use	$1,096,309	$15,149	1.38%
Gasoline	529,844	243	.05
Cigarette	74,578	519	.70
Alcoholic beverage	69,323	307	.44
Use fuel	31,261	840	2.69
Truck	17,607	959	5.45
Income and franchise tax appeals	--	114	--
Subtotal	$1,818,922	$18,131	1.00%
2. Property taxes			
Intercounty equalization	--	$1,026	--
Assessment of public utilities	--	732	--
Supervision of assessors	--	518	--
Private car tax	2,205	64	2.90
Subtotal	$2,205	$2,340	106.12%
Total	$1,821,127	$20,471 *	1.12%

* This figure differs slightly from budgetary totals because of rounding and a small amount of reimbursements which were not deducted.

Table 2 shows a five-year comparison of the board's staff and expenditures. A large part of the staff increases during 1965–66 and 1966–67 in the administration and business tax divisions resulted from the enactment of AB 1, Ch. 2, of the 1965 First Extraordinary Session which provided for the prepayment of sales taxes. The enactment of AB 80, 1966 First Extraordinary Session, is responsible for an increase of nine positions in the property tax department in the current and budget years. However, the major part of the new staff to administer AB 80 is not shown in this table, but is included in Table 3 which details the proposed increase to recognize full workload change.

Board of Equalization—Continued

Table 2

Board of Equalization's Budgets—a Five-Year Comparison of Staff and Expenditures

Department or division	*Man-years* *1963–64*	*1964–65*	*1965–66*	*1966–67*	*1967–68* [1]	*Increase 1967–68 over 1963–64*
Administration	284.9	280.2	305.4	317.5	316.7	31.8
Business taxes	1,838.5	1,830.0	1,859.9	1,883.7	1,878.4	39.9
Property taxes	154.1	153.8	157.3	163.4	166.7	12.6
Total	2,277.5	2,264.0	2,322.6	2,364.6	2,361.8	84.3
By funds	*Expenditures (millions)*					*Percentage increase* [2]
General	$15.8	$16.5	$18.3	$19.7	$20.0	26.1%
M.V. transportation	1.0	1.0	1.1	1.1	1.1	10.0
M.V. fuel	1.0	1.0	1.0	1.1	1.2	19.4
Total	$17.8	$18.5	$20.4	$21.9	$22.3	24.8%

[1] Does not include "increase to recognize full workload change."
[2] Computed before rounding of expenditures.

Table 3 shows the distribution of the lump sum item in this budget which is entitled "increase to recognize full workload change." This data indicates that about 73 percent of this increase, or $517,081 will be used to support the new activities assigned to the board by the enactment of AB 80. These workload changes will be examined in the appropriate program segments in the next part of this analysis.

Table 3

Distribution of the Increase to Recognize Full Workload Change—1967–68 Budget

Organizational unit	*New positions*	*Workload expenditures* *Personal services*	*Operating expenses*	*Equipment*	*Total*
Administration	2.7	$13,410	$31,868	--	$45,278
Business taxes	11.0	79,450	51,987	$13,777	145,214
Property taxes AB 80	23.5	331,267	163,675	22,139	517,081
Total	37.2	$424,127	$247,530	$35,916	$707,573

Reapportionment

One of the major issues facing the board in 1967 will be the question of reapportioning the four equalization districts on a population basis. Section 9 of Article XIII of the Constitution provides that the ". . . . Legislature shall have the power to redistrict the state into four districts as nearly equal in population as practical. . . ." There has been one redistricting since the board was created in 1879, and that occurred in 1923 when the board had a staff of six and a budget of $37,000. From the data in Table 4 it is obvious that there are wide disparities in the population among the four present districts.

Board of Equalization—Continued

Table 4

Estimated Population of the Board of Equalization Districts, July 1, 1966

Equalization district		*Number of*	*Population*	
Number	*General area*	*counties*	*Number*	*Percent*
1	Central coastal counties, including San Francisco, San Mateo and Santa Clara	7	2,679,000	14.0
2	Central counties, including Alameda, Contra Costa and Sacramento	18	3,890,400	20.3
3	Northern counties, including Marin, Sonoma, Napa, Solano and Yolo	25	1,448,100	7.5
4	Southern counties, including Los Angeles, San Bernardino and San Diego	8	11,176,900	58.2
	Total	58	19,195,000	100.0%

In the fall of 1966, a three-member federal district court held a hearing on the question of reapportionment of the board. The court did not issue a reapportionment order at that time. However, the court stated that it had jurisdiction over the case and that a final decision will be made after its October 27, 1967 hearing on this matter.

Twenty days prior to this hearing, attorneys for both the plaintiff and the defendant are required to file status reports with the court indicating what actions, including any by the Legislature, have taken place during the interval. The inference of this order is that if the Legislature does not reapportion the board before October 1967, then the court might take such action.

A substantial change in equalization district boundaries will disrupt the present administrative structure of the board. For example, the board has 10 business tax administrative districts but each of them is within a single equalization district. One of the reasons for this arrangement is the Government Code section which requires the board member to investigate the administration of the tax laws within his district. It is very unlikely that new equalization district lines could be drawn which would:

(1) Maintain the practice of having administration districts entirely within their own equalization districts without increasing the number of administrative districts, and

(2) Keep economic areas within a single administrative district.

The Los Angeles County situation illustrates this general problem. The county has 36 percent of the state's population and it is part of one administrative district. If the county is divided between two equalization districts, then the board will be tempted to create new administrative districts which will increase state costs but this action would not increase the efficiency of the board's operation or the service to taxpayers. Also, the splitting of economic areas between administrative districts is not good management and undoubtedly would result in a loss of efficiency.

The problems raised by reapportionment focus attention on the inadequacies of our present structure for state tax administration and the desirability of establishing a centralized department of revenue.

Board of Equalization—Continued

As early as 1945 we pointed out the need for a centralized Department of Revenue for administration of state taxes, and have recommended creation of such a department on numerous occasions since that time.

On January 10, 1955, we pointed out to the Subcommittee on the Assembly Interim Committee on Government Organization that because major responsibility for administration of state taxes is shared by three independent agencies, the Board of Equalization, the Franchise Tax Board and the State Controller:

(1) It is questionable whether tax administration in California as such is truly responsible to the voter.

(2) It is unlike the tax administering structure of any other major state.

(3) It is devoid of any means for real central tax research.

(4) It is lacking in method for developing and presenting a unified plan for taxation on the part of the Governor or the Legislature.

(5) It is wasteful because of lack of centralized control and coordinated efforts.

At that time we made the following recommendations:

(1) A Department of Revenue be created headed by a director, appointed by the Governor with the approval of the Senate.

(2) A Board of Appeals and Equalization be established, consisting of three members serving on a full-time basis, to be appointed by the Governor with the consent of the Senate preferably for limited staggered terms.

(3) The Board of Equalization be abolished by constitutional amendment and all of its activities be transferred to the new department and appeals board.

(4) The Franchise Tax Board be abolished and its functions transferred to the new department.

(5) All tax functions of the Controller's office, including administration of inheritance and gift taxes, be transferred to the new department.

All of the foregoing recommendations except number 3 could be implemented by amendment to various statutes without a constitutional amendment, and such an alternative program would constitute a major step toward improved tax administration in California. Under the alternative program the Board of Equalization would be limited to activities in the property tax field, administration of alcoholic beverage excise taxes, the private car tax and assessment of the insurance tax.

While the Board of Equalization is the largest tax agency in state government at present we do not believe it would be an acceptable substitute for a Department of Revenue.

In the first place a board or commission while well suited to policy making and deliberative activities is not an effective administrative body because it tends to move slowly, conflicting positions of individual members can neutralize its effectiveness, and chiefly because individual members can evade responsibility by blaming other members for the body's shortcomings.

Board of Equalization—Continued

In the second place, a board, the members of which are elected by districts, is subject to the further defect of a fragmented type of administration on a district basis, with resulting lack of uniform treatment of taxpayers statewide.

In our view, any advantage to be gained by the transfer of any major tax responsibilities to the Board of Equalization from either the Franchise Tax Board or the Controller would be more than offset by the disadvantages which would result.

In December of 1964, the Executive Officer of the Franchise Tax Board stated, "It is a political reality that the people of the state hold the Governor and no one else *responsible* for proper tax administration whether he actually has *authority* over tax administration or not." At that time, this statement was made to support the creation of a Department of Revenue with a director appointed by the Governor. Today, the point is even more valid.

During the 1964 hearings on a Department of Revenue, conducted by the "Little Hoover Commission" and the Assembly Interim Committee on Government Organization, all of the major state tax officials, such as the State Controller, the Chairman of the Board of Equalization, the Director of Finance who is a member of the Franchise Tax Board and the Executive Officer of the Franchise Tax Board, agreed that a consolidated Department of Revenue was desirable, would result in better tax administration, and would be more economical.

A Department of Revenue, such as recommended here, would administer a total annual expenditure program of approximately $40 million with a staff of approximately 4,000, if all existing functions of the Board of Equalization are included. If the constitutional activities of the Board of Equalization are excluded the department would expend approximately $37.3 million annually with a staff of approximately 3,800. In our opinion the creation of a Department of Revenue on either basis would result in substantial administrative savings when its activities have become properly integrated, probably a minimum of at least $1 million per year.

ANALYSIS AND RECOMMENDATIONS

Administration

This division provides executive, staff and support services to the entire board. A distribution of the staff is shown in Table 5. These man-year figures differ slightly from budgetary totals because they include an adjustment for the 2.7 positions (Table 3) added for workload change, and they are allocated on the basis of where the positions actually work rather than where they are assigned (i.e., an adjustment has been made for the temporary borrowing of positions between divisions).

Board of Equalization—Continued

Table 5

Distribution of Staff and Expenditures in the Administration Division

Units	*1965–66*	*1966–67*	*1967–68*
	Man-years		
1. Executive	20.9	20.5	20.5
2. Staff services:			
Legal	33.3	34.2	3.42
Internal audit	4.8	4.9	4.9
Personnel	11.4	11.7	12.6
Administrative analyst	8.8	8.8	8.8
Subtotal	58.3	59.6	60.5
3. Administrative services:			
Fiscal office	30.1	30.1	30.1
Statistics	8.2	8.0	8.0
EDP	103.3	112.7	113.6
General services	88.8	90.9	91.7
Subtotal	230.4	241.7	243.4
Total	309.6	321.8	324.4
	Expenditures (thousands)		
General Fund	$3,961	$4,319	$4,453
M.V. Transportation Tax Fund	213	157	161
M.V. Fuel Fund	205	182	189
Total	$4,379	$4,658	$4,803

Executive

This unit consists of the board members, their deputies, the executive secretary, the tax service specialist and related clerical positions. No change in the level of service is proposed.

Staff Services

About eight positions (both attorneys and clerks) in the legal unit work on appeals from the Franchise Tax Board. No change in the level of service is proposed for this unit, the internal audit or the administrative analyst units. The personnel unit is requesting one additional clerk (part of the workload change) to supplement the headquarters training staff which consists of a training officer, one existing full-time clerk and on occasions a clerk borrowed from the personnel section. The board contends the new position is needed because the regular workload is increasing and the personnel section will no longer be able to supply temporary help to the training activity.

We recommend disapproval of the new intermediate typist-clerk position ($4,980) for the training section, budget page 408, line 15.

If the workload justifies additional temporary help for this section, it could be obtained by borrowing from other units rather than creating a new position.

Administrative Services

The four units in this activity provide staff support for the entire agency. The activities of these units include budgetary development and

Board of Equalization—Continued

control, statistical reports, data processing services and such general services as cashiering, mailing and supply. One of the incidental tasks of the statistical unit is the preparation of the board's assessment of the gross premium and retaliatory taxes on insurance companies. The EDP unit is requesting one new keypunch operator ($5,100) on a workload basis. General Services is requesting an increase of .7 man-years of temporary help ($3,330). Both of these changes are part of the "workload increase." Based upon existing workload standards, *we recommend both of these positions be approved.*

Business Taxes

About 80 percent of the board's staff is assigned to the business tax department which administers the state and local retail sales taxes, the cigarette tax, alcoholic beverage taxes, the motor vehicle use fuel (diesel) tax, and participates in the administration of the motor vehicle fuel (gasoline) and motor vehicle transportation (truck) taxes. Table 6 shows that almost 90 percent of the business tax staff is devoted to the administration of the sales tax. This table also indicates that the staff for the other tax programs is rather stable.

The man-year figures in Table 6 and all subsequent tables in this section are based upon the board's time reporting system which allocates positions according to the time spent on various taxes. These figures also include the "workload" adjustments for 1967–68.

Table 6
Distribution of Staff and Expenditures in the Business Tax Program

	Man-years		
By tax	*1965–66*	*1966–67*	*1967–68**
Sales	1,644.6	1,668.9	1,677.0
Cigarette	8.6	8.7	8.6
Alcoholic beverage	22.2	22.4	22.3
Use fuel	73.0	73.5	72.9
Gasoline	20.3	20.4	20.3
Truck	84.9	85.5	84.8
Total	1,853.6	1,879.4	1,885.9
By fund	*Expenditure (thousands)*		
General Fund	$12,440	$13,202	$13,493
M.V. Transportation Tax Fund	868	916	937
M.V. Fuel Fund	836	951	977
Total	$14,144	$15,069	$15,407

* Includes adjustment for "increase to recognize full workload change."

Sales Taxes

The budget proposes 26.5 new positions for 1967–68 as shown in Table 7. Those shown in column (1) are detailed in the printed budget, while those in column (2) are included in the "increase to recognize full workload change."

Board of Equalization—Continued

The 12 junior clerk positions for districts, shown in column (1) were authorized by the 1966 Legislature for one year only, with a termination date of June 30, 1967.

These are now proposed as new permanent positions for 1967–68.

We recommend disapproval of 12 junior-intermediate clerks ($59,760) for the districts, budget page 410, line 20.

We have had a disagreement with the board for several years over the staffing pattern and standards of field compliance positions (tax representatives and clerks). During the first six months of 1965, the board conducted a new time reporting study to determine what portion of the compliance staff's time was devoted to different activities, and based upon the results, the board was obligated to establish workload and staffing standards for the district offices. The results of this study were not available last year when we prepared our Analysis and when these 12 positions were authorized for one year only. The results still are not available. In the absence of these results, we cannot recommend approval of any additional positions for this activity.

Table 7
Proposed New Positions in the Business Tax Department, 1967–68

Headquarters unit	*(1) Budget detail*	*(2) Workload increase*	*(3) Total*	*(4) Salaries and wages*
Audit				
Tax auditor II	--	2	2	$18,432
Office				
Tax auditor III	--	1	1	11,412
Tax auditor II	--	1	1	9,216
Tax representative	--	1	1	7,728
Intermediate clerks	--	3	3	17,430
Senior account clerk	--	1	1	5,772
Janitor	*—1.1*	--	*—1.1*	*—5,496*
Total headquarters	*—1.1*	9	7.9	$64,494
Districts				
Junior intermediate clerks	12	2	14	$69,720
Student auditors	4.6	--	4.6	30,500
Temporary help	--	--	--	*—500*
Total districts	16.6	2	18.6	$99,720
Total Business Taxes	15.5	11	26.5	$164,214

The 4.6 auditor-student trainee positions represent additional positions established as administrative adjustments during the current year and proposed for continuance on the same basis during the budget year. It is stated that the reason for this action is to facilitate recruiting, because of difficulty in filling auditor positions at higher levels. We have no objection to such a program but believe it should be conducted by downgrading existing vacant positions rather than by increasing the total number of authorized positions by 4.6 and the total appropriation by $30,500 as is proposed.

Board of Equalization—Continued

It should also be noted that the report to the Joint Legislative Budget Committee required by Section 20 of the Budget Act of 1966, covering positions which were continuously vacant during the period between 10-1-65 and 7-1-66 does not indicate any positions in the Board of Equalization in this category. This would appear to belie the statement that serious recruiting problems exist in the Board of Equalization.

We recommend deletion of 4.6 auditor-student trainee positions and $30,500, budget page 410, line 11.

We recommend disapproval of the new tax auditor III ($11,412) position for the headquarters office, budget page 408, line 15.

The justification submitted by the board does not warrant approval of this position. The board contends that a 46-man unit (return review) needs 3 section supervisors in addition to the unit head. However, the existing staffing pattern consists of three supervisors, although one of them is at a lower classification level than the proposed position. The board's problem evidently is one of classification rather than a new position.

We recommend that the other new positions in Table 7 be approved on a workload basis.

One of the features of AB 1 of the 1965 First Extraordinary Session was the imposition of the sales tax on the occasional (nonretail) sale of boats. The administration of this new levy, which produced $920,000 in 1965–66, is divided between the board and the Department of Harbors and Watercraft which is reimbursed ($82,259 in the budget year) by the board for its services.

This reimbursement supports about 10 positions in the department.

The board now proposes that the method of administering this tax be revised whereby it will assume a larger share of the responsibility with the result that the total cost of this program will be reduced.

We recommend approval of the board's proposal to change the method of administering the sales tax on boats. Their proposal would involve the following:

1. A reduction from $82,259 to $14,462 in reimbursements to the Department of Harbors and Watercraft. This change would eliminate eight positions in the department.

2. An increase of four clerical positions in the board at a cost of $26,604 to assume the workload formerly handled by the department.

3. A net savings from these changes of $41,193 in the budget year.

An overall view of the manpower used to administer the sales tax is shown in Table 8. This information was developed by the board as part of its program budget material and it indicates that the auditing activity comprises almost 44 percent of the staff. Next in staff size is the registration of taxpayers. Most of the recent staff increases have been allocated to the registration and processing activities. This table also shows that the workload is fairly stable except for the registration figure in 1965–66 which is distorted because of the enactment of AB 1 with its prepayment features.

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Table 8
Administration of State and Local Sales Taxes

Activity	Man-years of staff 1965–66	1966–67	1967–68	Percentage distribution 1967–68
Registration of taxpayers	330.6	334.1	339.9	20.3%
Processing tax returns	185.3	191.2	197.9	11.8
Collections	186.6	191.6	190.5	11.4
Auditing	731.0	739.1	735.3	43.8
Administration	211.1	212.9	213.4	12.7
Total	1,644.6	1,668.9	1,677.0	100.0%
	Thousands of workload units			
Registration activity	277	255	255	
Tax returns and related material	1,770	1,781	1,789	
Field collections	44	45	46	
Audits	37	37	37	

Sales Tax Field Audits

During 1965–66, the board made about 37,000 sales tax field audits at a cost of $10,728,000. These audits produced $17,951,000 in net revenue or an average of $1.67 in revenue for each dollar of cost, as indicated in Table 9. This table also shows that the most productive audits were those made by the out-of-state auditors who constitute about 10 percent of the total auditing staff.

Table 9
Net Revenue per Dollar of Cost From the Sales Tax Field Audit Program

District	1961–62	1962–63	1963–64	1964–65	1965–66
Los Angeles	$1.90	$1.82	$1.50	$1.74	$1.56
San Bernardino	1.40	1.77	1.61	1.99	2.06
Marysville	1.34	1.71	1.61	2.04	1.90
San Francisco	1.30	1.39	1.05	.75	1.33
San Jose	1.35	1.26	1.27	.87	1.31
Oakland	1.80	1.22	1.40	1.42	1.35
Santa Rosa	1.19	1.16	.98	1.14	1.41
Sacramento	1.49	1.15	1.27	1.39	1.07
San Diego	1.03	.95	.56	1.15	1.06
Fresno	1.08	.95	1.13	1.21	1.23
Total in-state	$1.60	$1.53	$1.35	$1.49	$1.47
Out-of-state	3.48	2.80	4.62	5.53	3.19
Total	$1.78	$1.65	$1.65	$1.86	$1.67

It should be noted that the amounts in Table 9 are overall averages only. An examination of the detailed records on which these averages are based discloses the further fact that as to the instate audits completed in 1965–66 which produced an average of $1.47 in revenue per dollar of cost, about two-thirds of the total number, involving over 50 percent of the audit manpower expended did not result in sufficient additional revenue to cover their cost.

For many years we have studied in detail the productivity and workload of the sales tax field audit staff. From this study we conclude that: (1) The board has too many sales tax auditors, and (2) the board is

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allocating an excessive number of its auditors to the medium-size sales tax accounts. These conclusions are based upon the information in the next four tables which show:

1. During 1965–66, the board fulfilled its quota by auditing all of the large instate accounts (Table 10). However, this task was accomplished with 29.5 less man-years than estimated by the quota (Table 11). Since all of the large accounts are either audited, or reviewed and determined to be unprofitable for auditing, any manpower savings in this category automatically is transferred to other audit categories.

2. The board's original quota for the medium size instate accounts called for 12,309 audits (Table 10) in 1965–66 which represented about 30 percent of the eligible accounts. However, the actual coverage was 16,550 audits or 40 percent of the eligible list. This extra coverage was possible because manpower was shifted (Table 11) from other types of accounts.

3. On the average, the medium-size instate audits produced only $1.14 in revenue for each dollar of cost (Table 12). This was the lowest recovery of any of the audit categories, either instate or out of state. Despite this low recovery, the board allocated 45.5 percent of its instate audit manpower to the medium-size audits (Table 11).

4. Table 13 shows that four districts lost money on their medium audits during 1965–66 and three other districts were barely above the break-even point.

In our 1965–66 analysis, pages 462 to 466, we questioned the advisability of allocating over 45 percent of the board's instate audit manpower to the medium size accounts which at best are only marginal. *Therefore, we recommend that the instate field auditing staff be reduced by 30 positions for a savings of $299,730, budget page 410, line 28. Even with this reduction, the board would be able to audit 30 percent of the eligible medium-size accounts which was its quota in the last actual year.*

Table 10

Comparison of Sales Tax Field Audit Quotas and Actual Audits

	Number of Audits				
1. Instate only	*1964–65*	*1965–66*			*1966–67*
Type of sales tax account	*Actual*	*Quota*	*Actual*	*Difference*	*Quota*
Large	4,077	4,233	4,298	65	4,367
Medium	15,117	12,309	16,550	4,241	15,879
Small	7,073	5,584	6,413	829	6,093
Closeouts, etc.	7,166	3,956	7,291	3,335	3,798
Total	33,433	26,082	34,552	8,470	30,137
2. Out-of-state					
Type of sales tax account					
Large	326	616	459	*—157*	608
Medium	558	691	858	167	691
Small	268	301	497	196	204
Closeouts, etc.	498	677	556	*—121*	613
Total	1,650	2,285	2,370	85	2,116
3. Totals	35,102	28,367	36,922	8,555	32,253

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Table 11

Comparison of Sales Tax Field Audit Manpower Quotas and Actual Work

		Man-years			
1. Instate only	*1964–65*	*1965–66*			*1966–67*
Type of sales tax account	*Actual*	*Quota*	*Actual*	*Difference*	*Quota*
Large	132.6	164.7	135.2	*—29.5*	152.2
Medium	198.9	170.7	207.3	36.6	206.0
Small	67.3	56.1	63.1	7.0	60.4
Closeouts, etc.	46.1	48.4	49.5	1.1	47.4
Total	444.9	439.9	455.1	15.2	466.0
2. Out-of-state					
Type of sales tax account					
Large	19.2	40.1	23.4	*—16.7*	34.5
Medium	11.7	14.7	15.9	1.2	13.9
Small	4.1	4.6	7.7	3.1	3.6
Closeouts, etc.	7.1	11.4	7.7	*—3.7*	10.4
Total	42.1	70.8	54.7	*—16.1*	62.4
3. Totals	487.0	510.7	509.8	*—0.9*	528.4

Table 12

Analysis of Sales Tax Field Audits, by Type of Audit, 1965–66

1. Instate only					
Type of sales tax account	*Number of audits*	*Audit man-years*	*Audit cost*	*Net revenue*	*Revenue per dollar of cost*
Large	4,298	135.2	$2,865,647	$4,235,723	$1.48
Medium	16,550	207.3	4,393,360	4,987,743	1.14
Small	6,413	63.1	1,337,934	1,662,120	1.24
Closeouts, etc.	7,291	49.5	891,958	3,107,890	3.48
Total	34,552	455.1	$9,488,899	$13,993,476	$1.47
2. Out-of-state					
Type of sales tax account					
Large	459	23.4	$545,384	$1,693,686	$3.11
Medium	858	15.9	371,853	1,042,633	2.80
Small	497	7.7	178,490	452,154	2.53
Closeouts, etc.	556	7.7	143,783	769,654	5.35
Total	2,370	54.7	$1,239,510	$3,958,127	$3.19
3. Totals	36,922	509.8	$10,728,409	$17,951,603	$1.67

Table 13

Comparison by Districts of the Audit Staff and Net Revenue per Dollar of Cost of the "Medium" Sales Tax Audits, 1965–66

	Medium Audit Staff		
District	*Man-years*	*Percent of district staff*	*Revenue per dollar of cost*
Sacramento	8.0	45.7%	$0.92
San Jose	12.6	48.7	0.96
San Francisco	26.2	47.5	0.97
Oakland	16.1	42.4	0.98
Fresno	8.8	50.6	1.02

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Table 13—Continued

Comparison by Districts of the Audit Staff and Net Revenue per Dollar of Cost of the "Medium" Sales Tax Audits, 1965–66

	Medium Audit Staff		
District	*Man-years*	*Percent of district staff*	*Revenue per dollar of cost*
Santa Rosa	5.5	45.6	1.06
San Diego	9.6	41.3	1.08
Los Angeles	97.1	44.2	1.19
San Bernardino	15.4	47.4	1.27
Marysville	8.0	58.8	1.94
Total instate	207.3	45.5%	$1.14

Cigarette Taxes

This tax is collected by the sale of cigarette tax stamps or meter impressions to cigarette distributors. The sales are made through branch offices of the Bank of America which receives about $18,000 as a service fee. The board purchases the tax stamps from a vendor at an estimated cost of $442,000 in the budget year.

Table 14 shows the manpower and workload involved in administering this tax.

Table 14

Administration of Cigarette Taxes

	Man-years of staff		
Activity	*1965–66*	*1966–67*	*1967–68*
Registration of taxpayers	.8	.9	.8
Processing tax returns	5.3	5.3	5.3
Collections	.1	.1	.1
Auditing	2.0	2.0	2.0
Administration	.4	.4	.4
Total	8.6	8.7	8.6
	Number of workload units		
Registration activity	35	39	41
Tax returns	3,130	3,140	3,150
Collection activity	661	660	660
Desk and field audits	183	180	180

Alcoholic Beverage Taxes

Included in this category are the excise taxes on beer, wine and distilled spirits. Table 15 shows the manpower and workload involved in administering these taxes.

Table 15

Administration of Alcoholic Beverage Taxes

	Man-years of staff		
Activity	*1965–66*	*1966–67*	*1967–68*
Registration of taxpayers	2.5	2.5	2.5
Processing tax returns	8.7	8.9	8.9
Collections	1.4	1.4	1.4
Auditing	8.6	8.6	8.5
Administration	1.0	1.0	1.0
Total	22.2	22.4	22.3

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Activity	*Number of workload units* 1965–66	1966–67	1967–68
Registration activity	1,622	1,627	1,632
Tax returns	12,898	12,900	12,950
Collection activity	363	375	375
Audits	114	120	120

Motor Vehicle Use Fuel (Diesel) Tax

This tax consists of a $0.07 per gallon levy on diesel fuel used to propel motor vehicles on the highways. Table 16 shows the manpower and workload involved in administering this tax.

Table 16
Administration of Motor Vehicle Use Fuel Taxes

Activity	*Man-years of staff* 1965–66	1966–67	1967–68
Registration of taxpayers	27.4	27.5	27.3
Processing tax returns	11.7	11.9	11.8
Collections	7.8	7.9	7.8
Auditing	15.3	15.3	15.2
Administration	10.8	10.9	10.8
Total	73.0	73.5	72.9
Activity	*Thousands of workload units*		
Registration activity	15.7	16.4	17.2
Tax returns	133.5	128.4	123.1
Collection activity	2.3	2.4	2.5
Audits	.8	.8	.8

Table 17 shows the productivity of the use fuel audit program. One reason for the low yield of this program in 1965–66 was the unusually high rate of refunds especially in the San Francisco and Marysville districts.

Table 17
Motor Vehicle Use Fund Audit Cost and Revenue by Districts, 1965–66

District	*Audit* *Est. cost*	*Net revenue*	*Net revenue per dollar of cost*
Los Angeles	$51,986	$73,391	$1.41
San Francisco	6,230	*—16,664*	*—2.67*
Oakland	10,419	17,405	1.67
Fresno	20,263	17,772	.88
San Bernardino	7,924	12,479	1.57
San Diego	7,324	13,888	1.90
San Jose	9,178	10,709	1.17
Santa Rosa	10,805	8,517	.79
Sacramento	16,275	26,855	1.65
Marysville	17,529	*—22,364*	*—1.28*
Total in-state	$157,933	$141,988	$0.90
Out-of-state	$12,726	$10,181	$0.80
Total	$170,659	$152,169	$0.89

Motor Vehicle Fuel Taxes

This levy is more commonly known as the gasoline tax. It is imposed on the manufacturer or importer of gasoline. There are about 1,500 taxpayers subject to this levy, but nine major oil companies account for

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almost 90 percent of the taxes. The State Controller participates in the administration of this tax by collecting delinquencies and refunding the tax to certain nonhighway users.

Table 18 shows the manpower and workload involved in administering this tax.

Table 18

Administration of the Motor Vehicle Fuel (Gasoline) Tax

	Man-years of staff		
Activity	*1965–66*	*1966–67*	*1967–68*
Registration of taxpayers	1.1	1.1	1.1
Processing tax returns	9.4	9.5	9.5
Collections	.7	.7	.7
Auditing	7.1	7.1	7.0
Administration	2.0	2.0	2.0
Total	20.3	20.4	20.3
Activity	*Number of workload units*		
Registration activity	1,713	1,737	1,753
Tax returns	3,800	3,800	3,800
Collection billings	240	250	250
Audits	63	60	60

Motor Vehicle Transportation Tax

This levy is more commonly known as the "truck" tax. Vehicles using the highways to transport persons or property for hire are subject to this tax. The State Controller also participates in the administration of this tax by collecting delinquencies.

Table 19 shows the manpower and workload involved in administering this tax.

Table 19

Administration of the Motor Vehicle Transportation (Truck) License Tax

	Man-years of staff		
Activity	*1965–66*	*1966–67*	*1967–68*
Registration of taxpayers	36.0	36.2	35.8
Processing tax returns	9.6	9.7	9.7
Collections	4.5	4.5	4.5
Auditing	21.5	21.6	21.4
Administration	13.3	13.5	13.4
Total	84.9	85.5	84.8
Activity	*Thousands of workload units*		
Registration activity	20.4	20.9	21.7
Tax returns	124.9	114.5	104.0
Collections billings	1.0	1.0	1.0
Audits	1.0	1.0	1.0

Property Taxes

The property tax program consists of (1) advising and assisting county assessors to promote uniform local property tax assessment practices throughout California, (2) conducting sample appraisals in the counties and trending the results of past appraisals to ascertain if a proper degree of intercounty equalization exists, (3) assessing public utility and railroad properties and then apportioning the values among

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the counties, and (4) assessing and collecting property taxes on private railroad cars. Table 20 shows the distribution of manpower among these activities. The information in this table is a composite which includes the existing manpower in the property tax department, plus the new manpower for tax legislation (AB 80) which is shown on page 411 of the budget, and in addition it includes the new workload positions for AB 80.

Table 20
Distribution of Staff in the Property Tax Program

	Man-years		
Activity	*1965–66*	*1966–67*	*1967–68*
Supervision of assessors:			
Publications	8.2	8.8	8.6
Training and certification	5.4	5.8	9.6
County surveys	1.2	1.3	9.2
Special services	9.7	11.7	12.2
Administration	7.7	8.5	10.0
Subtotal	32.2	36.1	49.6
Intercounty equalization:			
Sample selection	.7	.9	.9
Property appraisals	54.7	55.2	59.5
Administration	8.1	8.8	9.9
Subtotal	63.5	64.9	70.3
Assessment of Public Utilities:			
Computation of value indicators	1.8	1.8	1.8
Field and office appraisals	18.3	18.3	18.1
Allocation of assessed values	16.7	16.7	16.4
Maintenance of tax code maps	15.4	15.6	15.1
Administration	5.4	5.7	6.6
Subtotal	57.6	58.1	58.0
Private Car Tax:			
Valuing, assessing and collecting tax	3.9	3.9	3.9
Administration	.4	.4	.4
Subtotal	4.3	4.3	4.3
Total Property Tax Department	157.6	163.4	182.2

A summary of all the new positions for AB 80 is contained in Table 21. Twenty-three and one-half of these positions are part of the workload change. An additional nine of these positions are detailed in the budget under tax legislation. The remaining five positions will be reimbursed. For simplicity, we have treated all of these AB 80 positions as if they were part of the property tax department. In reality, this is not the case. Some of the AB 80 positions will be assigned to the administration division, others will be assigned to the business tax department, and a third group, the office of appraisal appeals, will be a new organizational unit within the board.

Board of Equalization—Continued

Table 21

New Positions for the Support of AB 80 in the 1967–68 Budget

Activity	*Classification*	*Number*	*Salaries and wages*
1. Property tax administration			
	Chief of operations	1	$17,292
	Senior stenographer	1	6,066
	Property tax evaluator	1	13,212
	Subtotal	3	$36,570
2. Rules and regulations			
	Associate tax counsel	1	$14,568
	Senior real property appraiser	1	13,212
	Subtotal	2	$27,780
3. Restricted land appraisals			
	Associate real property appraiser	2	$22,014
4. Audit of out-of-state records			
	Out-of-state auditor III	1	$11,412
5. Appraisal review process			
	Senior real property appraiser	1	$13,212
	Associate real property appraiser	3	32,616
	Subtotal	4	$45,828
6. Office of Appraisal Appeals			
	Chief	1	$16,872
	Senior stenographer	1	5,916
	Real property appraiser	6	76,315
	Subtotal	8	$99,103
7. County surveys			
	Senior real property appraiser	1	$13,212
	Associate real property appraiser	5	54,360
	Associate administrative analyst	1	11,412
	Intermediate typist-clerk	1	4,980
	Subtotal	8	$83,964
8. Contract services to counties			
	Senior property auditor-appraiser	(1)	($13,212)
9. Welfare exemptions and property tax forms			
	Associate property auditor-appraiser	1	$10,872
10. Certification and training			
	Associate real property appraiser	(3)	($32,616)
	Intermediate typist-clerk	(1)	(4,980)
	Subtotal	(4)	($37,596)
11. Executive staff			
	Associate tax counsel	1	$14,568
	Associate administrative analyst	1	11,412

Board of Equalization—Continued

Table 21—Continued

New Positions for the Support of AB 80 in the 1967–68 Budget

	Classification	Number	Salaries and wages
	Intermediate typist-clerk	(1)	(4,980)
	Hearing reporter	½	4,938
	Subtotal	3½	$36,282
Total		37.5	$424,633
Reimbursed		(5.0)	($50,808)
Net additional staff		32.5	$373,825

Our analysis and recommendations concerning these new positions follow:

Property tax administration. The chief of operations would act as the deputy director of the property tax department and would assume day-to-day supervision over the three operating units. The clerical position would be assigned to the chief. The property tax evaluator would act as an internal auditor for the department. One of his main tasks would be to determine if the staff in the three operating units are following standard and uniform assessment practices. *We recommend approval of these three positions.*

Rules and regulations. AB 80 prescribes that the board shall issue rules and regulations governing the activities of county assessors and local boards of equalization. The number of regulations might total as many as 150, covering such areas as exemption procedures, valuation of property, tax situs, assessment procedures, and local equalization. *We recommend approval of the two new positions for this activity.*

Restricted land appraisals. AB 80 imposed the requirement that when farmland, timber or unimproved lots are assessed as part of the intercounty equalization appraisals, then a minimum of five comparable sales must be obtained to compare values. Prior to AB 80, only three sales were required. *We recommend approval of the two new positions for this activity.*

Audit of out-of-state records. The board is requesting one out-of-state auditor III position to audit the personal property tax records of firms which are part of the intercounty equalization sample. *We recommend disapproval of this new position for a savings of $11,412, budget page 408, line 15.* The board currently has 73 auditors in its out-of-state offices and this property tax workload shoud be absorbed by the existing staff.

Appraisal review process. This activity refers to the extra workload the intercounty equalization unit will experience as the result of longer conferences over appraisals with the county assessors and the new time required to explain contested appraisals to the staff of the Office of Appraisal Appeals. The board is requesting three associate appraisers for the above workload. A new senior appraiser is requested to act as a coordinator of all conference schedules. *We recommend approval of two associate real property appraisers, and disapproval*

Board of Equalization—Continued

of one associate appraiser ($10,872) and one senior real property appraiser ($13,212) for a savings of $24,084, budget page 408, line 15.

The essence of our recommendation is that the board should exercise a certain amount of control over the time devoted to conferences in order to prevent this activity from becoming an unmanageable drain upon their resources. We also suggest that the supervisors in the intercounty equalization unit be given the task of explaining contested appraisals to the staff of the Office of Appraisal Appeals. Regarding the senior appraiser position, we do not believe sufficient workload information was presented to justify this position.

Office of Appraisal Appeals. This is a new appeal body which shall review appeals from the county assessors concerning valuations made by the staff of the intercounty equalization unit. The board is requesting eight new positions to staff this activity. This request appears reasonable, but at this time it is almost impossible to estimate accurately the workload which might develop. *We recommend approval of these eight positions.*

County surveys. AB 80 requires the board to survey the operations and practices of each county assessor's office at least once every six years. Unlike surveys conducted in the past, the board now has the responsibility of critically evaluating the practices followed by the assessors. *We recommend approval of the eight positions for this activity.*

Contract services to counties. This position will coordinate the requests of county assessors to have the board audit business personal property tax statements. The cost of this service, including that of the coordinator, will be charged to the counties. *We recommend approval of this position.*

Welfare exemptions and property tax forms. The board's responsibility in this area was expanded by AB 80 and *we recommend approval of the position.*

Certification and training. AB 80 requires all county appraisers to receive at least 24 hours of training annually. The board also has the responsibility of certifying county appraisers. The cost of both of these activities will be charged to the counties which receive the service. *We recommend approval of the four new positions for this activity.*

However, the board has 3.5 existing positions which also are engaged in providing training services to the county assessors and their staffs. At the present time, no charge is made for these services. *We recommend that the existing training services be placed on a reimbursable basis for a net savings of $38,408, budget page 411, line 10.*

Executive staff. The 3.5 positions herein requested would be part of the administration division rather than the property tax department. *We recommend approval of the associate tax counsel, the intermediate stenographer and the one-half of a hearing reporter position. We recommend disapproval of the new associate administrative analyst ($11,412) position, budget page 408, line 15.* The workload information was not sufficient to justify this last position.

The property tax department is composed of the following three operating units.

16—87224

Board of Equalization—Continued

Operating units	*Program budget designation*
Assessment Standards Division	Supervision of assessors
Intercounty Equalization Division	Intercounty equalization
Valuation Division	Assessment of public utilities
	Private car tax

The distribution of manpower among these program units was shown in Table 20. A discussion of their activities follows.

Supervision of Assessors

Table 20 showed that 8.6 man-years were requested for publication work in the budget year. This work consists of revising material in the Assessors' Handbook which is a 2,100-page document dealing with all phases of assessment. Many of the revisions are caused by law changes or court decisions. In addition, the activity consists of preparing circular letters to the assessors on material which requires immediate attention. No signifiicant change is made in the staffing pattern for this activity.

The second activity is training which was expanded by AB 80, and a new duty of certifying county appraisers. Training takes three forms: (1) classroom instruction (2) field instruction and (3) special courses conducted to introduce new manuals or concepts. Under AB 80, all appraisers will have to receive at least 24 hours of training annually in order to retain their certification. The board may either conduct this training or approve the training conducted by others. The budget proposes that the certification function and part of the training be funded on a reimburseable basis. *We recommend that all of the cost of the training conducted by the board be reimbursed.*

The third activity is the survey of county assessors' offices. In the past, the board has devoted about one man-year to this work. AB 80 changed the basic concept of these surveys. In the future they will be in effect an internal audit of the county assessors' offices. For example, AB 80 provided that the board shall examine the extent to which intracounty equalization has been achieved. The proposed staff for this activity in the budget year was expanded to 9.2 man-years.

The fourth activity consists of providing special assistance to the county assessors. Included in this category are the review of property tax welfare exemptions, the board's assistance on timber maturity boards, and the use of such specialists as a petroleum and mining appraisal engineer, a valuation engineer, etc. to assist the counties on assessment problems.

Intercounty Equalization

The first activity consumes less than one man-year of staff time and it consists of selecting the appraisal sample, and trending the results of past appraisals to obtain current assessment ratios.

By law, the board is required to make appraisal surveys in each of the 58 counties at least once every three years. On the average, 300 appraisals are made in each county. The workload of this activity is expanding because of three factors: (1) AB 80 required more sales samples to be used when appraising land, (2) the county assessors are

Board of Equalization—Continued

requesting more time to review the board's appraisals because the results could have an effect on the local equalization hearings, and (3) the establishment of the new Office of Appraisal Appeals subjects this division's work to another review process. This activity has 59.5 man-years of staff in the proposed budget, which is an increase of 4.3 man-years over the current level. This increase could grow rapidly in the future if the assessors, the large taxpayers, and the Office of Appraisal Appeals, demand more time to review the results of these appraisals.

Assessment of Public Utilities

The first activity consists of computing indicators which are used to value the "unitary property" (i.e. the property which is part of the public utility system). These indicators include over 70 different cost indexes, each of which is applicable to a different class or type of utility or railroad property. Table 20 shows that 1.8 man-years of staff will be devoted to this task.

Field and office appraisals constitute the second activity. These appraisals serve two purposes: (1) they establish the basis for valuing nonunitary property (e.g. oil wells owned by a railroad) and (2) they provide information on unitary properties which facilitates the allocation of these values among the various counties. In the budget year, 18.1 man-years of staff will be devoted to this activity.

The third activity is the actual allocation of unitary values among counties and to the more than 20,000 tax code areas within the counties. This task would consume 16.4 man-years in the budget year.

Maps identifying the boundaries of all tax code areas in the state are prepared and updated annually to reflect boundary changes and the formation of new districts. This task will require 15.1 man-years in the budget year.

Private Car Tax

This activity consists of obtaining records from the railroad companies on the movement of certain railroad cars in and out of the state. The next step is to assess the tax liability and collect the proceeds which are estimated at $2.7 million in 1967–68. In the budget year, 3.9 man-years are requested for this activity.

BOARD OF EQUALIZATION

ITEM 110 of the Budget Bill — Budget page 408

FOR SUPPORT OF THE BOARD OF EQUALIZATION FROM MOTOR VEHICLE TRANSPORTATION TAX FUND

Amount requested	$1,098,737
Estimated to be expended in 1966–67 fiscal year	1,072,782
Increase (2.4 percent)	$25,955

TOTAL RECOMMENDED REDUCTION — None

ANALYSIS AND RECOMMENDATION

The Board of Equalization assesses and the State Controller collects the 1.5 percent gross receipts motor vehicle transportation license tax

Board of Equalization—Continued

on for-hire truck operators. This appropriation is to cover the board's cost of administering the tax, the details of which are included under Item 109.

We recommend approval as budgeted.

BOARD OF EQUALIZATION

ITEM 111 of the Budget Bill Budget page 408

FOR SUPPORT OF THE BOARD OF EQUALIZATION FROM THE MOTOR VEHICLE FUEL FUND

Amount requested	$1,165,945
Estimated to be expended in 1966–67 fiscal year	1,132,979
Increase (2.9 percent)	$32,966
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS AND RECOMMENDATION

The Board of Equalization assesses and the State Controller collects the motor vehicle fuel (gasoline) tax. The board assesses and collects the use fuel (diesel) tax. This appropriation is to cover the board's cost of administering these two taxes, the details of which are included under Item 109.

We recommend approval as budgeted.

DEPARTMENT OF FINANCE

ITEM 112 of the Budget Bill Budget page 414

FOR SUPPORT OF DEPARTMENT OF FINANCE FROM THE GENERAL FUND

Amount requested in Budget Bill		$3,679,605
Budget request before identified adjustments	$3,945,410	
Increase to recognize full workload change	143,019	
Budget as adjusted for workload change	$4,088,429	
Adjustment—undetailed reduction (10 percent)	408,824	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		$543,957
RECOMMENDED REDUCTION FROM APPROPRIATION REQUEST		$135,133

Summary of Recommended Reductions

	Amount	*Budget Page*	*Budget Line*
1 Deputy director, 1 clerk and related costs	$33,206	415	41
Special assistant, systems and ADP	22,808	415	41
Legislative bill, coordinator	13,217	414	13
6 existing auditors and related costs	76,500	415	68
4 new auditors and related costs	51,000	414	13
Economic development agency, entire amount	200,528	417	32
Planning office, 2 positions not established	23,139	417	39
Planning office, 8 positions, advance planning	88,299	417	39
Planning office, 4 positions, local planning	35,260	417	39
Total	$543,957		

GENERAL PROGRAM STATEMENT

The Department of Finance is headed by a director appointed by the Governor, at an annual salary of $30,319, the second-highest salary paid an administrative officer in the executive branch of state government. His appointment is subject to Senate confirmation (Government Code Section 1323).

Under the Constitution the Governor must submit a budget to the Legislature within the first 30 days of each regular session of the Legislature (Article IV, Section 12) and all state agencies are subject to the regulations and requirements with respect to the submission, approval and enforcement of budgets prescribed by law (Article XIII, Section 20). Prior to the November 8, 1966 amendments these provisions were in Article IV, Section 34, and Article IV, Section 1a respectively.

The Governor has delegated implementation of these responsibilities to the Department of Finance, and as further defined by various statutory provisions, including that in Section 13070 of the Government Code, they constitute the major responsibility of the Department of Finance. Section 13070 of the Government Code reads as follows:

> "The department has general powers of supervision over all matters concerning the financial and business policies of the State and whenever it deems it necessary, or at the instance of the Governor, shall institute or cause the institution of such investigations and proceedings as it deems proper to conserve the rights and interests of the State."

Other specific statutory responsibilities of the department are discussed later in this analysis under the functions to which they relate.

The Department of Finance has the following staff, assigned to the organizational units indicated in Table 1, for 1965–66 to 1967–68, including additional positions for 1967–68 to recognize full workload change.

Table 1
Staff, by Divisions, 1965–66 to 1967–68

Organizational unit	*Actual 1965–66*	*Authorized 1966–67*	*Proposed 1967–68*
Executive office	11.6	14	15
Audits Division	110.9	122.3	126.3
Budget Division	101.4	117.1	117.1
Economic Development Agency	0.2	10	10
Office of Planning	30.3	44	43
Program and Policy Office	8.3	10	10
Total	262.7	317.4	321.4

The increase of $143,019 to recognize full workload change shown on budget page 414 line 13 is distributed by organizational units as shown in Table 2, the distribution of expenditures being in part on an estimated basis:

Department of Finance—Continued

Table 2
Increase to Recognize Full Workload Change, 1967–68

Organizational unit	*New positions*	*Total expenditures*
Executive office	1	$22,089
Audits Division	4	74,015
Budget Division	--	29,036
Economic Development Agency	--	2,957
Office of Planning	--	13,856
Program and Policy Office	--	1,066
Total	5	$143,019

Except for the additional positions and their related costs, which are commented on later in this analysis, these increases appear justified on a workload basis.

ANALYSIS AND RECOMMENDATIONS

Executive Office

The executive office has the following staff as proposed for 1967–68.

Class	*Number of positions*	*Salary range*	*Total salaries*
Director	1	$30,319	$30,319
Deputy director	3	1,979–2,129	76,644
Assistant director, fiscal affairs	1	1,709–2,028	24,336
Special assistant, systems and ADP	1	1,550–1,884	22,608
Legislative bill coordinator	1	1,049–1,275	13,217
Secretary	1	599– 728	8,736
Secretary I	3	518– 629	22,434
Clerical and temporary help	4	377– 544	20,180
Total	15		$218,474

In addition to his other responsibilities the Director of Finance serves on a number of boards and commissions, the more important of which are the following:

Franchise Tax Board
State Lands Commission
Pooled Money Investment Board
Board of Administration, State Teachers' Retirement System
Board of Administration, State Employees' Retirement System
State Public Works Board
California Toll Bridge Authority
State Allocation Board

Of the three deputy positions, one is permanently stationed in Washington, D.C. We were informed by the former incumbent of this position that his primary responsibility was to function as a legislative advocate for California's interests in matters pending before Congress, and that he also served as liaison between the Governor and members of the California delegation in Congress.

The remaining two deputies and the assistant director, fiscal affairs, share in varying degrees in supervising the activities conducted by the Department of Finance.

Department of Finance—Continued

Prior to October 1, 1963 most of the service functions now performed by the Department of General Services were in the Department of Finance. During 1962–63 the Department of Finance had a staff of 2,927.5 with gross expenditures of approximately $37 million, including Service Revolving Fund activities, as compared with a total staff of 321.4 and expenditures of approximately $4 million as proposed for 1967–68. At the time the transfer of service activities to the new Department of General Services took place the deputy director position in the Department of Finance which had formerly had responsibility for supervising the service activities was retained in the Department of Finance. At that time we recommended deletion of the position, on the ground the reduced responsibility in Finance did not warrant its retention, but the position has never been deleted.

We are still of the opinion that one deputy director (exclusive of the position in Washington, D.C.) and the assistant director are sufficient to provide all needed top-level supervision and accordingly *recommend deletion of an existing deputy position and a related clerical position, budget page 415, line 41, $33,026.* These positions are further identified in the Salary Supplement, page 383, lines 54 and 58.

In January of 1967, the State Personnel Board approved specifications for a new civil service class, Assistant Director of Finance (Staff Services) with a salary range of $1,709–2,028, the same as that of the existing civil service class, Assistant Director of Finance (Fiscal Affairs).

The State Personnel Board job specification for the new class contains the following definition:

> "Under administrative direction, to advise and assist the Director and Deputy Director on specific complex administrative problems involving program planning, effectiveness, and development; as assigned, to coordinate and provide general direction to statewide and departmental special projects and studies which cross organizational lines; as delegated to act for the Deputy Director in his absence; and to do other work as required."

This position was filled on January 23, 1967, by the former director of the Department of General Services who, because of having formerly held a comparable civil service position had reemployment rights to such a job. The budget as presented makes no provision for such a position in either the current or budget year, and accordingly, as this is written, we have no basis for making any evaluation.

All we can say, at the present time, is that the establishment of this new position constitutes additional support for our previous recommendation for elimination of an existing deputy position.

The position, Special Assistant, Systems and ADP was created during 1965–66, as the result of a recommendation contained in a report entitled "Management Study of Automatic Data Processing in State Government," dated November 30, 1964, compiled by a task force within the executive branch of the state government (generally referred to as

Department of Finance—Continued

the Tieberg report). The recommendation contemplated a high-level position in the Department of Finance to advise the director in matters of long-range planning in connection with the development of data processing in state service as distinct from the service functions performed by the systems analysis staff in the Department of General Services in the same field.

In a report prepared by our office for the Joint Legislative Budget Committee, dated January 30, 1967, entitled "Automatic Data Processing in California Government," the following statement appears on page 52:

> "Actual accomplishments since implementing this concept appear to indicate that this may not have been a wise decision. No formal policy direction has been provided by the Department of Finance and no long-range master ADP plan exists today.
>
> It is difficult to understand the rationale behind the separation of service and planning. The Systems Analysis Office has been charged with the responsibility for approving departmental ADP plans, approving departmental ADP equipment acquisition procedures, and approving contracts to procure such equipment according to the State Administrative Manual. It would therefore seem that long-range ADP planning should be a function of the same office in order to insure uniform compliance by all operating units."

In view of the foregoing *we recommend deletion of the existing position of special assistant, Systems and ADP, budget page 415, line 41, $22,808*. This position is further identified in the Salary Supplement, page 383, line 56.

A new position, that of legislative bill coordinator, $13,217 is proposed for 1967–68 as a part of the increase to reflect full workload change.

The justification indicates that the position is needed in order that legislative bill analysis for the executive branch, some of which was formerly conducted in the Governor's office and some in the various operating sections in the Budget Division in the Department of Finance may be centralized in one spot. In the absence of any showing that the workload during 1967–68 will be any greater than that during the current general session *we recommend deletion of this position, budget page 415, line 13, $13,217.*

Audits Division

This division, as proposed for 1967–68, includes a total staff of 126.3, consisting of 119 professional and 7.3 clerical positions. Included in the professional staff are 4 positions contained in the "increase to recognize full workload change" of $143,019 shown on budget page 414, line 13, at a cost of $51,000.

The major workload of the division stems from Government Code Section 13294, an activity which accounts for about 70 percent of its workload. The remainder consists of a variety of activities including audits of district and county fairs, State Treasury cash and security counts, supervision of school district audits, review of University of

California accounts and assistance to other agencies such as the State Board of Control, Budget Division of the Department of Finance, Horse Racing Board, Attorney General, State Controller, etc. Government Code Section 13294 reads as follows:

> "The Department of Finance shall examine the books of the several state agencies as often as the director deems necessary, taking into consideration the work done by other auditors, including the internal auditors of the various state agencies, so that duplication of auditing effort may be minimized."

In the past, directors have taken the view that audits should be made on an average of not less frequently than once every two years, and if we accept this premise, and accept the fact that resulting workload generally is geared to total state expenditures, total state revenues, and total state employees, it would appear that some increase in staff might be warranted for 1967–68.

However, it appears to us that a considerable degree of flexibility is possible in assignment of a staff of this size, and that by such management devices as decreasing the frequency of audit, greater use of random sampling techniques, and greater selectivity, substantial increases in workload can be absorbed without any increase in staff.

We also took this position at the time the 1966–67 budget request of this division, which proposed an increase of 12 auditors, was before the Legislature, 6 of which were deleted by the Legislature. *We recommend deletion of six existing auditor positions, and related costs, $76,500, budget page 415, line 68.*

We also recommend deletion of the proposed four new positions, included in the increase for workload, budget page 414, line 13, $51,000.

Budget Division

The Budget Division of the Department of Finance, through the Director of Finance, assists in the preparation of the state budget. The division assists and monitors the budget requests of each agency in the formulation of a budget document and assists the Legislature in the evaluation of the Governor's Budget. Division staff attends budget hearings held by committees of the Legislature and explains and defends the appropriation requests contained in the budget.

During the fiscal year the division staff approves contracts, leases and other transactions or expenditures of state agencies, where Department of Finance approval is required by law. The division staff also passes on agency budgets or requests (other than for highway purposes) that are to be submitted to the federal government.

The financial and population research section of the division prepares population estimates and makes long-range population projections. This section is currently engaged in preparing a population projection of counties extended to the year 2000 based on recent research on intercounty and intracounty migration patterns. Under the city estimating program this staff supervises the preparation of city population estimates to be used in the apportionment of certain motor vehicle rev-

Department of Finance—Continued

enues. Other important responsibilities include the estimation of state revenue, principally tax revenues in reference to continuing tax programs and tax proposals. This section also drafts the Governor's Economic Report and compiles statistical information of economic interest that is published in the California Statistical Abstract issued once each year.

The Economic Development Agency

This agency was created by Chapter 1911, Statutes of 1959 and was given a broad legislative mandate to concentrate on four main areas of economic interest: "stimulate job creation, broaden state tax base; increase levels of income; and reduce burden of unemployment compensation."

The enabling legislation provided for the Governor to appoint a Commissioner of the Economic Development Agency subject to Senate confirmation. The commissioner heads the Economic Development Agency and serves as the Governor's principal economic advisor on matters pertaining to economic development. Under this legislation the Governor may also appoint one or more technical advisory committees to advise the commissioner in carrying out his functions. The memberships of these committees (or committee) may not exceed 20 members and the members are nominated by the commissioner.

The broad purview of the functions and responsibilities of the Economic Development Agency has presented difficulties in assessing the effectiveness of past programs undertaken by this agency. The inability of this agency to demonstrate the effectiveness of past programs resulted in criticism which culminated in the Legislature denying the budget request supporting the activities of the Economic Development Agency for fiscal year 1965–66.

Following a year of inactivity the Legislature authorized an appropriation of $190,000 for the current year. Of the total amount appropriated $40,000 was intended for the support of a council of economic advisors which would serve in an advisory role to the Governor.

The agency resumed activities in September 1966 when it first acquired professional staff and an assistant commissioner was appointed on a temporary basis. In October a new commissioner was appointed by the Governor to head the reinstated EDA and an activities plan proposal was formulated. The new commissioner's program consisted of the following major elements.

The agency was to function in a liaison role between state government and industry to bring about "close cooperation between various state agencies and the department in matters of special economic concern." In furtherance of this objective the Governor was to appoint a 20-member Governor's Commission on Economic Development that would be comprised of men having recognized business stature and representing a cross section of California industry. One of the functions of this commission would be to recommend legislative proposals that the commission feels would improve the business environment of the state.

The staff of the EDA was to handle ad hoc requests for information made by representatives of firms considering locating or expanding facilities in California. To assist the activities of the staff in this capacity the staff was to assemble an index of source material "relating to statewide and regional information." It was also proposed that the EDA contract for special studies on topics of interest to business and industry in California with the expectation that part of the costs of these studies would be paid for by interested industries.

The commissioner appointed by the Governor in October submitted his resignation to be effective December 31, 1966. At the time of the commissioner's resignation little progress had been made on the program outlined above, as both time and staff limitations prevented a successful initiation of an agency program. Neither the Governor's Commission on Economic Development nor the Council of Economic Advisors were constituted. At present the three professional staff members of the EDA are engaged in ad hoc assignments flowing from information requests made of the EDA and are beginning work in setting up a library of reference source materials.

Owing to the broad mandate of this agency and the individual stamp imposed by the Commissioner of the EDA because of the wide discretion he has in devising means to accomplish the broad objectives of the agency, we feel we have insufficient information on which the Legislature can make an evaluation in the absence of a commissioner. To continue the agency without a well-defined program that can be evaluated will amout to continuing an undirected effort which is likely to dissipate itself in terms of effectiveness.

We recommend the deletion of the proposed appropriation for the Economic Development Agency, budget page 417, line 32, $200,528.

The State Office of Planning

The State Office of Planning was established in 1959 (Chapter 1641, Statutes of 1959) within the Department of Finance and charged with two principal functions. The primary function was the preparation of an overall long-range development program for the state (the State Development Plan) and the secondary function was the administration of local planning studies financed jointly through local-federal planning study grants under the Urban Planning Assistance Program.

Federal matching grants for the long-range development plan of the state have amounted to over $2.6 million and have helped to finance over 100 major research studies that were to be used in the preparation of the State Development Plan.

The matching formula under the Federal Urban Planning Assistance Program for state comprehensive planning is a two-thirds federal and one-third state contribution for state planning purposes. The state's share of the funding of the state development plan has to a large extent been in the form of services. Various state agencies have contributed over $750,000 in services by providing research studies to the State Office of Planning. The Resources Agency has figured most prominently in these studies.

The State Office of Planning is headed by a Planning Officer who is appointed by the Governor at a yearly salary of $20,000. The legislation

Department of Finance—Continued

establishing the State Office of Planning also established a Planning Advisory Committee consisting of 11 members appointed by the Governor and serving at his pleasure. The Planning Advisory Committee provides policy guidance for the office but its principal function has been in providing approvals for local planning study applications.

The Planning Office has 44 positions authorized during 1966–67, as detailed in the Salary Supplement, page 384. It is proposed to continue the same positions during 1967–68 less the senior planner eliminated, budget page 417, line 43. Of the 44 positions authorized for 1966–67 a total of 10 had not been established as of February 10, 1967, as detailed in Table 3.

Table 3

Authorized Positions, 1966–67 and Positions Established at 2/10/67
(Salaries are as projected for 1967–68)

(1) Class	(2) Salary Range	(3) Authorized 1966–67	(4) Established 2/10/67	(5) Not established Number	(6) Not established Salary
Planning officer	$20,000	1	1	--	--
Assistant chief	1,214–1,476	3	3	--	--
Administrative assistant	1,049–1,275	1	--	1	$13,212
Senior planner	1,049–1,275	3	3	--	--
Associate level	863–1,049	12	6	6	68,058
Assistant level	711–863	7	6	1	9,927
Junior level	585–711	1	1	--	--
Trainee level	530–585	1	1	--	--
Senior delineator	677–823	1	1	--	--
Clerical	342–544	14	12	2	9,967
Total		44	34	10	$101,164

As of February 10, 1967, 4 of the 34 established positions were vacant, the planning officer, two assistant level positions and one clerical position.

One of the senior planner positions included in Table 1 is to be abolished as of June 30, 1967, as indicated on budget page 417, line 43.

Of the 10 positions not established, 8, the 6 associate planners and the 2 clerical positions were authorized by the Budget Act of 1966 for a federal project to be financed by a federal grant from the Economic Development Administration, U.S. Department of Commerce and are the 8 positions indicated on budget page 417, line 80. As this is written the grant has not been implemented.

The administrative assistant position has not been established because the funds have been used to finance, during the current year, the position of legislative bill coordinator proposed for continuance during the budget year in the executive office. This position was established and filled on December 1, 1966.

We recommend deletion of the administrative assistant position $13,212 and the assistant level position $9,927, total $23,139, budget page 417, line 39, on the basis that failure to use these positions as budgeted indicates a lack of need.

Department of Finance—Continued

The 34 positions which were established as of February 10, 1967, were distributed organizationally as follows:

Administrative and clerical	--	9
Local planning section	--	9
Advance planning:		
Economic section	5	--
Resource economics section	5	--
Urban section	6	--
Total, advance planning		16
Total		34

Advance Planning

The Advance Planning Operation is staffed as indicated in Table 4.

Table 4
Advance Planning, by Class and Sections
(Salaries are as budgeted for 1967–68)

	Salary range	*Economic section*	*Resource economics section*	*Urban section*	*Total Positions*	*Total Salaries*
Assistant chief	$1,214–1,476	1	1	1	3	$52,926
Senior planner	1,049–1,275			1	1	15,300
Associate	863–1,049	1	2	2	5	56,715
Assistant	711– 863	1			1	9,927
Junior	585– 711	1			1	8,396
Trainee	530– 585			1	1	7,020
Delineator	677– 823		1		1	9,876
Clerical	405– 493	1	1	1	3	16,437
Total		5	5	6	16	$176,597

The State Development Plan is partially completed at the date of this writing and a final draft of this document is scheduled for completion by April of 1967. Preliminary drafts of all chapters in Part II of the State Development Plan Document were made available to this office and an outline of the contents is shown below.

OUTLINE
STATE DEVELOPMENT PLAN DOCUMENT

Part I—Planning and Policy
- Chapter 1—California Planning Issues
- Chapter 2—California's Future and the Planning Challenge

Part II—Patterns of Growth
- Chapter 3—Population Growth and Economic Development
  - A. Population Growth
  - B. Economic Development
  - C. Unemployment Among the Non-white Minorities
- Chapter 4—The Development of Urban California
  - A. The Dimensions of Urban Growth

Department of Finance—Continued

B. The Implications of Urban Growth
C. Policy Formulation and Implementation

Chapter 5—Resources: Their Management and Utilization for the Urban State
A. Introduction
B. Goals and Objectives
C. Functional Resource Objectives and Issues
D. Policy Formulation and Plan Implementation

Chapter 6—Growth and the Governmental Sector
A. State Planning and State Fiscal Policy
B. The Financial Data Bank and Its Uses
C. Budgeting in a Multi-jurisdictional Context
D. Methodology for Fiscal Decision Making

Chapter 7—A Comprehensive View of Public Works
A. A Summary of the Issues
B. Present State Efforts in Public Works Planning
C. The Virtues of Coordination and the Future Requirements
D. A System of Coordinated Public Works Planning: A Recommendation

Part III—Plan Implementation

Chapter 8—The Role of the State in Development Planning
A. Introductory Statement
B. Concept of the Development Planning Process
C. Decision Making: Application of the Process

Chapter 9—Improving the Process
A. Analytical Processes
B. Information Collection and Processing
C. Information Flow (Communications)

Part IV—Conclusions and Beginnings

Chapter 10—Research Findings and Research Needs

Chapter 11—The Time Dimension

The State Development Plan was conceived as an attempt to produce a study that would contain within it a number of policy recommendations. These would identify and relate state goals and objectives to specific measures selected to achieve the designated goals. Upon reading this material we find little specificity in either the expression of goals or the means to achieve these goals.

This lack of clear identification of goals is compounded by a corresponding vagueness in the statement of means or policy recommendations. From Chapter V we have this example which typifies most policy recommendations found in the State Development Plan. "It is recommended that the Resources Agency analyze the State Water Program for its potential as a tool for implementing a statewide land use policy and achieving the goals for California" (Chapter V, page 39).

This policy recommendation is typical in that it proposes further study to be made and only hints at what this study is to seek to identify. Indeed, if there is one common thread which runs throughout the State Development Plan it is that planning is necessary and that further study is needed. All of this suggests that there are few solutions offered to the problems that the State Plan was to consider with the intent of formulating policy recommendations.

A lack of attention to many important state problems is to be found throughout the study. For example, in Chapter IV, Development of Urban California, almost 14 pages are devoted to a discussion of transportation problems facing the urban state and the only conclusions offered are those recommending further study; this in view of the fact that four of the major studies which formed a part of the research background to the State Plan were devoted to transportation needs and problems. On the basis of past performance in the use of studies we would estimate that these studies could go on ad infinitum without ever reaching a conclusion. To greater or lesser degree summary treatment is given to all of the "selected areas of state interest" discussed in Chapter IV.

The preliminary draft of Chapter VI "Growth and the Governmental Sector" is merely a copy of a consultant's study, and is inadequate as anything but a reference or background document since mostly it is concerned with statistical and research methodology for developing data series on "growth and the government sector."

The State Office of Planning is charged in its enabling legislation with assisting the coordination of public works projects. The office, however, has never attempted an active role in this area, in large measure because such a role would be superfluous since the major public works programs of the state, in water resources and highways, are proceeding according to long-range plans that are invested with considerable planning sophistication. The State Office of Planning has not evinced a planning sophistication that could compete with the planning activities of the major public works agencies of the state. Chapter VII, "A Comprehensive View of Public Works" is the first real attempt by the Office of Planning to formulate a position on public works coordination. Its proposal is essentially one of providing a central information source on all public works projects for the use of state and local officials as well as other interested researchers. The information would be collected from all levels of government involved in public works or capital investment projects and published periodically in a *Public Works in California* report. This information would specify (1) the location of projects, (2) status of projects, e.g., in planning stage, capital program or budgeted, (3) proposed magnitude, e.g., total project costs, amount of land involved, (4) timing, project start and anticipated completion dates, and (5) project purpose.

The informational value of this report could well exceed the cost of collecting and compiling this information in a single document. Chapter VII provides tabular summaries incorporating the above-mentioned information for several north coast counties (Del Norte, Lake and Humboldt). This information, was compiled from all levels of government (federal, state, and local including special districts), and is an example of a valuable service that a planning office can perform, representing planning in the specific and informational aspects rather than general ill-defined pronouncements which characterize so much of the State Development Plan.

Based on our evaluation of the material presented in the State Development Plan document we feel there are serious inadequacies in the state planning function. This poses the question of basic justification for the continuation of this function, as it is presently conceived and conducted. In our view the state planning program must rest on the value of this program's end product to date, which is the State Development Plan. Our previous discussion indicates our dissatisfaction with the bulk of this material.

We recommend that eight positions be deleted from the advance planning staff, a reduction of $88,299, budget page 417, line 39. This represents one-half the positions and one-half the salaries shown for this activity in Table 4.

It is the intent of this recommendation that the individual positions to be eliminated be determined by the agency and the Budget Division in the Department of Finance, and that the reduction is to include all related costs, as well as any related positions in the general administrative activities of the Planning Office, the workload of which will be reduced by this cut.

We realize that this reduction in the planning staff would seriously curtail the advance planning activities of this office. However, in view of the serious deficiencies in the quality of the State Development Plan on which we have commented, we feel this points to the questionable value of any advance planning study proposals for the budget year. The proposals that we have received in large measure represent a continuation of the State Development Plan, in its refinement and updating; and therefore, these proposals cannot be separated from an evaluation of the material contained in the plan document we have before us.

Furthermore, there is as yet no indication of the role of the Planning Officer under the present administration. The Planning Officer is appointed by the Governor and as previously noted this position is vacant at the time this is written.

The legislation which established this office provided that at the time of completion of the plan document, which is presently scheduled for April 1967, a copy of the plan will be submitted to the Director of Finance for his comments and recommendations. The Director of Finance in turn will present the plan to the Governor who will then review, and upon his approval, shall transmit the plan together with his comments and recommendations to the Legislature. The Legislature may by appropriate resolution adopt the plan in principle.

We recommend that the studies contracted and paid for under the State Development Plan program be made available to interested researchers and be distributed to the libraries of the University and state college campuses for this purpose.

Department of Finance—Continued

Local Planning

Since 1956 the Department of Finance has been charged with the responsibility of administering a joint federal-local program of urban planning studies. The urban planning assistance program was initiated under terms of Section 701 of the Federal Housing Act of 1954. The intent of this legislation was to stimulate planning ". . . in order to assist state and local governments in solving planning problems resulting from the increasing concentration of population in metropolitan and other urban areas, including smaller communities; to facilitate comprehensive planning for urban development, including coordinated transportation systems, on a continuous basis by such governments; and to encourage such governments to establish and improve planning staffs . . ."

Planning grants are to be made through an appropriate state agency which may be either a state planning agency or other agency designated by the Governor and acceptable to the federal administrators as capable of carrying out the planning function.

The State Office of Planning since its creation in 1959 has been the designated state agency for the administration of this program.

Under the State Planning Law, which is included in Sections 65000 to 65651 of the Government Code, the State Office of Planning may provide planning assistance in the form of planning surveys, land use studies, urban renewal plans, and other planning work, but excluding plans for specific public works (specifically not eligible under 701 grants), whenever such planning assistance is requested by the governing body of a city, county or planning district. The office, under the policy guidance of the Planning Advisory Committee, may contract for, receive and make use of federal money or private money for the abovementioned planning assistance. The office may also contract with private persons (i.e., planning consultants) or public agencies for the preparation of plans.

The local planning section has the staff indicated in Table 5 for 1967–68, the salaries shown being those budgeted for that year.

Table 5
Local Planning Section Staff, 1967–68

Class	*Salary range*	*Position*	*Salaries*
Senior planner	$1,049–1,275	1	$17,824
Associate planner	863–1,049	1	11,343
Assistant planner	711– 863	4	39,708
Senior stenographer	447– 544	1	6,078
Intermediate stenographer	405– 493	2	10,958
Total		9	$85,911

The urban planning assistance program has had proliferous if not profound effects on community development studies in California. The Department of Finance since 1956 and through its Office of Planning since 1959, has played an active role in administering over 300 small area grants. In the great majority of cases, these studies were primarily

Department of Finance—Continued

for the purpose of preparing community general plans and were performed under contract by private planning consultants. The State Planning Law (Government Code Section 65302) provides that:

> "The general plan shall consist of a statement of development policies and shall include a diagram or diagrams and text setting forth objectives, principals, standards and plan proposals. The plan shall include the following elements:
>
> a. A land use element which designates the proposed general distribution and general location and uses of the land for housing, business, industry, agriculture, recreation, education, public buildings and grounds, and other categories of public and private uses of land. The land use element shall include a statement of the standards of population density and building intensity recommended for the various districts and other territory covered by the plan.
>
> b. A circulation element consisting of the general location and extent of existing and proposed major thoroughfares, transportation routes, terminals and other local public utilities and facilities, all correlated with the land use element of the plan."

The general plan may and often does include other aspects or elements of study which may range from a consideration of adequate business district parking facilities to the visual amenity and appearance of the locality. The State Planning Law assures that, at a minimum, a local jurisdiction's general plan will have a land use element and a circulation element before it can be adopted. However, these requirements do not insure that more than a cursory treatment will be given to existing and projected land uses and that the circulation element will be more than a street map of the city along with proposed route projections. The planning studies which support the general plan proposal have varied greatly in depth and quality even though meeting the two statutory requirements.

The direct cost of the studies have been borne by both the federal and the local jurisdiction on usually a two-thirds federal and one-third local funding basis. The total cumulative cost for these federal-local funded studies has been over $9 million in the 10-year history of the program in California. The main thrust of the federal program was directed at stimulating communities to think seriously about planned community development in order for cities to gird themselves for expected increased urbanization. To the communities their participation in the 701 grant program meant an opportunity to assure that their development was along well considered and rational lines. For some communities a 701 planning study was regarded as a necessary measure in order to qualify the city for other federal aid programs that required the city to have a study program similar to that required in a general plan formulation. The state has an interest in the quality and usefulness of these planning studies especially as they pertain to the overall physical development of the state. The state's interest is expressed in the State Planning Law which requires cities and counties to prepare and adopt a general plan. (Government Code, Sec. 65300).

As to the quality of the plan documents prepared under the 701 assistance Program, there is very little federal review. The Advisory Commission on Inter-governmental Relations reported the following on federal planning review.

> "State and local plans prepared under this program are reviewed by the federal government mainly to assure proper scope, coordinating procedures, and legal compliance with the grant contract, rather than for merit of the plan itself. The state, metropolitan, regional, and local planning agencies are relied upon to judge the quality of plans in most cases. However, the administrator's responsibility to judge reasonable progress in the development of the elements of comprehensive planning allows a qualitative judgment and could lead to a refusal of further planning grants until there was some evidence of progress."

On the basis of interviews with the federal administrators of the 701 program in California it was learned that the federal administrators do not review the final studies in terms of the quality or usefulness of the studies for local planning purposes. Principally the federal review at the completion of a study contract has been an auditing function as stated above. It is only at the approval stage of a local planning contract application that the federal administrators exercise a policy guide over the quality of the study.

The federal administrators have recently taken action to upgrade the quality of local planning studies by requesting the states to apply a quality rating system to planning applications. This was prompted by the need to develop a more selective process in screening applications due to the excess of planning applications over the available federal funds for urban planning grants. The State Planning Officer received the following telegram from the acting Regional Administrator, Urban Renewal, in October 1966:

> "Please hold all applications for 701 grants pending further information concerning quality rating system which is to be applied to all such applications received since July 1, 1966. Details on that system are expected to be made available to your office in about two weeks. You may continue to receive applications and process them in your office so they may be acted on more promptly at a later date."

A system of quality rating has since been developed by the State Office of Planning, generally following guidelines established by the federal administrators, and a number of planning applications have been reevaluated before being submitted to the federal administrators. This still leaves a large backlog of lower priority grant applications under the new quality rating system which had been approved by the Planning Advisory Committee.

We feel that the local planning section in Office of Planning is overstaffed in regard to the limited functions it performs under the local planning grant program. The office has carried over 32 applications from the past calendar year, and it anticipates that 45 new applications will be filed during the present calendar year.

Many of these new applications, however, will not be able to qualify for federal grants as the total amount of grant applications will exceed the limits of available federal funds. The work of the office reviewing new applications is to a large extent redundant as many of the applications approved by the Office of Planning will contribute to an already existing backlog.

In its role of supervising ongoing studies we also feel that the office is performing very little service. The office has heretofore given rubber stamp approval to all work submitted by the private consultants who are under contract to perform the studies and, therefore, plays a very limited role in supervising local planning studies in progress.

We recommend the reduction of three assistant planners, $29,781, and one intermediate stenographer, $5,479, total $35,260, budget page 417, line 39.

It is the intent of this recommendation that the cut is to also include all other related costs, including any related positions in the general administrative activities of the Planning Office, the workload of which will be reduced as a result thereof.

Program and Policy Office

Prior to the creation of the Department of General Services effective September 1, 1963, the Division of Organization and Cost Control existed in the Department of Finance. This division was a statutory division created by Chapter 1957, Statutes of 1955, and had a staff of 50 as of July 1, 1963, most of which was transferred to the Department of General Services. The existing staff of 10, in the Program and Policy Office represents the residue.

The legislation which created the Department of General Services, Chapter 1786, Statutes of 1963, deleted from the law the requirement that there be a ''Division of Organization and Cost Control'' in the Department of Finance but left in the Department of Finance the responsibility for performance of its functions, Government Code Sections 13877 to 13881.

One of the functions performed by the old OCC division was to make outside organizational studies on request for individual state agencies, a function which is not now being performed except as an incident to other activities by any of the existing units in state government. In this respect, a void appears to exist with respect to needs of those agencies which are not equipped with management analysis staffs of their own.

Section 13877 of the Government Code, as it reads today, places a definite responsibility on the Department of Finance ''to provide consultation and coordination to the departments and agencies of the state with respect to organization and planning and the development and application of controls over manpower and costs, as directed or requested to conduct studies in such fields, and in the field of application of classifications to jobs and positions. . . .'' It does not appear to us that this function is being performed to the extent contemplated in the law.

Department of Finance—Continued

The office currently has eight professional and two clerical positions. The Program and Policy Office serves in a staff capacity and is charged with advising the executive staff of the Department of Finance and the Governor, generally, in program and policy areas. In the past the office has served on special task forces for the development of program budgeting, waste management proposals, administrative reorganization, and a work measurement pilot program. This office also has assumed responsibility for keeping an information file on all legislative proposals that may be of interest to the executive staff of the Department of Finance or to the Governor's Office.

DEPARTMENT OF FINANCE

ITEM 113 of the Budget Bill Budget page 414

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

Amount requested	$125,547
Estimated to be expended in 1966–67 fiscal year	125,547
Increase	None

ANALYSIS AND RECOMMENDATIONS

This item is for the cost of auditing district and county fairs, as mentioned under Item 112.

Department of Finance
STATE LANDS DIVISION

ITEMS 114 and 115 of the Budget Bill Budget page 419

FOR SUPPORT OF THE STATE LANDS DIVISION FROM THE GENERAL FUND

Amount requested in Budget Bill		$1,436,650
Budget request before identified adjustments	$1,534,326	
Increase to recognize full workload change	61,952	
Budget as adjusted for workload change	$1,596,278	
Adjustment—undetailed reduction (10 percent)	159,628	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		$71,135
BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING		$88,493

Summary of Recommended Reductions

	Amount	Budget Page	Budget Line
Long Beach Operations:			
1 general auditor II, Item 114	$9,951	421	43
U.S. v. California:			
1 intermediate stenographer, Item 115	5,916	422	7
Reduce increase to recognize full workload change:			
Item 114	51,773	419	15
Item 115	3,495	419	15

GENERAL PROGRAM STATEMENT

The activities of the State Lands Division are financed by two General Fund appropriations, Item 114 for general support and Item 115

State Lands Division—Continued

for support of *U.S. v. California* which for purposes of this analysis are treated together. The printed budget includes three sections, Administration, Long Beach Operations and *U.S. v. California* Court Case.

The proposed Budget Bill appropriations are calculated as follows:

	Item 114	*Item 115*	*Total*
Expenditures before adjustment	$1,434,506	$99,820	$1,534,326
Increase to recognize full workload change	58,457	3,495	61,952
Total	$1,492,963	$103,315	$1,596,278
Less 10 percent reduction	149,296	10,332	159,628
Appropriation requested	$1,343,667	$92,983	$1,436,650

Another major element of support comes from reimbursements from revenues from the Long Beach tidelands which finance that part of administration which furnishes administrative support to Long Beach operations as well as the entire activity under Long Beach operations except $30,279 which constitutes that part attributable to the Alamitos Beach Park lands.

Table 1 is a summary of total expenditures, by sources of funds for the fiscal years 1963–64 to 1967–68 inclusive. The expenditures for 1967–68 are exclusive of the net adjustment of $97,676 shown on budget page 419, line 18.

Table 1

Total Expenditures by Source of Funds, 1963–64 to 1967–68

	General Fund support	*Reimbursements*		*Total expenditures*
		Long Beach tideland revenues	*Other*	
1963–64	$1,297,011	$166,339	$107,270	$1,570,620
1964–65	1,028,443	449,262	121,599	1,599,304
1965–66	1,014,121	628,820	87,200	1,730,141
1966–67 (est.)	1,442,182	854,677	44,000	2,340,859
1967–68 (proposed)	1,534,326	779,706	46,243	2,360,275

The adjustment to recognize full workload change of $61,952 shown on budget page 419, line 15, includes one additional delineator for the Mineral Resources Section, $6,684. This position appears justified on a workload basis. The remainder of $55,268 cannot be identified.

We have not received sufficient justification for the remainder of $55,268 on which to base an evaluation and accordingly *recommend that $55,268 be deleted.*

This is distributed as follows, by items:

Item 114	$51,773
Item 115	3,495
Total	$55,268

The State Lands Division of the Department of Finance provides administrative and staff services to the State Lands Commission. The commission, composed of the Lieutenant Governor, the Controller, and the Director of Finance, has the general responsibility for the administration of state school lands, tide and submerged lands, swamp and

State Lands Division—Continued

overflow lands, and the beds of navigable rivers and lakes. In its policy direction of the administration of state sovereign lands the commission has the authority as provided by law, to sell, lease, dispose or provide for the extraction of minerals, oil and gas from these lands.

One of the principal functions of the State Lands Division concerns the profitable use of state lands and the sale and leasing of these lands when in the public interest as well as supervision over the exploitation of the valuable mineral resources of these lands. Table 2 shows the revenues received from the sale and leasing of state lands and revenues received from the sale of oil and gas and other mineral deposits for a six-year period, while Table 3 shows detail of the revenue from oil and gas only for a like period.

Table 2

Total Revenues, 1962–63 to 1967–68

	Land sales and leases	*Oil and gas*	*Other minerals*	*Total*
1962–63	$787,653	$49,114,730	$131,070	$50,033,453
1963–64	956,522	62,274,590	122,148	63,353,260
1964–65	449,021	67,776,049	345,231	68,570,301
1965–66	752,744	44,729,929	336,764	45,819,437
1966–67 (est.)	796,860	44,469,858	570,000	45,836,718
1967–68 (est.)	855,016	47,006,497	435,000	48,296,513

The decrease in oil and gas revenues starting in 1965–66 from the first three years shown reflects a sharp reduction in revenues from bid bonus offers on tideland oil and gas leases. This will receive further comment later in this analysis. This reduction would appear greater except for some offsetting increases in revenues that have resulted from the development of the entire Wilmington oil field. The state received over $20 million in 1965–66 from royalties on the Wilmington field, part of which are attributable to the initial development of East Wilmington, and it is estimated that the state will receive nearly $21 million in advance payments and oil and gas royalties for the current year and approximately $22 million in the budget year from the Wilmington field. The state's share of Wilmington revenues will increase greatly after 1968, and together with the rapid increase in Wilmington production the state will be receiving approximately $114 million in revenues from the Wilmington oil field by 1970–71.

Table 3

Revenue from Oil and Gas, 1962–63 to 1967–68

	Oil and gas royalties			*Bid bonuses on oil*	
Fiscal year	*Long Beach*	*State lands*	*School lands*	*leases*	*Total*
1962–63	$11,210,069	$16,728,843	$8,164	$21,167,654	$49,114,730
1963–64	10,689,983	17,795,529	7,506	33,781,572	62,274,590
1964–65	14,231,575	19,429,433	7,029	34,108,012	67,776,049
1965–66	20,228,062	17,146,103	6,430	7,349,334	44,729,929
1966–67 (est.)	20,788,358	22,675,000	6,500	1,000,000	44,469,858
1967–68 (est.)	21,914,997	23,085,000	6,500	2,000,000	47,006,497

State Lands Division—Continued

Oil and Gas Leases

Royalties

A major revenue-producing activity of the division concerns the leasing of state tidelands for the extraction of oil and gas under Section 6871 of the Public Resources Code.

The state receives continuing royalties on oil produced from leased tidelands which in the current year are estimated to earn $22,675,000 in revenue for the state. The following table provides a comparison with previous years and shows estimates for the current and budget years on royalties for state oil and gas leases.

Year	*Royalties*
1962–63	$16,728,843
1963–64	17,795,529
1964–65	19,429,433
1965–66	17,146,103
1966–67	22,675,000
1967–68	23,085,000

The division maintains a staff of 27 professional positions to monitor offshore oil production activity and for computing the state's royalties on oil produced from state tidelands.

Sequential Leasing

In 1958 the commission initiated a "sequential leasing program" whereby leases on potential oil-bearing tidelands are offered on a continuous basis at the rate of approximately five per year. These leases are awarded on the basis of competitive bid bonus offer. The bid bonus is an initial sum of money which the lessee agrees to pay the state for the right to lease and develop a parcel. This method of awarding leases has the advantage of assuring that the state will receive some revenue (the cash bonus) regardless of whether any oil is found or produced after the lessee develops the parcel. The state has received approximately $170 million since 1958 in cash bonuses. Table 4 shows the yearly magnitude of the sequential leasing program since 1960–61.

Table 4

Year	*Number of leases*	*Value of bid bonus*
1960–61	3	$10,905,111
1961–62	3	6,655,518
1962–63	6	21,167,654
1963–64	5	33,781,572
1964–65	4	34,108,012
1965–66	--	7,349,334
1966–67 (est.)	--	1,000,000
1967–68 (est.)	--	2,000,000

We have serious questions concerning budget estimates of yearly state revenues from cash bonus payments which are geared to arbitrarily established budget requirements. For example, in the 1966–67 printed budget the estimated bid bonuses on oil leases was unrealistically high as demonstrated by the following comparisons:

	1965–66	*1966–67*
Budget estimate	$25,000,000	$30,000,000
Actual	7,349,334	52,000 (Actual as of Dec. 1966)

State Lands Division—Continued

The revised estimate for 1966–67, appearing in the 1967–68 budget, has been reduced from $30 million to $1 million.

Since the estimating of oil and gas potential in the undeveloped state tidelands is the principal task assigned to the three-man geological evaluation section, we fail to see why estimation errors of this magnitude should appear in the budget document. This section has access to all confidential data that is developed by oil companies under state-issued geological permits which allow seismic surveys and core-hole drillings on state tideland parcels. The budget estimates should realistically be based on an analysis of this information by the staff of the division rather than an arbitrarily predetermined amount.

The current practice is for the division staff to adjust the leasing program in order to try to achieve the budget estimate of bid bonuses. The fallacy of this procedure is amply demonstrated by the magnitude of the difference between the estimated and the actual figures in the last two years.

We recommend that the division undertake a thorough study of its sequential leasing program in order to determine realistically the oil potential of undeveloped state tidelands that may be leased under existing state law.

Table 5 shows the authorized positions, by operating unit, for 1966–67 and 1967–68, exclusive of the proposed additional position for delineator, previously referred to, as well as the filled and vacant positions at January 18, 1967.

Table 5

Authorized positions, 1966–67 and 1967–68, and filled positions and vacancies at January 18, 1967, by operating units (proposed new position of delineator for 1967–68 not included)

	Authorized positions 1966–67 and 1967–68			*Filled positions and vacancies 1/18/67*			
				Filled positions			
Operating unit	*Professional*	*Clerical*	*Total*	*Professional*	*Clerical*	*Total*	*Vacancies*
1. Executive	8	3	11	6	3	9	2
2. Legal	3	--	3	3	--	3	0
3. Administrative services	4	19	23	4	18	22	1
4. Data processing	3	--	3	2	--	2	1
5. Audits[1]	3	--	3	2	--	2	1
6. Cadastral and ocean engineering	20	--	20	13	--	13	7
7. Mineral resources	39	1	40	37	1	38	2
8. Geological evaluation	3	--	3	3	--	3	0
9. Commercial and recreational leasing	6	--	6	5	--	5	1
10. Land sales and records	10.5	5	15.5	10.5	4	14.5	1
11. *U.S. v. California*	3	--	3	2	--	2	1
12. Long Beach operations	32	6	38	20	4	24	14
13. Temporary help and overtime	4.6	--	4.6	4.6	--	4.6	--
Totals	139.1	34	173.1	112.1	30	142.1	31

[1] This vacant supervision state financial examiner II position has been transferred to Long Beach operations and the position will be reclassified to Chief of Management Control.

State Lands Division—Continued

Table 5 shows the operating units of the State Lands Division as identified in the budget, and the Salary Supplement, pages 385 to 387. Of particular interest is the total number of authorized positions that were vacant as of January 18, 1967. A total of 31 authorized positions or approximately 18 percent of the division's approved positions have not been filled. Mainly this problem stems from delays in securing position classification by the Personnel Board in the case of Long Beach operations and from a genuine problem of recruitment for the Cadastral and Ocean Engineering Section. The division is currently in the process of negotiating with the Personnel Board for position reclassification of positions in its Cadastral and Ocean Engineering Section in order that it may more easily recruit personnel. The personnel of this section are mostly civil engineers and the principal work of this section concerns surveying, mapping, boundary research and writing of legal descriptions for the division. The Legislature approved six positions for this section in the last budget request for the creation of a new survey party to help reduce a backlog of survey projects. This survey party has not been constituted since the division has not been able to recruit qualified personnel for these positions. The division is now in the process of negotiating with the Personnel Board to have the professional qualifications for these positions changed from civil engineering to "boundary engineering."

In view of the recruitment problem the division has experienced in filling these positions and also because in large measure this recruitment problem reflects the limited promotional opportunities for civil engineering professionals that exist in the division, *we recommend that the division investigate taking out contract services with other state agencies that have staffs of qualified engineers for surveying and mapping work particularly with reference to reducing the large backlog of incompleted survey projects.*

The division is currently undergoing a reorganization that will combine the Land Sales and Records, Commercial and Recreational Leasing and Cadastral and Ocean Engineering into a Land Operations Section in order to better achieve a functional coordination of division activities.

Long Beach Operations

The second largest known oil field in the United States, the Wilmington oil field, which has an estimated 1 billion barrels of crude oil reserves, principally underlies state sovereign tidelands extending seaward of the City of Long Beach. A large tract of these tidelands containing approximately 90 percent of the Wilmington oil is held in trust by the City of Long Beach under provisions of legislative grants made by the State of California in 1911, 1925, and 1935. The tide and submerged lands granted by the State of California to the City of Long Beach were subject to certain trusts and conditions which limited the used of these lands (or proceeds from these lands) to the public trust of developing navigation, commerce, and fisheries. The trust purposes set forth in the acts of 1911, 1925, and 1935 were prescribed prior to the discovery of oil in the granted lands and

State Lands Division—Continued

therefore were conceived without regard to the exploitation of the vast hydrocarbon resources of these lands. After oil was discovered at Wilmington in 1937 a dispute arose between the city and the state as to the proper sharing of oil revenues. The City of Long Beach maintained that it had possessory rights to all of the oil underlying the lands since mineral resources were not excluded under the terms of the grant deeds. It was found that the City of Long Beach had the right to produce oil and gas from the granted lands in *City of Long Beach v. Marshall* (11 Cal. 2d 609) and subsequently a portion of the Wilmington field was opened to development in 1939 when the City of Long Beach submitted two tideland parcels to competitive bids. Richfield Oil Corp. and the Long Beach Oil Development Corp. were the successful bidders and became the operating contractors for the City of Long Beach. LBODC is owned by Standard Oil Co. of California, Signal Oil and Gas Co., and Humble Oil and Refining Co. However, it was not until 1956 that a final determination was made on the allocation of oil revenues between the city and the state from this developed portion of the Wilmington field. This uncertainty resulted from litigation that arose over the interpretation of a 1951 act of the Legislature which released approximately half of the city's trust revenues from expenditures on trust-related purposes. In *Mallon v. City of Long Beach* (44 Cal. 2d 199) decided in 1955 the Supreme Court of California held that oil revenues received by Long Beach from the trust deeded lands were in excess of moneys that could be legally spent for trust purposes by the City of Long Beach. The Legislature in 1956 acted to implement the ruling in the Mallon decision by stipulating a settlement with the City of Long Beach rather than await lengthy court proceedings in arriving at a settlement under the Supreme Court ruling. In Chapter 29, Statutes of 1956, 1st Extraordinary Session, the Legislature made a determination that the City of Long Beach and the state would share equally in the future oil revenues from the developed portion of the field and for oil revenues accumulated prior to January 31, 1956, fixed a sum of $120 million that the city was to return to the state as this was determined to be the amount of revenues held by the city that was in excess of trust related expenditures and hence rightfully should revert to the state as trustor.

The provisions of this law did not apply to the major portion of the Wilmington field, the southeast extension of Wilmington (East Wilmington), which had remained undeveloped. In order to prepare the way for the inclusion of East Wilmington in the development of the Wilmington field the Legislature in 1964 substantially revised the relative proportion of oil revenues that could be retained by the City of Long Beach for trust related expenditures. Chapter 138, Statutes of 1964, First Extraordinary Session, which applies to both the old and new East Wilmington areas, stipulated that the city and state are to share equally in all advance royalties paid by the field contractor responsible for the development of East Wilmington and established a yearly schedule of royalty payments that are to be retained by the

State Lands Division—Continued

City of Long Beach for the proposed 35-year development contract. The city was receiving about $12 million a year from the prior tideland development. Under Chapter 138 the city will receive half of the advance royalties and retain half of Wilmington oil revenues received prior to January 1, 1969, and will receive yearly, not to exceed the following amounts per year, through 1988:

9 million a year for the calendar years 1969 through 1980
8 million a year for the calendar years 1981 through 1983
7 million for the calendar year 1984
6 million for the calendar year 1985
5 million for the calendar year 1986
4.5 million for the calendar year 1987
3.4 million for the calendar year 1988
1.0 million a year for the calendar years 1989 and thereafter.

The amount of oil income going to the City of Long Beach under terms of Chapter 138 is effectively guaranteed to total approximately $250 million dollars over 35 years. This is approximately $50 million more than the city had received over the prior 25-year period from the development of the old Wilmington field. The sharing of the advance royalties and the yearly revenues guaranteed to the City of Long Beach will apportion oil revenues on an approximate 85 percent state and 15 percent city distribution over the 35-year period. After payments to the city and deductions for development and operating expenses it is estimated that the state will receive upwards of $1,500 million in revenues over the 35-year life of the development contract.

Chapter 138 contained provisions relating to the problem of subsidence or land sinkage in the Long Beach area that granted the City of Long Beach several important protections from possible subsidence problems resulting from the extraction of oil from the Wilmington field. First, the city as the unit operator (acting in its capacity as state trustee) shall be responsible for initially adopting yearly plans of development and operation which will include expenditures for subsidence control measures which the city deems necessary and appropriate in the development of the field. In these plans of development, field pressure maintenance measures and water injection costs are to be considered a cost of production and not a subsidence cost and the State Lands Commission may not modify those parts of the plans dealing with field pressure maintenance which the city feels are necessary for subsidence control. Furthermore, the city may stop or curtail production if the city determines that there is evidence of subsidence or a significant diminution of underground pressure. Except in emergencies the city will give the State Lands Commission 30 days' notice of such an action (Section 5e).

Second, the law provides that the city is to retain out of oil revenues monthly expenditures up to an amount of 50 percent of all expenditures made by the city for subsidence control and ameleoration. These subsidence expenditures, however, must be approved by the State Lands

State Lands Division—Continued

Commission to insure that subsidence costs are justifiably related to subsidence control. In addition, a subsidence contingency fund is to be provided out of oil revenues as a cost of production and is to accumulate at the rate of $2 million a year for a period of 20 years starting after the termination of advance payments. This fund is to be invested in either state bonds or federal securities. These moneys will be released following a joint determination by the city and the state that there is no further hazard of subsidence or claims arising from subsidence. Upon termination the city will receive an amount equal to 50 percent of the subsidence costs disbursed by the city prior to December 31, 1968. The remainder of the fund will go to the state. Finally, the City of Long Beach will have control over the field contractor in day-to-day operations and the city's costs associated with this function are to be paid from the undivided oil revenues.

In summary, the 1964 legislation (Chapter 138) enacted a compromise solution to the disagreement between the City of Long Beach and the state over the sharing of oil revenues from state tidelands held in trust by the city, whereby the city (1) was guaranteed a total of $250 million in revenues, (2) was allowed control over the plans of development and operation particularly in regard to subsidence control measures, (3) was granted reimbursement for direct subsidence control costs, and (4) was reimbursed out of oil revenues for its cost of administration as the unit operator. The state for its part was assured the greater share of oil revenues (approximately 85 percent) and in addition this legislation reserved for the state the final powers to approve or amend the plans for development and operation (except those plans relating to subsidence) with the State Lands Commission, assisted by its Long Beach operations staff, acting to enforce the state's interest. With the questions in dispute between the City of Long Beach and the state settled by Chapter 138 the city and the state were then able to draw up a contractor's agreement and submit East Wilmington to competitive bids among the several groups of interested oil corporations.

The then undeveloped portion of the Wilmington field, East Wilmington, is divided into three major subdivisions according to principal ownership. Tract 1 is that portion of East Wilmington which is under trust grant to the City of Long Beach and is currently estimated to contain 85.9 percent of the total East Wilmington reserves; Tract 2 is the tidelands extention of the state's Los Alamitos Park lands and is estimated to contain 6.2 percent of the East Wilmington pool; the third subdivision which comprises Tracts 3 to 94 or townlots are those tracts which are on the upland portion and have an estimated 7.9 percent of the East Wilmington oil underlying them.

On February 9, 1965, the City of Long Beach opened bids under the contractor's agreement for the field contractors' undivided 80 percent share of Tract No. 1. THUMS Long Beach, Inc., a five-company group which included Texaco Inc., Humble Oil and Refining Co., Union Oil Co. of Calif., Socony Mobil Oil Co., Inc. and Shell Oil Co., submitted the winning bid (the only other bid offer was the joint bid of Standard Oil of California and Richfield Oil Corp.) by jointly bidding 95.56 per-

State Lands Division—Continued

cent. The bidding was on a profit sharing basis and the successful bid thus established the state's share of all net profits from the oil revenues of the 80 percent portion of Tract 1 at 95.56 percent leaving the THUMS participants to receive 4.44 percent of these net profits. The remaining 20 percent portion of Tract 1 was divided into five percentage allotments and put out in five separate bids for nonoperating contractors' shares. Table 6 summarizes the results of the total bidding on Tract 1 and lists the companies submitting the winning bids.

Table 6

Bids Submitted on Tract I, Long Beach Unit—February 1965

Percent of Tract I	*Winning bid*	*Company group*
80%	95.56	THUMS
10.0	98.277	Pauley Petroleum, Inc. Allied Chemical Corp.
05.0	100.00	Standard Oil Co. of California Richfield Oil Corp.
02.5	99.54	Standard Oil Co. of California Richfield Oil Corp.
01.5	99.54	Standard Oil Co. of California Richfield Oil Corp.
01.0	99.55	Standard Oil Co. of California Richfield Oil Corp.
100%	96.25%	

The weighted average of the winning bids thus guaranteed the state 96.25 percent of the total net profits on Tract No. 1 of the East Wilmington field.

The Richfield Oil Corporation's participating share is now owned by Atlantic-Richfield.

Tract 2, the state tidelands extending from Alamitos Park Lands was submitted to bid on April 1st, 1966, and brought into the unit for development under the unit operating agreement as provided by Section 3(j), Chapter 138. Atlantic-Richfield submitted the winning bid whereby they agreed to pay the state 96.25 percent of the net profits plus an overriding royalty of 23.677 percent on the first 6 million barrels of oil. This effectively guaranteed the state an amount of revenues in excess of the net profits from Tract 2. The state does not share any revenues from this parcel with the City of Long Beach.

Townlots, Tracts 3 to 94, are principally under lease to several of the major participants in Tract 1. The state's participation in the townlot tracts is minor, being limited to pro rata shares assignable to several upland sites owned by the state.

The amount of oil assignable to the three major parcels of East Wilmington (Tracts 1 and 2 and the townlots) is determined by a complex oil sharing formula or equity formula and this formula will be administered by a three member equity committee with one member representing the City of Long Beach as unit operator for Tract 1, one member representing the state for Tract 2, and one member representing the townlot parcels. After January 1, 1968, the state will direct the city's vote which will give the state the voting interests for both

State Lands Division—Continued

Tracts 1 and 2 and hence the controlling vote on the equity committee.

Net profits equals the state's share of total oil revenues, less the cost of production incurred by the field contractors (THUMS, LBODC and Richfield), less subsidence cost, and less costs of administration. The state's share of total oil revenues equals total oil revenues (excluding gas revenues which go entirely to the state) less the advance royalties and the yearly income committed to Long Beach by schedule in Chapter 138. Cost of production by the field contractor includes both capital investment and operating costs for extraction of oil and pressure maintenance of the field. Subsidence costs are those costs incurred by the City of Long Beach for the prevention or repair of land surface subsidence damage.

Costs of administration occur at three sources: (a) The city and THUMS receive an administrative overhead allowance computed as 4 percent of THUMS's production costs. The city receives an additional allowance for administrative overhead for the developed portion of Wilmington.

(b) The city receives reimbursements for its costs that are directly attributable to its activities as unit operator.

(c) The state is reimbursed out of oil revenues for its administrative costs which represent the cost of the Long Beach operations of the State Lands Division and other state cost assignable to Long Beach (e.g., Attorney General services).

The total cumulative cost for oil field development by THUMS since the start of activities in April of 1965 to December 1966, has been approximately $45 million. Over $38.5 million represents investment costs (islands, oil wells, injection wells, etc.) and 5.4 million represents operating expenses. The 4 percent administration overhead for the same period came to approximately $1.7 million, of which $1.3 million was paid to THUMS and approximately $400,000 was retained by the City of Long Beach. Other costs which were deducted from oil revenues in 1966 are shown in Table 7.

Table 7

Costs of Administering Oil Operation by the City of Long Beach	$1,313,681
State administrative costs	742,724
Subsidence costs (January-November)	1,703,824
Total	$3,760,229

Role of the State Lands Division in the Supervision of the Operation Of the Wilmington Field

The principal control and supervision powers of the state as exercised by the State Lands Division stem from the power of approval and modification of the yearly plan of development and operation that is prepared by the Department of Oil Properties of the City of Long Beach for submission to the THUMS contractors. This is both a plan of activities and the itemized budget document which governs the field contractor, THUMS. In relation to THUMS the State Lands Division seeks to control the development and operating costs to insure that development

State Lands Division—Continued

and operating costs are kept reasonably in line with efficient oil field practices. The rationale for the state having a costs supervising function vis-à-vis the city and THUMS is that (1) the city's oil revenues are in effect guaranteed regardless of whether costs are somewhat in excess of costs necessary for efficient operations, (2) THUMS share of the net profits (approximately 4.5 percent) is sufficiently small as to constitute a lesser incentive to control costs than the state, which has the paramount interest in controlling costs as it is the primary beneficiary of cost savings. Approximately 96 percent of any cost reduction will directly increase state revenue by increasing net profits.

In addition to budgetary review (i.e. possible savings through cost controls) the state's review of the plans of development and operations also includes technical evaluation to insure that the plan of development conforms to efficient oil field practices and achieves the maximum economic recovery of oil and gas. However, the State Lands Commission may not unilaterally modify the plan of development and operation if the City Council of Long Beach determines that these plans (or portions thereof) are necessary for subsidence amelioration or control. In the event of a disagreement the matter will have to be litigated and ruled on by a court of competent jurisdiction for a final determination as to whether the city is justified in the subsidence control features of the plan pursuant to Chapter 138.

The State Lands Division staff also has the responsibility to review expenditures out of oil revenues made by the City of Long Beach for project costs relating to subsidence control. This review is to insure that these expenditures are reasonably related to problems of subsidence.

The state through the State Lands Division staff has responsibility for establishing tract assignments of oil in connection with the state's representation on the Unit Equity Committee (after January 1, 1968 the state will have the majority vote). This involves the application of the complex equity formula, however, most if not all of the technical computations contained in the formula may be programmed on electronic data processing equipment and at least two of the participating oil companies have already done so. However, staff analysis will be required independent of the technical computations that can be provided by the oil companies on technical interpretations that will have to be made in the application of the equity formula.

The above-mentioned duties and responsibilities of the Long Beach staff of the State Lands Commission relate to continuing monitoring functions over the plans of development of the Wilmington field. Principally these duties involve cost control supervision in conjunction with technical evaluations to insure a development strategy that will gain the state added profits on the Wilmington oil revenues. The state also has an important responsibility to insure that the price paid for Wilmington crude is fairly arrived at in the setting of posted prices by the oil companies since this directly determines the total amount of oil revenues realized from any given level of oil production. The procedure for arriving at the prices paid for Wilmington oil is spelled out in Article IX of the Contractor's Agreement for the Long Beach Unit.

State Lands Division—Continued

The state can make periodic audits of oil company records (Contractor's Agreement, Article IX, Section d) to satisfy itself that correct price postings are being used by the oil companies when arriving at the price of Wilmington crude. Furthermore, the state has the power in any 12-month period to require the field contractor to sell off 12.5 percent of the oil otherwise committed to THUMS if the state feels that this action would increase oil revenues.

Policy Questions

The three-tier administration over the Wilmington field inherently involves duplications of administrative and technical functions. However, this is necessary and unavoidable to a large extent because the interest of the three principal groups are not parallel and each has to be in a position to make independent evaluations and judgments respecting the development of the field. In instances where the state's interests do coincide with those of either the field contractor or the City of Long Beach a cooperative arrangement should be established in order to avoid unnecessary duplications of effort. For example, in a report on auditing practices of the State Lands Division performed by Lybrand, Ross Bros. & Montgomery, a national firm of certified public accountants, dated June 1966, an instance of unnecessary duplication of field audits was found. Both the City of Long Beach and the State Lands Division were making audits of field contractors, gas plants and other operators independently of each other. The Lybrand report recommended that the State Lands Division manage these audits on a cooperative basis with the City of Long Beach. The report stated the following on page II-1.

"In the case of field contractors and gas plants, the city and the state have similar interests. The city auditor makes thorough audits of field contractors and examines each expenditure. The division's auditors review the city auditors' working papers and then repeat to a large extent the work the city auditors have already done."

The consultants estimated an annual savings of two man-years of auditor's time if the division established a working liaison with the city by avoiding duplications of the city's audits as the city's audits are both impartial and competent.

In view of the important position the state occupies as proprietary owner of the largest oil field on the West Coast the State Lands Division management should be kept well informed on oil industry developments which affect either the crude oil supply or demand for crude oil products. The manager of Long Beach operations should have capable staff assistance in order for the state to conduct a financial strategy survey as a complement to the technical evaluations and strategies now being employed. The Lybrand study previously referred to placed stress on the need for such a staff advisory function in the state's evaluation of the yearly plans of development and operation and recommended that a staff position be established in the Long Beach operations. The staff position they suggested would be designated a chief of management controls. We agree that there is need for a high level staff financial

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State Lands Division—Continued

analyst who would be responsible for reporting on financial and statistical data supplied either from industry sources or the field contractor, that has a bearing and significance on financial decision making for strategy development.

We recommend that the currently authorized but unfilled position of Supervising State Financial Examiner II be filled by a Chief of Management Control and that of the seven auditor positions authorized for Long Beach, two auditor II positions be filled with Management Information Analysts to assist the Chief of Management Control and one general auditor II position be deleted on the basis of duplicating workload, budget page 421, line 44, as further identified in the Salary Supplement, page 385, line 17, $9,951.

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The positions designated under this heading in the budget are for the continuation of a special task group that was established in March of 1963 to assist the Attorney General in the defense of United States vs. California. The purpose of this litigation was to determine the offshore boundary of lands under the jurisdiction of the state. In May of 1965 the Supreme Court handed down a decision generally upholding the claims of the United States. A petition for rehearing failed. On January 31, 1966 the Supreme Court issued a final decree which established the general criteria for the boundary determination and requested the state and the federal governments to work cooperatively in determining the physical location of the boundary.

The division has three currently authorized positions for the performance of task group services;

1 senior civil engineer
1 associate civil engineer
1 intermediate stenographer

The senior civil engineering position has not been filled. Since the future workload of this task group can be administratively handled by the Cadastral and Ocean Engineering section we recommend that the separate identification of this task group in the budget not be continued. We do not think that full-time clerical help is required for the presently filled associate civil engineer position.

We recommend the deletion of an intermediate stenographer for a savings of $5,916.

POLICY OPTION

The State Lands Commission should review methods for delegating responsibilities to the division's staff for making administrative decisions respecting right-of-way easements and public land sales and leases which are made according to provisions of the Public Resources Code, Division 6, Public Lands. The current practice is for most actions of the State Lands Division respecting the administration and disposition of state lands to be brought before the State Lands Commission at the monthly hearing before these actions can be approved. A large portion

State Lands Division—Continued

of the workload of the 11 engineers assigned to the Mineral Resources Section in Los Angeles involves staff preparation of calendar items that are to be submitted before the commission in a document that typically runs to 60 or 70 pages of text and exhibits. Many of these calendar items concern only routine actions and are given only pro forma attention by the State Lands Commission as the commission relies on its staff recommendations. Therefore, the commission should direct the executive officer of the division to examine methods by which the commission may legally delegate authority for the staff to make determinations on matters of a routine nature and only present in detail before the commission agenda items requiring a policy determination.

FRANCHISE TAX BOARD

ITEM 116 of the Budget Bill — Budget page 423

FOR SUPPORT OF FRANCHISE TAX BOARD FROM THE GENERAL FUND

Amount requested in Budget Bill		$12,083,334
Budget request before identified adjustments	$13,169,501	
Increase to recognize full workload change	256,425	
Budget as adjusted for workload change	$13,425,926	
Adjustment—undetailed reduction (10 percent)	1,342,592	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		$360,874
BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING		$981,718

Summary of Recommended Reductions

	Amount	Budget Page	Budget Line
Increase to recognize full workload change:			
Delete 3 auditor I positions	$20,052	423	40
Delete assistant personnel officer	8,532	423	40
Operations:			
Delete 5 existing auditor I positions, salary supplement; page 389, line 22	36,780	425	26
Delete 2 existing junior-intermediate typist-clerks, salary supplement, page 389, line 48	10,510	425	26
Work measurement and controls:			
Delete unallocated appropriation	285,000	423	34

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is a three-man board composed of the State Controller, the Director of Finance and the Chairman of the State Board of Equalization. This body has in fact delegated the exercise of its powers to the executive officer appointed by it, except for the formal setting of the tax rate for banks and financial corporations, the adoption of rules and regulations promulgated by the agency, and the appointment of the executive officer.

The agency administers the state personal income and bank and corporation tax laws. Together, these taxes raised General Fund revenues totalling $890 million, or 36 percent of all General Fund revenues in 1965–66. Its stated objective is to administer these laws in such a manner as to assure equity for the taxpayer and to maximize the state's

Franchise Tax Board—Continued

potential within the statutory framework. It is organized so as to promote the concepts of self-assessment and voluntary payment by the taxpayer.

The growth of the agency may be seen in broad perspective by examining the numbers of returns filed, the total of agency assessed revenue and the total budget expenditures, over a five-year period, as shown in Table 1.

Table 1
Indices of Growth, 1963–64 through 1967–68
(numbers to nearest thousand)

Fiscal year	*Returns filed* *PIT* [1]	*B & CT* [2]	*Net agency assessed revenue*	*Expenditures*
1963–64	5,046	118	$41,070	$10,318
1964–65	5,172	124	48,956	10,984
1965–66	5,411	119	47,946	11,696
1966–67 (est.)	5,647	133	--	12,894
1967–68 (est.)	5,892	138	--	13,426 *
Average annual percent increase	4.2%	4.2%	8.4%	7.5%

[1] Personal Income Tax.
[2] Bank and Corporation Tax.
* Includes workload increase.

The agency is organized into four major units under an October 1965 reorganization. These units and the number of positions within each are summarized in table 2.

Table 2
Total Proposed Positions, 1967–68, by Organizational Units
(Includes Workload Increase)

Unit	*Permanent positions*	*Authorized man-years of temporary help*	*Total positions*
1. Executive	6	--	6
2. Legal	34	1.0	35
3. Program	65	5.8	71.8
4. Electronic data processing	97	46.6	143.6
5. Operations:			
a. Headquarters	634	159.3	793.3
b. Los Angeles region	213	13.5	226.5
c. San Francisco region	122	8.8	130.8
d. Chicago office	21	--	21
e. New York office	21	--	21
Subtotal, Operations Unit	1,011	181.6	1,192.6
Total	1,214	235.0	1,449.0

Programs. The agency groups its present activities into three programs, described below in general terms.

I. Personal Income Tax. The agency has the statutory obligation of administering and enforcing the Personal Income Tax Law (Sections 17001–19500, Revenue and Taxation Code). This law, enacted in 1935, taxes the income of individuals, estates and trusts in excess of statutory minimums. These taxpayers are required to self-assess, report and pay their taxes. The agency maintains a service function to aid taxpayers self-assess, report and pay taxes and also compliance and audit activi-

Franchise Tax Board—Continued

ties indirectly designed to promote voluntary compliance with the law.

II. Bank and Corporation Tax. The agency is also charged with the administration and enforcement of the Bank and Corporation Tax Law (Sections 23001–26481, Revenue and Taxation Code). Enacted in 1929, this law imposes a franchise tax on corporations doing business in California and an income tax on those not licensed to do business in California but having income from California sources. The agency performs subprograms in the areas of assisting taxpayers in self-assessment, compliance and auditing of returns.

III. Departmental Administration. The objective of this program is to provide general management and planning and research services to the agency as a whole. Included is the work measurement and control operation which had its inception during 1966–67.

Program expenditures and personnel man-years, after deducting for salary savings, are presented in Table 3. Except for the authorized 1966–67 funds for the work measurement and controls subprogram, all Departmental Administration program expenditures and staff have been allocated to the other two programs on the basis of time reporting. However, costs of the administrative program before allocation are shown in parentheses for informational purposes only. The 1967–68 information includes an adjustment for workload increase.

Table 3
Expenditures and Man-years by Program

	1965–66		*1966–67*		*1967–68*	
Program	*Man-years*	*Exp.*	*Man-years*	*Exp.*	*Man-years*	*Exp.*
I. Personal Income Tax	1,043.1	$8,593,075	1,077.3	$9,317,362	1,085.3	$9,810,996
II. Bank & Corporation Tax	306.8	3,102,918	318.6	3,350,795	331.7	3,614,930
III. *Departmental Administration*	(51.0)	(610,237)	(57.5)	(873,906)	(61.0)	(846,783)
Work Measurement and Controls	--	--	19.0	225,900	--	--
	1,349.9	$11,695,993	1,414.9	$12,894,057	1,417.0	$13,425,926

Details of Workload Increase

Tables 4 and 5 give a detailed breakdown of "Increase to recognize full workload change . . . $256,425," budget page 423, line 40.

Table 4
Detail of Workload Increase, 1967–68

Personal Services:		
Salaries and Wages (see Table 5)	$153,475	
Staff benefits	15,347	
Subtotal, Personal Services		$168,822
Operating Expenses		83,920
Equipment		3,683
Total Workload Increase		$256,425

Franchise Tax Board—Continued

Table 5
Proposed New Workload Positions, by Program, 1967–68

	Number of positions				
		Program			*Total*
Class	*Total*	*P.I.T.*	*B. & C.T.*	*Admin.*	*salary*
Auditor	9.5	2.5	7.0	--	$63,498
Junior counsel	1.5	0.2	0.3	1.0	13,302
Assistant personnel officer	1.0	--	--	1.0	8,532
Intermediate clerk	1.0	--	--	1.0	5,106
Computer operations supervisor	1.0	--	--	1.0	8,532
Senior account clerks	2.0	--	2.0	--	10,464
Calculating machine operator	1.0	1.0	--	--	4,752
Temporary help	7.7	5.1	1.0	1.6	39,289
Total	24.7	8.8	10.3	5.6	$153,475

ANALYSIS AND RECOMMENDATIONS

I. Personal Income Tax

The personal income tax is administered in three phases, or subprograms: (1) self-assessment activities, (2) compliance activities, and (3) audit activities.

Expenditures and net man-years for these subprograms and included activities are presented in Table 6.

Table 6
Personal Income Tax Program Expenditures and
Personnel Man-years, by Subprogram and Function
(Includes 1967–68 Workload Increase)

				Expenditures (in thousands)		
	Man-years			*Actual*	*Estimated*	*Proposed*
Subprogram	*1965–66*	*1966–67*	*1967–68*	*1965–66*	*1966–67*	*1967–68*
A. Self-assessment	407	427	438	$3,219	$3,542	$3,750
B. Compliance						
1. filing enforcement	230	234	226	1,758	1,880	1,934
2. resident identification	4	4	4	46	49	52
3. investigations	7	7	7	115	123	130
4. collecting delinquent tax	137	141	143	1,041	1,122	1,190
Subtotal, Compliance	378	386	380	$2,960	$3,174	$3,306
C. Audit						
1. desk audit	158	161	164	$1,375	$1,475	$1,568
2. field audit	89	92	93	902	976	1,026
3. protests and appeals	11	11	11	137	150	161
Subtotal, Audit	258	264	268	$2,414	$2,601	$2,755
Totals	1,043	1,077	1,086	$8,593	$9,317	$9,811

A. Self-assessment Activities

The objective of this subprogram is maximum voluntary action by taxpayers in the reporting of income and information and the self-assessment of their tax liability.

Program activities include (1) forms design, printing and distribution, (2) publicity and public information service, (3) receipt and processing of personal income tax returns and associated payments,

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(4) accounting for over and underpayment of tax liability and (5) processing of taxpayer initiated claims for refund or credit.

These activities helped produce $431.5 million in personal income tax revenue in 1965–66, at an average cost of three-fourths of one cent per dollar of revenue. Costs of this program total roughly one-fourth of the entire agency budget.

We have reviewed the requests for 4.2 years of temporary help for processing and filing of returns and one auditor position for claims, and recommend approval.

B. Compliance Activities

This subprogram has as its objective the preservation of California's personal income tax base by insuring that individuals who have a legal obligation to file returns and pay taxes, do so. It is divisible into four identifiable activities: (1) collection of delinquent accounts, (2) comparison of the returns filed with information from employers and the federal government (599-FCP), (3) analysis of residence status of persons claiming to be nonresidents, and (4) investigation of fraud and willful nonfiling with a view to criminal prosecution.

Collection of Delinquent Accounts

It is appropriate at this point, in order to properly evaluate the filing enforcement and the audit activities of the personal income tax program, to examine in detail the collections activity. It is this activity which is finally responsible for collecting much of the so-called "revenue" claimed by other personal income tax activities. This activity's costs should be charged to those activities creating the collection workload. In addition, the agency's data on "net revenue" of other activities should be reduced by the amounts written off as uncollectable.

Prorating Collection Costs to Specific Program Activities

The collections inventory is composed of basically four types of assessment items: (1) Incomplete remittance assessment, 29.9 percent (the taxpayer has filed but has paid a tax liability in part or not at all), (2) Notice of error assessments, 9.1 percent (reflecting a simple, usually mathematical taxpayer error in the computation of his liability), (3) Deficiency assessments, 6.8 percent (developed from a more complete audit of the taxpayer's return) and (4) Arbitrary assessments, 47.1 percent (the setting of a maximum tax liability where the taxpayer is apparently liable but information is not complete enough to allow determination of the exact liability). The percentages were arrived at by comparing inventory at two points during 1965–66, and taking its average breakdown.

The actions which cause each type of assessment are shown below.

(1) Incomplete remittances—All of these assessments result from the self-assessment activities.

(2) Notice of error—80.4 percent of these assessment items result from errors discovered in the mathematical verification process, while the remaining 19.6 percent result from the board's audit of small returns.

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(3) Deficiency—35 percent of these assessments result from the board's audit of large returns, 41 percent result from the examination of federal audit reports, six percent from the board's special desk audits and 18 percent from field audit.

(4) Arbitrary—98.5 percent of these assessments result from the board's 599-FCP filing enforcement activity, and 1.5 percent from the audit of large returns.

By relating the causes of assessments to the collection inventory it is possible to discover the degree to which each activity contributes to the collection inventory. This relationship is shown in Table 7.

Table 7

Percentage of 1965–66 Personal Income Tax Collection Inventory Resulting From Various Personal Income Tax Activities

	Percentages of Total Collections Inventory Assessment Items					
Activity	*Incomplete remit.*	*Notice of error*	*Deficiency*	*Arbitrary*	*Misc.*	*Percent of inventory*
Self-assessment	29.9%	--	--	--	--	29.9%
Filing enforcement	--	--	--	46.4%	--	46.4
Math verification	--	7.3%	--	--	--	7.3
Small return audit	--	1.8	--	--	--	1.8
Large return audit	--	--	2.4%	0.7	--	3.1
Federal report audit	--	--	2.8	--	--	2.8
Field audit	--	--	1.2	--	--	1.2
Special desk audit	--	--	0.4	--	--	0.4
Unidentified	--	--	--	--	7.1%	7.1
Total	29.9%	9.1%	6.8%	47.1%	7.1%	100.0%

If the assumption is made that each type of assessment is processed at equal cost, the total program budget costs of the collection activity can be prorated among other personal income tax activities, as follows:

Self-assessment	$311,000
Filing enforcement	483,000
Mathematical verification	76,000
Small return audit	19,000
Large return audit	32,000
Federal report audit	29,000
Field audit	12,000
Special desk audit	4,000
Unindentified	74,000
Total PIT collections cost	$1,040,000

Loss of Personal Income "Revenue" Through Collection Activity Writeoff

In 1965–66, the agency gave up as uncollectible the following amounts of personal income tax assessments.

Abated assessments	$3,255,000
Assessments discharged from accountability (writeoff)	5,088,000
Total	$8,343,000

The amount of abated assessments is the amount to which the agency decides the state has no legal right. These amounts are deducted from

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gross revenues in arriving at agency estimates of the net revenues of the various activities.

The amount of writeoff represents both an amount to which the state has no legal right, and an amount which is legally owed to the state. This amount should be prorated among the various activities and deducted to arrive at a truer statement of net revenue of such activities.

Concerned about the increasing size of writeoff over the past few years, we recommended last year that the agency study the nature and cause of writeoff. Some of the findings of that study are shown in Table 8, based on a sample of 612 assessment items discharged in June, 1966.

Table 8

Personal Income Tax Assessments Discharged from Accountability on June 21, 1966, by Type of Assessment

Type of assessment	*Number* *Assessment items* (1)	*(%)* (2)	*Dollars* *Amount of assessment* (3)	*%* (4)
Arbitrary	396	64.7%	$34,351	30.4%
Incomplete remittance	96	15.7	6,926	6.1
Deficiency	55	9.0	68,028	60.2
Notice of error	26	4.2	1,233	1.1
Other	39	6.4	2,515	2.2
Total	612	100.0%	$113,053	100.0%

Table 9 shows the estimated amount of 1965–66 personal income tax (PIT) writeoff attributable to each PIT activity by type of assessment. This is calculated by applying the percentages shown in Table 8, column (4) to total writeoff of $5,088,000, to give totals by type of assessment. These totals in turn have been prorated to activities on the basis of assessed net revenue produced by each activity.

Table 9

Estimated Amount of 1965–66 Personal Income Tax Writeoff, by Activity and Type of Assessment

	Type of Assessment					
Activity	Arbitrary assessment	Incomplete remittance	Deficiency	Notice of error	Misc.	Total
Self-assessment	--	$310,000	--	--	--	$310,000
Math verification	$6,000	--	--	--	--	50,000
Filing enforcement	1,426,000	--	--	$44,000	--	1,426,000
Small return audit	--	--	--	12,000	--	12,000
Large return audit	51,000	--	$502,000	--	--	553,000
Federal report audit	6,000	--	1,274,000	--	--	1,280,000
Special desk audit	3,000	--	153,000	--	--	156,000
Field audit	43,000	--	1,127,000	--	--	1,170,000
Other	12,000	--	7,000	--	$112,000	131,000
Total	$1,547,000	$310,000	$3,063,000	$56,000	$112,000	$5,088,000

Other findings of the writeoff study demonstrate the following:

(1) Reason for discharge of account: (a) hardship of taxpayer—45 percent of the amount written off, (b) taxpayer could not be located—28.9 percent, (c) taxpayer located, but assets were unreachable—25.2 percent, and (d) the account was considered too old and too small to be further pursued—0.9 percent.

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(2) Taxpayers with delinquencies in more than one year (repeaters): 30.9 percent of all taxpayers studied had delinquencies in more than one year; 11.5 percent had delinquencies in three or more years.

(3) Accounts over $100 constitute the major share of writeoff. This finding is based on a study of all PIT accounts discharged over a four months period.

Size of account	*No. of accounts*	*Total amount of discharge*	*% of Total amount*
$0–20	5,641	$55,639	2.5%
$20–100	6,421	257,798	11.3
over $100	1,704	1,951,560	86.2
Total, all accounts	$13,766	$2,264,997	100.0%

Filing Enforcement

Through a largely computerized process, the agency matches state returns with federal returns filed in California (Federal Comparison Project) and with wage and salary information required to be reported by California employers (599 project). The match is primarily performed by a computer, but is augmented by a manual process following the mechanical process.

Where federal or state employer information does not disclose a corresponding state return, and where a tax liability is indicated, machine produced letters are sent to the individual taxpayer. After 30 days, cases not disposed of are sent to the Los Angeles and San Francisco regional offices to allow for follow-up contact with the taxpayer. Where the follow-up does not result in the filing of a return or an adequate explanation, an arbitrary assessment is prepared and referred to the headquarters collection activity.

Revenue per dollar of cost of this activity in 1965–66 is noted in Table 10. The agency's program budget reports a high net revenue per dollar of cost ($4.99). By modifying the data prorating collection writeoff and collection activity cost, a much lower net revenue per dollar of cost figure is obtained.

Table 10

Filing Enforcement Activity, Revenue and Cost Data, 1965–66

	Net revenue	*Cost*	*Net revenue per $1 cost*
Agency data	$8,779,000	$1,758,000	$4,99
	—1,426,000 (writeoff)	+483,000 (collection costs)	--
Modified data	$7,353,000	$2,241,000	$3.28

Increasing efficiency in the matching process has enabled the agency to eliminate 10.6 temporary help positions used in headquarters from its 1967-68 budget. Although unreflected in the budget, efficiencies have eliminated 14.4 man-years of clerical and temporary help time from the field follow-up process since the 1964 year. This manpower goes into other activities carried on by regional and branch offices, and should be identified.

Franchise Tax Board—Continued

Identification of Residents

The agency identifies and collects tax liabilities from California residents who claim legal residence outside the state. Payers of income to these nonresidents are required to withhold in advance the amount of the tax and remit it to the agency. This activity conducted 307 investigations of taxpayers and reported net revenue of $299,000 in 1965–66.

Investigations

Cases involving an aggravated abuse of the requirement to file a tax return constitute the major share (80 percent) of the workload of this activity. Seven investigators performed 89 investigations, including fraudulent return and illegal activity cases, in 1965–66.

C. Audit Activities

Activities of this subprogram are designed to determine the mathematical and legal accuracy of taxpayer computations, leading to the assessment of additional tax liability, or refund or credit where the taxpayer has erroneously assessed or paid a tax liability or credit.

Costs and revenues of the various personal income tax audit activities are shown in Table 11. The net revenue per dollar of cost after adjustment includes a proration to each activity of collection costs and loss of revenue through writeoff, as shown in data immediately following Table 7 and in Table 9, respectively.

Table 11

Audit Activities 1965–66. Cost, Net Revenue, and Net Revenue per Dollar of Cost, before adjustment for collection costs and writeoffs, and Net Revenue per Dollar of Cost after adjustment for these factors

	Before adjustment			
Activity	Cost	Net revenue	Net revenue per dollar of cost	Net revenue per dollar of cost after adjustment
1. Mathematical verification	$365,600	$2,045,000	$5.59	$4.51
2. Small return audit	537,500	1,342,000	2.50	2.39
3. Large return audit	134,400	1,796,000	13.37	7.49
4. Federal report audit	203,100	3,874,000	19.07	11.18
5. Special desk audits	133,900	683,000	5.10	3.82
6. Field audits	902,400	4,297,000	4.76	3.42
7. Protests and appeals	137,300	--	--	--
Totals	$2,414,200	$14,037,000	$5.81	
Plus collection cost, less writeoff	+1,040,000	—5,088,000		
Adjusted cost and net revenue	$3,454,200	$8,949,000		$2.59

General Desk Audits

All personal income tax returns, with the exception of 2.5 million "fully paid small returns," pass through a preliminary audit stage after they are received and information extracted for the filing enforcement activity. During this stage, the taxpayers' computations are mathematically verified by calculating machine and other basic return information is clerically reviewed.

Returns are then filed alphabetically into "small return" and "large return" files, depending upon the amount of reported adjusted gross income and the source from which it is derived.

Franchise Tax Board—Continued

The small returns receive some mathematical verification, are audited a year at a time, and the audit begins 11 months after receipt. The total coverage goal is 50 percent.

The large returns receive 100 percent mathematical verification, are audited two years at a time, and the audit begins 14 to 26 months after receipt. The coverage goal is 100 percent.

We recommend approval of two calculating machine operators requested for use in mathematical verification.

We recommend deletion of six auditor I positions and two associated junior intermediate typist-clerks in small return audits. One auditor is in the adjustment for workload increase and five are existing positions. Total salary savings are $53,974.

The agency estimates that it will require 20 man-years of auditor time to maintain 50 percent audit coverage in the small return file for 1967–68. Our recommendation is based on the finding that 30 percent of auditor time here is employed in auditing low income returns which produce far less than a dollar of revenue per dollar of cost.

The finding is based upon a sampling by the agency of 70,000 1962 income year returns audited in 1965–66, of which 30 percent or 21,000 returns reported income of $5,000 or less.

These 21,000 returns produced a total of $2,068 in net revenue, or an average of $.10 per return. However, the average audit cost was $.18 per return. Therefore, this activity resulted in a net loss of $.08 per return.

The average cost per return was obtained by dividing the total cost of all small returns audited during 1965–66, which was $537,500, by the total number of such returns, which was 3,041,000.

Federal Report Audit

The agency audits returns upon which the state has received an audit report from the federal Internal Revenue Service. The federal audit report is the most productive of all personal income audit activities, netting $11.18 per dollar of cost in 1965–66 after prorating collection cost and writeoff.

Special Desk Audits

These include audits of returns made on estates and trusts and returns on which credit is claimed for income tax paid to other states.

Workload data submitted showing a 7 percent annual increase in returns for trusts support the workload increase request for half an auditor position in the estates and trusts audit activity, and *we recommend approval.*

Field Audit

High income and other selected returns are sent for audit from headquarters to Los Angeles and San Francisco regional offices, and their 12 included branch offices, plus the Sacramento field office.

Five auditor positions were added to the Los Angeles regional staff in the 1966–67 budget. During the current year, the Bakersfield branch office was transferred from the Los Angeles region to the San Francisco region, giving each of the regions six branch offices.

Franchise Tax Board—Continued

Protests and Appeals

By law, the agency must receive and act on protests of taxpayers to proposed assessments. Normally protests arise out of audit activities assessments. Informal hearings are held with taxpayers to develop factual issues and to bring about the settlement of disputes. Agency decisions on protests adverse to the taxpayer may be appealed to the State Board of Equalization for a final administrative ruling.

Expanding workload in the number of appeals and a resulting growth in backlog justifies the addition of 0.2 of a junior counsel position, based on past workload standards.

II. Bank and Corporation Tax

Administration of the Bank and Corporation Tax Law is performed in three subprograms: (1) self-assessment activities, (2) compliance activities, and (3) audit activities. These activities closely parallel those of the personal income tax program.

Personnel man-years and net expenditures for these subprograms and included activities are presented in Table 12. The 1967–68 adjustment to recognize workload increase is included.

Table 12
Bank and Corporation Tax Program, Personnel Man-years and Expenditures by Subprogram and Activity

	Man-years			*Expenditures (in thousands)*		
Subprogram	*1965–66*	*1966–67*	*1967–68*	*Actual 1965–66*	*Estimated 1966–67*	*Proposed 1967–68*
A. Self-assessment	95	97	99	$785	$834	$891
B. Compliance						
1. filing enforcement	2	2	2	15	16	17
2. exempt organization	7	12	12	67	103	109
3. collections	21	21	21	169	180	190
Subtotal, Compliance	30	35	35	$251	$299	$316
C. Audit						
1. math verification	16	16	18	$112	$119	$136
2. nonallocation	64	67	72	700	761	836
3. allocation	91	92	95	1,087	1,154	1,235
4. protests and appeals	12	12	13	168	184	201
Subtotal, Audit	183	187	198	$2,067	$2,218	$2,408
Totals	308	319	332	$3,103	$3,351	$3,615

A. Self-Assessment Activities

This subprogram seeks to maximize voluntary compliance of corporate taxpayers with the reporting and taxpaying requirements of the law.

Program activities include (1) forms design, printing, and distribution, (2) publicity and public information service, (3) receiving and processing corporate returns and estimates, (4) accounting for over and underpayments of tax liability, and (5) processing of taxpayer initiated claims for refund or credit.

We have reviewed the request for 1.3 years of temporary help for processing and filing services and one auditor position for processing of claims, and recommend approval.

B. Compliance Activities

The objective of this program is to see that all corporations having a legal obligation to file returns and estimates and to pay a tax liability to the state, do so.

Table 13 presents 1965–66 revenue and cost data for individual activities. Revenue cannot be totaled because of duplication in counting it, for example, part of the revenue developed in filing enforcement is potential only and is counted again as revenue when collected as a delinquent account. Furthermore, collections revenue is generated in substantial part by audit activities, and such amounts as are collected as an end product of audit assessments represent a double count.

Table 13

Net Revenue and Cost, Corporate Compliance Activities, 1965–66

Activity	*Net revenue*	*Costs*	*Net revenue per dollar of cost*
1. Filing enforcement	$308,000	$15,300	$20.10
2. Exempt organizations	--	66,700	--
3. Collections	3,535,000	169,400	20.90

Exemption from the bank and corporation tax is granted to organizations qualifying under an exempt purpose specified in Section 23701, Revenue and Taxation Code. About 33,000 exempt organizations are subject to the requirement of filing annual information returns if their annual gross income exceeds $25,000. An additional 30,000–35,000 exempt organizations are exempt from the filing requirement. Of the total of 67,000 exempt organizations, there are 6,000 charitable organizations that are required to annually file detailed information with the Attorney General's office.

In 1965–66, this activity was limited to maintaining exempt organization files, passing on applications for exemption, desk auditing information returns, and revoking exempt status primarily on the basis of reports received from the federal government. Four positions were added by the Legislature for 1966–67 to permit a more extensive examination of exempt organization activity.

The board has undertaken the study of the roles of the State Attorney General and the federal Internal Revenue Service with a view toward defining areas of responsibility and eliminating duplication of effort. Communication of this office with the IRS indicates that duplication may be substantial.

We recommend that the agency be directed to continue conducting a study of the role of the IRS and the State Attorney General in this field, and to report to the 1968 Legislature. The report should include an analysis of the scope and depth of the federal audit program in California, peculiar aspects of California law or other factors justifying a need for an independent program distinct from the federal, and methods whereby the functions of the Attorney General and the

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board may be integrated to insure adequate accomplishment of both at the least cost.

C. Audit Activities

This subprogram is designed to determine the mathematical and legal accuracy of corporation taxpayer self-assessments.

Cost and revenue data for 1965–66 operations are included in Table 14. These have not been modified by collection activity or writeoff information.

Table 14

Cost and Revenue Data, Corporation Audit Activities, 1965–66

Activity	*Cost*	*Net revenue*	*Net revenue per $1 cost*
Mathematical verification	$111,800	$773,000	$6.90
Nonallocation audit	699,600	9,648,000	13.75
Allocation audit	1,087,300	14,102,000	12.95
Protests and appeals	168,000	--	--
Totals	$2,066,700	$24,523,000	$11.85

Mathematical Verification

All corporate returns and estimates of corporate taxes are reviewed initially upon receipt for mathematical accuracy.

The adjustment to recognize workload increase includes two senior account clerk positions to meet a workload deficiency in the processing of tax estimates. *The increase appears justified on the basis of data submitted by the agency.*

Nonallocation Audit

Returns of corporations doing business wholly within California are desk audited to determine whether the tax is properly computed and meets the requirements of the bank and corporation tax law. When returns are especially complex or suitable for audit in the field, they are sent to the regional offices.

Workload factors and personnel man-years for the routine headquarters desk audits are presented below:

	Actual 1965–66	*Estimated 1966–67*	*Proposed 1967–68*
Number of audits	63,624	92,500	92,750
Man-years	7.2	10.5	10.5
Audits per man-year	8,837	8,809	8,833

In addition to the 3.3 man-years indicated for increased routine headquarters audit activity, workload increases relating to other than routine audits support the agency's request for a total of four auditor positions.

All returns filed by corporations doing business both within and without California are audited to determine the correct amount of income allocable to their California operations. Returns believed warranting a field audit are sent to California field offices and to out-of-state branch offices in Chicago and New York.

Franchise Tax Board—Continued

Two auditor I positions are included in the adjustment for workload change to be used in the headquarters office in order to make the audit more timely. *We recommend deletion of these positions, $13,368, budget page 423, line 40.* Although a large backlog exists, the audit is being accelerated with existing manpower. The backlog was reduced by 4,800 returns in 1965–66 and the number of additional returns per year is only about 1,000. Efficiencies created by a declining backlog should lead to increased production and in turn further accelerate the audit.

Protests and Appeals

This activity performs identically to the parallel activity in the personal income tax program. *Addition of 0.3 junior counsel position for appeals, included in the workload increase adjustment, appears justified on the basis of workload standards.*

III. Departmental Administration

This program consists of management and staff services providing overall planning and administrative support to the personal income tax and bank and corporation tax programs.

Expenditures and personnel man-years of this program and its activities are identified in Table 15, even though they have been allocated to other programs for purposes of this analysis.

Table 15
Departmental Administration Program Man-years and Expenditures, by Activity
(Includes 1967–68 Workload Increase)

	Man-years			*Expenditures (thousands)*		
Activity	*1965–66*	*1966–67*	*1967–68*	*Actual 1965–66*	*Estimated 1966–67*	*Proposed 1967–68*
Executive	5.3	6.0	6.0	$118	$125	$133
Legal Services	8.5	7.0	8.0	119	126	143
Data Processing	4.5	5.0	6.5	41	45	63
Personnel	8.2	8.5	9.5	64	68	84
Statistical reporting	4.0	4.3	5.0	41	43	52
Program planning	20.5	20.7	21.0	227	241	257
Work measurement and controls	--	14.0	5.0	--	226	115
Totals	51.0	65.5	61.0	$610	$874	$847

Legal Services

One junior counsel position is included in the adjustment for workload primarily to free one attorney man-year to work on proposed legislation. *We recommend approval.*

Data Processing

The major share of the costs of the EDP unit is specifically allocated to activities in other programs on the basis of machine time charged to those activities.

A computer operations supervisor I position is included in the workload increase to head a night shift presently operating without overall supervision. *We recommend approval.*

Franchise Tax Board—Continued

The demand created by the recent installation of more sophisticated EDP equipment for programming services, appears to warrant the programmer trainee position requested as a part of the adjustment for workload increase, and *we so recommend.*

Personnel

The workload increase adjustment includes one assistant personnel officer position. The Legislature disapproved the agency's request for an associate personnel analyst in the 1966–67 budget. No significant changes have occurred since that time which improve the agency's justification. *We recommend deletion of the assistant personnel officer position, $8,532, budget page 423, line 40.*

Statistical Reporting

An additional 0.7 of a position of temporary help is requested for coding of personnel income tax returns, transcription of corporate returns, and compilation of escaped and supplemental personal property tax assessments having a potential effect on the computation of the bank tax rate. *We recommend approval.*

Program Planning

This activity includes planning in methods and organization, audit and compliance activities, and budgeting. Major accomplishments during the past year include a study of potential EDP application to personal income tax return processing, a study of the feasibility of mathematical verification and clerical audit selection for fully paid small returns, formulation of a program budget for 1967–68, and the first steps in development of an EDP based master file and new procedures for the processing of corporate returns and estimates.

We approve of the request for 0.3 of a temporary help position for budget planning on the basis of increased Department of Finance demands.

Work Measurement and Controls

Last year the Legislature approved an appropriation of $225,900, Item 158 of the Budget Act of 1966, for initiation of the work measurement and controls program in 1966–67. The board contracted with H.B. Maynard & Co., a management consulting firm, to train analysts and supervisors in the measurement and reporting of motion and time, especially that involved in highly repetitive clerical operations. The object of the program is to accurately identify unproductive time so as to provide agency management with information allowing it to eliminate personnel on a rational basis and without loss of work output.

The program proposes to measure 1,244 positions out of a total of 1,449, as shown in Table 2, or 85.9 percent by February 1968. It is proposed to measure the positions by units or groups of units successively, starting with 478 positions in 10 clerical units during November 1966, and ending with 30 positions in three regional units during January 1968. The measurement process will last from two to four months in each unit or group of units, with the controls to be installed one to two months later.

Franchise Tax Board—Continued

During the measurement phase, the analysts will determine the ratio of time needed to perform the tasks of the section, according to measurement standards, to the total of personnel time allotted to the section. In the control phase, employees will be trained to record the type and number of specific work tasks performed, EDP will compile the data, and supervisors will utilize the data, to increase production. In the third phase, management will translate the increased production into budgeted personnel savings.

Language in the Budget Bill provides that $285,000 shall not be available for expenditure until allocated by executive order of the Director of Finance. This, together with $115,000 identified on budget page 425, line 17, is intended to measure the total savings to be realized from the Work Measurement and Control Program during 1967–68.

We recommend deletion of $285,000 in order to insure realization of savings from this program, budget page 423, line 34.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ITEM 117 of the Budget Bill Budget page 427

FOR SUPPORT OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT FROM THE GENERAL FUND

Amount requested in Budget Bill		$1,733,958
Budget request before identified adjustments	$1,790,192	
Increase to recognize full workload change	136,428	
Budget as adjusted for workload change	$1,926,620	
Adjustment—undetailed reduction (10 percent)	192,662	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		$120,157
BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING		$72,505

Summary of Recommended Reductions

	Amount	Budget Page	Budget Line
Existing positions:			
1 Intermediate stenographer	$5,354	428	4
From increase to recognize full workload change;			
6 Area representatives and related costs	$72,283	427	14
2 Clerks and related costs	11,553	427	14
Increase not justified	30,967	427	14

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development was established by Chapter 1222, Statutes of 1965, in effect September 17, 1965. By this act the Legislature broadened the responsibility of the state in housing and expressed greater state interest in housing problems. The responsibility for enforcement of housing standards was previously lodged in the Division of Housing in the Department of Industrial Relations. With the creation of the Department of Housing and Community Development this function was transferred from the Department of Industrial Relations to the Department of Housing and Community Development and established in its Division of Building and Housing Standards. Activities in this division represent a continuation of programs of primary and secondary enforcement responsibilities under various provisions of state law regulating housing standards. The Department of Housing and Community Development was created with broadly defined responsibilities in housing but focused on the mandate to assist local jurisdictions upon request in applying for federal assistance in housing development and community development programs. To accomplish these objectives the department has centered these new programs in the Division of Housing and Community Development.

Chapter 1222 also created a nine-member Commission of Housing and Community Development to set policies for the department and to promulgate appropriate rules and regulations in the enforcement of housing standards. Members are appointed by the Governor for four-year staggered terms and the chairman is designated by the Governor and serves at his pleasure.

The department is headed by a director, appointed by the Governor, at a salary of $18,000 per year. Each of the two divisions is headed by a chief, appointed by the Governor on recommendation of the director at a salary of $15,500 per year.

ANALYSIS AND RECOMMENDATIONS

From information which has been furnished us as to calculation of the "increase to recognize full workload change" of $136,428, budget page 427, line 14, we are able to identify the following amounts:

Price increase, operating expenses	$10,875
Increased per diem for travel	10,750
6 new district representatives and related costs	72,283
2 new clerical positions and related costs	11,553
Total	$105,461

We recommend deletion of the remainder of $30,967, budget page 427, line 14, since the amount cannot be identified and accordingly we have no basis for making an evaluation.

We recommend approval of the first two adjustments relating to price increases and increased per diem rates, the latter resulting from Board of Control action in December 1966. We are recommending against the additional positions, for reasons discussed later in this analysis.

Table 1 is a summary of the staff of the Department of Housing and Community Development, from 1964–65 to 1967–68, including comparable activities formerly assigned to the Division of Housing in the Department of Industrial Relations, from 7-1-64 to 9-17-65.

Department of Housing and Community Development—Continued

Table 1

Staff of the Department of Housing and Community Development, by Division, Including Comparable Activities of the Department of Industrial Relations From July 1, 1964, to September 17, 1965

Division	*Actual 1964–65*	*Actual 1965–66*	*Authorized 1966–67*	*Proposed 1967–68*
Administration:				
Director	--	0.8	1	1
Technical	--	1.2	3	3
Clerical	--	2.9	7	7
Total	none	4.9	11	11
Division of Housing and Community Development:				
Chief	--	--	1	1
Coordinator	--	1.1	3	3
Area representative	--	1	6	6
Clerical	--	0.6	6	5
Total	none	2.7	16	15
Division of Building and Housing Standards:				
Chief	0.9	1.1	1	1
Technical and supervisory	9.0	10.0	12	12
District representative	51.1	51.6	65	71
Clerical	28.3	28.2	31.5	33.5
Total	89.3	90.9	109.5	117.5
Total	89.3	98.5	136.5	143.5

Note: Proposed positions for 1967–68 include eight new positions included in "increase to recognize full workload change," budget page 427, line 14.

Division of Housing and Community Development

The legislation creating the Department of Housing and Community Development enlarged the state responsibilities to provide consultative and technical assistance to urban areas. This technical assistance is provided primarily in the form of informing the local governments of the various types of federal aid programs available and assisting them in preparing applications for submission to the federal administrators. The general need for such a function is shown by the complex array of federal grant programs that bear on community development and the further complexities of the application procedures. The state has no administrative responsibility under the federal grant provisions for those grant programs where cities or other local governmental authorities may apply directly to the federal government. Chapter 1222 specifically limits the role of the Department of Housing and Community Development in this area to one of advising and providing technical assistance to enable local governments in California to receive the full benefit of available federal monies but without the state attempting to control the basic programs these funds support (Section 37111, Health and Safety Code).

In addition to consultative activities in assisting local governments the division staff is engaged in preparing miscellaneous reports and studies on federal legislation affecting housing and community development. Staff is also assigned to provide research background for special committees of the Commission of Housing and Community Development.

The division has entered into construction contracts for the erection of prototype low cost housing units in three communities under a federal demonstration grant of $243,000 which the division is administering. The purpose of this demonstration project is to examine the feasibility of alternative low cost methods of constructing homes particularly in reference to providing housing for low income rural residents.

The division has concentrated its activities thus far in helping to qualify various farm labor communities for the financial assistance available through the Farmers Home Administration. The division has also assisted in the preparation of applications under the Urban Renewal program and the Public Housing program particularly in the latter program with regard to the leased housing provisions of the Housing and Urban Development Act of 1965.

In the process of preparing an application under provisions of several of the programs administered by the U.S. Department of Housing and Urban Development, the applicant community as a condition of eligibility must have developed a "workable program," a document which sets forth the community's plan for dealing with the problem of urban slums and blight. The division's staff, as an example of technical assistance, assists the local community in preparing documents of this type.

The division is currently staffed with 10 professional and 5 clerical positions.

1 division chief
3 coordinators, community development
6 area representatives
5 clerical

The three community development coordinators have staff and line responsibilities which are specialized in the areas of federal grant programs, urban renewal, and housing standards and technology. Each coordinator directs two area representatives and the area representatives make most of the direct contacts with local communities.

One area representative and one clerical position are currently vacant.

We recommend the reduction of one existing intermediate stenographer position, budget page 428, line 4, $5,354. This position is one of those shown in the Salary Supplement, page 391, line 26.

There are currently 10 professional positions to 5 clerical positions in this division whereas the generally accepted standard is a ratio of 3 professional to 1 clerical which indicates that this division is overstaffed by 1 clerical position.

The Division of Building and Housing Standards

The Standards Division has both primary and secondary enforcement responsibilities in carrying out a program of physical inspection of housing structures to enforce state health and safety regulations regarding construction and maintenance. We will first discuss the division's enforcement activities under the State Housing Law and related statutes.

The division has secondary enforcement responsibilities under the State Housing Law (Health and Safety Code, Sections 17910–17995), the Earthquake Protection Law (Health and Safety Code, Sections 19000–19170), and Labor Code (Sections 1460–1486).

State Housing Law

The State Housing Act prior to 1961 appeared in Sections 15000 through 17902 of the Health and Safety Code and dealt with hotels, apartment houses and dwellings. It had its origins in the Tenement House Act of 1909 which was limited in its application to incorporated areas only. In 1923 provisions dealing with apartment houses and hotels were extended into unincorporated areas as well. In 1959 dwellings in unincorporated areas were brought under the act but only where the board of supervisors had by appropriate resolution adopted the state act relating to dwellings.

From the inception of this legislation, it was provided that local authorities were to enforce the state provisions. A change was made in 1953 whereby any local authority having and enforcing a local ordinance prescribing minimum standards equal to or greater than the provisions of the state act could enforce its own ordinance in lieu of the state's. This rule applied if (a) the local ordinance was, in fact, more stringent, and (b) the local authority notified the appropriate state department that such an ordinance was in force and effect .

All rules and regulations governing the buildings brought under this state act were statutory in nature and could only be modified by an act of the Legislature.

In 1961 the old State Housing Act was repealed and a new act called the State Housing Law (Health and Safety Code, Sections 17910–17995) was enacted. The State Housing Law encompassed the following major changes:

(a) Changes in the rules and regulations that were to be enforced would be made by administrative action rather than by legislative enactment.

(b) An administrative agency, the Department of Industrial Relations through its Division of Housing, was given the power to adopt rules and regulations in furtherance of certain standards set out in the act.

(c) Counties were no longer permitted an option in the application of the State Housing Law to dwellings.

The rules and regulations enforced under the State Housing Law are for the purpose of protecting the ". . . the public health, safety, and general welfare of the occupant and the public governing the erection, construction, enlargement, conversion, alteration, repair, moving, removal, demolition, occupancy, use, height, court, area, sanitation, ventilation and maintenance of all hotels, motels, apartment houses,

Department of Housing and Community Development—Continued

and dwellings, and buildings and structures accessory thereto. Such rules and regulations may include a schedule of fees to pay the cost of enforcement under Sections 17952 and 17965.'' (Health and Safety Code, Section 17921.)

The law also provided that the rules and regulations adopted will be reasonably consistent with recognized and accepted standards contained in various industry codes, (e.g., the Uniform Housing Code and the Uniform Building Code, as adopted by the International Conference of Building Officials, etc.).

Under the 1961 State Housing Law local officials were still charged with enforcement and hence the primary enforcement agencies are city and county building departments or city and county health and fire departments if there is no housing department in a city or county.

Secondary enforcement responsibilities under the State Housing Law requires the division to carry on inspection and code enforcement programs when there is no local enforcement or where the local enforcement agency is not enforcing housing standards at least equal to those established under the state statute. The division is currently carrying on an inspection program in three counties, Trinity, Mariposa and Tuolumne since there are no local enforcement agencies in these counties. In the remainder of the state local agencies have the primary enforcement responsibility for the State Housing Law. In addition to the limited direct enforcement responsibilities under the State Housing Law, the division acts in an advisory capacity to assist local jurisdictions in the enforcement of the State Housing Law and the Earthquake Protection Law.

Table 2 shows actual man-years of district representatives, by activity, for 1963–64 to 1965–66. The man-years shown for 1964–65 and 1965–66 are in excess of those shown for district representatives in Table 1, because of the inclusion of overtime. All of the activity for 1963–64 and that from July 1 to September 17, 1965 was carried on when this function was in the Department of Industrial Relations.

Table 2

District Representatives, by Activity

	Man-years (actual)		
Activity	*1963–64*	*1964–65*	*1965–66*
State Housing Law	11.00	8.41	6.42
Employee Housing Act	6.70	7.24	8.14
Earthquake Protection Law	0.44	0.66	1.54
Mobilehome parks	11.67	15.90	17.52
Mobilehomes	11.55	16.05	18.29
Labor Code (Sec. 1477)	--	0.91	1.19
Special projects, misc.	2.64	3.39	3.27
Total	44.00	52.56	56.37

The primary enforcement responsibilities of the division concern the physical inspection of employee housing under Sections 2610–2645 of the Labor Code (Employee Housing Act) and inspections of mobilehome and mobilehome parks (Health and Safety Code, Division 13, Part 2).

Under the provisions of the Employee Housing Act the division has housing standards enforcement responsibilities for all employer-provided housing where the employer is providing housing for five or more employees. Generally these are labor camps for migrant farmworkers. In 1965 there were slightly more than four thousand registered labor camps throughout the state. The Employee Housing Act requires all labor camps in use or anticipated for use to be registered.

Under the Mobilehome and Mobilehome Parks Law the Standards Division has both primary and secondary enforcement responsibilities. The Department of Housing through its Standards Division has sole jurisdiction of mobilehome and trailer coach manufacturers. All house trailers sold in California must be approved by the division as to the safety of plumbing, heating and electrical equipment. This approval is represented by insignias affixed to all trailers (mobilehomes) manufactured in California since 1958 when the law went into effect. The principal mode of enforcement is one of plan checking production line models for compliance with the division's equipment regulations followed by periodic onsite factory inspections to insure that the trailers are being manufactured according to the approved plans. Trailers or mobilehomes that are being built according to custom requirements must be individually inspected in order for them to bear the official insignia. This program of plan approval and factory inspections is supported by fees levied on the manufacturers and in 1965–66 $430,352 was collected in fees under this program.

This program is supplemented by dealer lot inspections for resale of trailer coaches to enforce the law's requirement that all trailers sold in California have a state insignia.

Included in the "increase to recognize full workload changes" of $136,428, budget page 427, line 14, are six new district representatives, salary range $746–906, and two clerical positions for the inspection of mobilehome manufacturers and dealers. The division proposes to increase its inspections of the 291 manufacturers of record from once each month to twice each month. On the basis of the division's estimates this will add 4.5 man-years of workload. We do not see any justification in this proposal and the division has not presented any information that the present policy of inspecting each manufacturer once a month is inadequate in terms of maintaining a quality level of enforcement. Moreover, the division's field representatives also respond to request for custom trailer approvals (trailers that are not constructed according to approved plans of plan-checked or standard models) which brings the field representative to the manufacturers' premises in many cases more than once a month and certain additional onsite inspection of the premises may be made when these situations occur. The fact that fees are charged for these inspections under Section 18371 of the Health and Safety Code, does not in our opinion justify increasing the number of inspections beyond that which is necessary to enforce mobilehome health and safety regulations.

The division is currently carrying on a program of dealer lot inspections and has the policy objective of inspecting each dealer once a

Department of Housing and Community Development—Continued

year. Before a dealer can sell a trailer which does not show the division's insignia the dealer must contact the division and have the trailer inspected. The inspection is fee supported. This service compliments the division's enforcement respecting sales since the dealer's entire inventory may be inspected after the scheduled trailer inspection has been made. In dealer lot inspections the trailers are only visually inspected from the outside and the inspection is generally satisfied by the display of an insignia on the trailer.

We recommend disapproval of six district representatives and two clerks, $72,283 and $11,553 respectively, or a total of $83,836, budget page 427, line 14.

Under the Mobilehome and Mobilehome Parks Act (Health and Safety Code, Sections 18000–18475) the division shares enforcement responsibilities with local jurisdictions respecting mobilehome parks. The enforcement program for mobilehome parks concerns the physical inspection of the mobilehome park for compliance with the division's rules and regulations. These rules and regulations apply to size of yards and lots, distance separating trailers, construction and width of driveways, sanitary facilities, electrical installations, water supply and occupancy of trailer lots. The division is designated in the law as the enforcement agency; however, the law also allows for local enforcement by cities and counties if they have by specific legislative action assumed this responsibility. Local enforcement has assumed a large portion of this workload. Currently out of a total of 4,485 parks with 188,981 spaces (lots), local enforcement has responsibility over 2,720 parks and 124,548 spaces and the division has enforcement responsibility over 1,745 parks with 64,505 spaces.

The mobilehome owner pays annual fees established under the Mobilehome and Mobilehome Parks Act (Sec. 18202, H. & S. Code) to the enforcement agency for an operating permit. Construction and plan approval fees are also collected. The division collected $131,488 in fees for its mobilehome parks inspection program in 1965–66.

Policy Option

The Standards Division furnishes consultative services in assisting local agencies in their enforcement activities under the State Housing Law and Earthquake Protection Law. The cost of these services is not now reimbursed. However, Section 17966 of the Health and Safety Code provides that the division may enter into contracts with local agencies in providing assistance and that these contracts shall contain provision for the payment of the cost of such enforcement, or portion thereof, as may be determined by the division. Since the local agencies' enforcement activities are supported by fees charged for construction permits and plan approvals we feel that the division should be reimbursed for the technical assistance it provides to local enforcement agencies under the State Housing Law and the Earthquake Protection Law.

We recommend that the division enter into contract arrangements with local agencies when providing enforcement assistance under the State Housing Law and the Earthquake Protection Law and that these contracts contain provisions to reimburse the division for the costs of these services.

STATE TREASURER

ITEM 118 of the Budget Bill Budget page 429

FOR SUPPORT OF THE STATE TREASURER FROM THE GENERAL FUND

Amount requested in Budget Bill		$481,886
Budget request before identified adjustments	$517,415	
Increase to recognize full workload change	18,013	
Budget as adjusted for workload change	$535,428	
Adjustment—undetailed reduction (10 percent)	53,542	
RECOMMENDED REDUCTION FROM WORKLOAD BUDGET		$25,986
BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING		$27,556

Summary of Recommended Reductions

	Amount	*Budget Page*	*Budget Line*
Delete Assistant State Treasurer	$19,536	429	52
Delete one senior stenographer	6,450	429	52

GENERAL PROGRAM STATEMENT

The State Treasurer is a constitutional officer who has the following responsibilities: (1) to maintain accountability for all money, securities and pledges belonging to or held in trust by the state, (2) to pay warrants and checks drawn by the State Controller, (3) to invest surplus state funds under the general direction of the Pooled Money Investment Board, and (4) prepare, sell, and redeem the general obligation bonds of the state.

The following table shows the growth of the Treasurer's office over a five-year period.

Table 1
A Five-Year Comparison of Staff and Expenditures in the State Treasurer's Office

Fiscal year	*Man-years*	*General Fund support*
1963–64	48.9	$410,412
1964–65	50.4	435,233
1965–66	52.0	447,849
1966–67 (est.)	52.3	488,892
1967–68 (proposed)	52.3	517,415 *

* Not adjusted for workload change or 10 percent reduction.

Table 2 shows our estimate of the distribution of the Treasurer's staff by programs for the budget year.

Table 2
Distribution of the Treasurer's Staff by Programs, 1967–68

Program	*Man-years*
General administration	9.2
Debt service	9.5
Investment service	5.2
Accounting and cashiering	15.7
Trust service	12.7
Total	52.3

State Treasurer—Continued

ANALYSIS AND RECOMMENDATIONS

General Administration

This program consists of the State Treasurer, the Deputy State Treasurer ($19,536) which is an exempt position, the Assistant State Treasurer ($19,536), another exempt position, an administrative assistant ($13,212) and supporting clerical positions. In the past the Deputy State Treasurer has acted as the office manager and chief consultant to the Treasurer. The Assistant State Treasurer position was established by executive action in January of 1957 supposedly on the justification that it would be filled by a financial expert who would assist the Treasurer in the sale of state bonds. However, this Assistant State Treasurer position has consistently been used in a public relations capacity rather than as originally justified. In previous analyses we have recommended that this position be abolished because the Office of State Treasurer does not have the state responsibilities which warrant a public relations type of position. Our position on this subject has not changed, therefore, *we recommend that the Assistant State Treasurer ($19,536) and one supporting clerical position ($6,450) be abolished for a saving of $25,986, budget page 429, line 52.*

Debt Service

This program includes the selling, issuing, servicing and redeeming of state bonds. Part of the cost of servicing and collecting state bonds and coupons is reimbursed, the amount of reimbursements estimated at $115,890 in the budget year. Table 3 shows the actual and estimated workload of this activity.

Table 3

Number of Bonds and Coupons Redeemed (In Thousands)

	Veterans, harbor, water, and recreation	*All other*	*Total*
1965–66	2,813	2,774	5,587
1966–67	2,772	2,802	5,574
1967–68	2,790	2,757	5,547

The workload has been kept fairly constant by converting coupon bonds to registered bonds and by issuing bonds in larger denominations.

This program also involves the preparation and advertising of bonds for sale. The cost of this function, estimated at $122,500 in the budget year, is financed from the bond proceeds and these costs are not included in budgetary totals.

No change in staffing for this program is contemplated for either the current or budget years.

Investment Services

The Treasurer, under the direction of the Pooled Money Investment Board, consisting of the Treasurer, State Controller, and Director of Finance, is responsible for the investment of temporarily idle state moneys. There are three investment programs, the Pooled Money Investment Account, the Surplus Money Investment Fund and the Condemnation Deposit Fund. Table 4 shows that the average daily investments in these three funds totaled over a billion dollars in

State Treasurer—Continued

1965–66, an increase of 12 percent over the prior year, while interest earnings increased by 25 percent to $47.8 million.

Table 4

Investments by the Pooled Money Investment Board (Millions)

	1964–65			1965–66		
Investment program	*Average daily amount invested*	*Earnings*	*Percent yield*	*Average daily amount invested*	*Earnings*	*Percent yield*
Pooled money	$611.9	$24.0	3.92	$680.5	$29.9	4.39
Surplus money	316.6	12.5	3.94	358.0	15.9	4.44
Condemnation	38.1	1.5	4.04	44.8	2.0	4.41
Total	$966.6	$38.0		$1,083.3	$47.8	

A discussion of each of these funds follows:

Pooled Money Investment Account

The source of funds for this account is the excess General Fund moneys and certain bond proceeds in the Treasurer's demand (checking type) account. The amount of excess available for investment is determined monthly by comparing the total receipts (revenues, bond proceeds, and maturing investments) and the estimated total disbursements (redeemed warrants). These idle balances, however, fluctuate on a day-to-day basis and therefore investments must be adjusted for these changes which is accomplished by buying and selling short term federal securities. Of greater importance is the monthly and seasonal variations in the amount of idle state funds. Principally this is due to the scheduled timing of state bond issues and the fact that a large share of our tax receipts are received during a three-month period (February to April). In 1965–66, the excess available for investing was at a high of $1 billion on August 4, 1965, whereas by December 14, 1965 they stood at a low of $495 million. The average daily amount of idle funds was $729.2 million in 1965–66. However, Table 4 showed that not all of these funds were invested. Part of these idle funds were left in noninterest bearing bank accounts to compensate 10 banks for the banking services they perform to the state. These funds are called the compensating balance. Another part of these funds were left in a noninterest bearing time bank account to compensate one bank for the bond and coupon collection services it performs for the state. Table 5 shows the total distribution of the average daily amount of idle funds in 1965–66.

Table 5

Distribution of the Average Daily Amount of Idle Funds in the Pooled Money Investment Account During 1965–66 (Millions)

Distribution	*Average daily balances*	*Interest earnings*
Compensating balances	$48.5	none
Bond and coupon collection service	.2	none
Investment in securities	480.5	$21.2
Investment in time (savings) deposits	200.0	8.7
Total	$729.2	$29.9

State Treasurer—Continued

The magnitude of the compensating balance is determined in the following manner. First, a cost formula is established which stipulates cost figures for six basic banking services performed for the state by the depository banks. Calculations are made on the basis of the number of transactions (i.e., checks deposited, etc.) times the cost factor in setting the total cost of bank services that are to be reimbursed through the compensating balances. Second, the board imputes an interest rate that is used in determining the amount of money that will be required to be left in these accounts to compensate for the bank's charges. This interest rate is set to approximate the bank's cost of borrowing money which could be either the federal reserve discount rate or the federal funds market rate. Third, a calculation is made to adjust for "float." The term "float," refers to the time lag between the date a check or receipt is deposited with a bank and the date on which the check is cleared. During the interval, which the board estimates at $1\frac{3}{4}$ working days on the average, the bank receiving the check or receipt cannot use these funds until they have cleared the account of the issuing bank. During 1965–66, about $36.2 million of the compensating balance was for the float adjustment, while the remaining $12.3 million was left idle to compensate the banks for the banking services they performed for the state.

In addition to the compensating balances, the state maintains a non-interest earning time account in a bank in Sacramento to compensate it for the bond and coupon collection services it provides for the state. A sum of $189,000 was held idle for this purpose during 1965–66.

After deducting the compensating balances and the idle deposit for bond and coupon services, the remainder of the excess cash in the Pooled Money Investment Account is free to be invested. These funds are distributed between two types of earning investments, time (savings) deposits and federal securities. It has been the policy of the board since 1962–63, to invest $200 million of these funds in time deposits. These deposits are distributed among 142 banks in California and they are deposited for one year periods. The Treasurer has arranged to have approximately 1/12 of these deposits mature each month.

During a period of tight money this policy makes it possible for the maturing portion of these accounts to be redeposited at higher earning rates. The last fiscal year 1965–66 was a period of tight money and the Treasurer was able to increase the earning rate on time deposits by renegotiating these deposits. In July of 1965 these accounts were distributed over a range of interest rates that ran from $3\frac{7}{8}$ to $4\frac{1}{2}$ percent. In June of 1966 these deposits had been shifted to a higher range which ran from $4\frac{1}{4}$ percent to 5 percent. Consequently earnings on state time deposits averaged a high 4.33 percent in 1965–66, as compared, for example, to 1964–65 when earnings averaged 3.96 percent.

Each month the Pooled Money Investment Board designates the sums to be invested in securities. As we have explained, the amount of idle state cash available for investment in securities for a particular month is the total Pooled Money Investment Account less that month's compensating balance and less the $200 million maintained in bank time deposits. This amount varies from month to month because of changes in the total amount of idle state funds as well as changes in the monthly compensating balance. For the most part these funds are invested in short-term notes and securities of the federal government. For example over 70 percent of the security holdings on June 30, 1966, were for 90 days or less. The average yield on these investments for fiscal 1965–66 was 4.42 percent.

The Surplus Money Investment Fund

These moneys come from the available cash of a number of special funds which either have no investment authority of their own or have elected to join the Surplus Money Investment Fund. The board determines whether participating funds have cash balances in excess of current needs and these funds form the basis for the actual investment program administered by the Treasurer. Earnings are prorated to participating funds twice yearly in contrast to the Pooled Money Investment Account, which contributes all of its earnings to the General Fund.

The Surplus Money Investment Fund averaged $358 million a day in 1965–66. Total earnings for that year were $15,885,000 which represented a return of 4.44 percent to the 41 participating funds at year end. Earnings derive primarily from security transactions, although in fiscal 1965–66, earnings of $1,203,000 came from loans made by this fund to the General Fund, a new procedure arising out of 1965 legislation.

Condemnation Deposits Fund

This fund is similar in most respects to the Surplus Money Investment Fund with one major exception, the moneys of political subdivisions other than the state are included in the fund. These moneys consist of funds deposited by court order in the State Treasury as a result of eminent domain proceedings. In 1965–66 this fund averaged $44.9 million per day and had total earnings of $1,976,000 and an apportioned earnings rate of 4.41 percent.

Recommendation: *Consolidate Pooled Money Investment Account and Surplus Money Investment Fund.*

The Treasurer's office has proposed that the resources of the Pooled Money Investment Account and the Surplus Money Investment Fund be consolidated. This change would require legislation. This consolidation would offer several clear advantages in improving the earning potential of these funds and in simplifying the Treasurer's handling of investment transactions. For example:

1. It would reduce the high and low swings in the amount of available funds and therefore, combining the portfolios of the two programs would allow securities to be invested for a longer time period at higher interest rates.

2. This combination would simplify the determination of loan requirements for loans that are made from the Surplus Money Investment Fund to the General Fund. Under the present requirements Surplus Funds must be converted to cash (i.e., security holdings liqui-

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dated) before the General Fund may borrow the money. With the pooling of the two programs these borrowing determinations would not directly depend on security liquidations of special fund investments.

3. This combination would allow the Surplus Fund to be invested "closer." Smaller amounts for small funds could be declared as available through the Surplus Fund without involving actual transactions in such amounts. Under existing practices the Treasurer does not attempt to make market purchases in denominations less than $100,000. Usually, the Treasurer is investing in even millions.

4. Since General and Special Fund surplus moneys are invested in the same types of securities, the combination of these two funds would not adversely affect the earning potential of either fund. In fact, the consolidation probably would improve the earning potential of both funds.

5. This consolidation would also simplify the Treasurer's administration of these funds and would eliminate the need for numerous interprogram investment transactions. In the Pooled Money Investment Account between 20–25 percent of the total investment activity involves interprogram transactions, principally with the Surplus Money Investment Fund. In 1965–66 there were 221 of these transactions. Each transaction involves a number of steps such as, "purchase document," "sales document," "invoice," etc., so elimination of the separate identification of the "pool" account and the Surplus Fund for investment purposes would simplify investment operations.

We recommend that appropriate legislation be enacted for the consolidation of the Pooled Money Investment Account and the Surplus Money Investment Fund.

Trust Services

This activity is also closely related to the investment program in that after the decision to buy or sell is made by the investment section the actual accounting for the documents and warrants is made under the trust services program.

Bank collateral consisting of securities of the types specified in Government Code Section 16522, is required to be deposited in the Treasurer's vault or other approved depositories by all banks holding state deposits. These securities must have a value of at least 10 percent in excess of the amount deposited with any bank. Daily adjustments are necessary to account for varying portfolios and values of collateral items.

State-owned securities and pledges required for other purposes such as those required by the Department of Insurance are kept in the Treasurer's vault. The timely collection of interest on the state-owned securities and the clipping of coupons on bonds held as pledges are a part of this program.

The Treasurer estimates they will receive $60,000 in reimbursements for the current year and $55,000 for the budget year for bond collection expenses.

State Treasurer—Continued

Accounting and Cashiering

This section is responsible for the redemption of warrants issued by the State Controller and accounting for deposits in the state's depository banks. This activity supplements the investment program by providing daily reporting on the state's cash position. Actual and estimated workload growth is shown in the following figures:

Fiscal year	*Warrants paid (thousands)*	*Deposit and deposit reports (thousands)*	*Total items (thousands)*
1964–65	5,194	306	5,500
1965–66	5,352	322	5,674
1966–67 (est.)	5,516	338	5,854
1967–68 (est.)	5,685	354	6,039

HEALTH AND WELFARE AGENCY ADMINISTRATOR

ITEM 119 of the Budget Bill **Budget page 432**

FOR SUPPORT OF HEALTH AND WELFARE AGENCY ADMINISTRATOR FROM THE GENERAL FUND

Amount requested in Budget Bill		$183,664
Budget request before identified adjustments	$200,914	
Increase to recognize full workload change	3,157	
Budget as adjusted for workload change	$204,071	
Adjustment—undetailed reduction (10 percent)	20,407	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET $2,000

BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING $18,407

Summary of Recommended Reductions

	Amount	*Budget Page*	*Budget Line*
Workload adjustment, in-state travel	$1,000	432	18
Workload adjustment, out-of-state travel	1,000	432	18

ANALYSIS AND RECOMMENDATIONS

The Health and Welfare Agency Administrator supervises, and for the Governor, coordinates the operation of the Departments of Social Welfare, Mental Hygiene, Public Health, Rehabilitation, Office of Health Care Services, the Citizens Advisory Committee on Aging, the Office of Atomic Energy Development and Radiation Protection and the Mental Retardation Services Development and Coordination Program.

The budget estimates workload costs of $264,971 in 1967–68, composed of $60,900 of federal funds and a General Fund amount of $204,071 which after an undetailed reduction of $20,407 amounts to a net General Fund appropriation of $183,664. This can be compared to estimated costs of $523,812 for 1966–67. The decrease is primarily the result of the termination during the budget year of the federal grant for initial mental retardation planning made available to the