

Job Training and Placement Council—Continued

to be submitted to the Legislature in the 1968 Session. The three subject areas chosen for this report are: (1) communications—how the people can be better informed about job training opportunities, (2) industrial planning—how private industry might be involved in job training, and (3) policy—what should be the criteria for a program's effectiveness or an applicant's qualifications, etc. The staff is attempting to develop a standard of cost benefit analysis for job training programs.

Under the provisions of Chapter 1105, Statutes of 1967, the council has proposed two major studies for the current fiscal year which will carry over to the budget year. One study is dependent upon the \$100,000 federal grant shown in the 1967-68 Budget. The other study is contingent upon obtaining three professionals in the job training field and one clerk on loan from existing state agencies.

No report has been submitted by the council, thus results of its efforts cannot be adequately assessed at this time. More information in this regard should be available after the council's report to the 1968 Legislature.

The proposed budget requests a sum of \$10,660 for travel expenses for the six-month period of July 1 to December 31, 1968. This is an increase of \$2,756 or 3.5 percent over the amount authorized for 1967-68, a 12-month period.

We recommend a reduction of \$5,000 in the travel portion of operating expenses.

Records of expenditure have shown that in the period beginning July 1 and ending November 7, 1967, a total of \$1,102 was spent on travel. During this four-month period, four meetings were held at an average cost of \$275.50 per meeting. At a cost of \$50 per person, all eligible personnel could meet once a month for six months at a cost of \$4,350. With a reduction of \$5,000, the amount remaining of \$5,660 should be adequate to provide travel for the council and staff for a six-month period. This reduction will not lower the level of service of the agency.

BOARD OF CONTROL**ITEM 109 of the Budget Bill**

Budget page 542

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

Amount requested	\$103,266
Estimated to be expended in 1967-68 fiscal year	97,510
Increase (5.9 percent)	\$5,756
TOTAL RECOMMENDED REDUCTION	None

Summary of Recommended Administrative Improvements

Integration of clerical duties.

Summary of Recommended Studies

Board should study methods of increasing uniformity and eliminating arbitrary delays in evaluation of employee suggestions by agencies, with report on alternative proposals to the 1969 Legislature.

Board of Control—Continued

GENERAL PROGRAM STATEMENT

The Budget Act of 1967 transferred the merit award function and staff from the Department of General Services to the Board of Control.

The combined staff now serves two separate boards: (1) Board of Control—consisting of the Controller, the Director of the Department of General Services, and a member appointed by the Governor from the public at large, charged with claims adjudication, rulemaking and other miscellaneous functions, including action upon recommendations of the Merit Award Board. (2) Merit Award Board—consisting of seven members, including a representative of the Department of General Services, two state employees at or below the first-line supervisory level, one management-level employee (public or private), two persons from state employee organizations, and a member of the staff of the State Personnel Board. This board recommends awards for employee suggestions, superior accomplishments, and meritorious acts to the Board of Control for the latter's approval.

The following table shows how the staff is allocated between the boards. The budget figures for 1967-68 understate the agency's actual staff by 0.6 man-year of temporary help which were obtained by the conversion of other personnel funds within the agency.

	<i>Actual 1966-67</i>	<i>Estimated 1967-68</i>	<i>Proposed 1968-69</i>
Board of Control			
Man-years -----	4.9	4.9	5.0
Costs -----	\$39,319		
Merit Award Board			
Man-years -----	6.0	5.0	5.3
Costs -----	\$69,445		
Combined man-years -----	10.9	9.9	10.3
Combined costs -----	\$108,764	\$108,298	\$114,054

The combination of the staffs of the Board of Control and the Merit Award Board was initiated in order to eliminate the need for the exempt position "Secretary of the Board of Control" and to reduce at least temporarily the need for additional clerical assistance.

ANALYSIS AND RECOMMENDATIONS

The budget lists the Board of Control's proposed expenditures in 1968-69 at \$114,054. However, only \$103,266 will be an appropriation from this item. The remaining \$10,788 will be received from Item 264 to cover the administrative costs relating to tort liability claims.

The workload of the combined staff is divided among four program areas:

1. Claims against the state.
2. Awards to state employees.
3. Rulemaking.
4. Miscellaneous fiscal matters.

1. Claims

The staff of the Board of Control receives, processes, refers to the Attorney General for investigation, and presents to the board for its

Board of Control—Continued

action all claims made against the state. The board adjudicates tort liability claims and, in the event of approval, directs payment from the tort liability fund appropriated under Item 264. Other types of approved claims are referred to the Legislature for payment out of various funds under the legislative claims bill Item 264. The board meets bimonthly.

The total number of claims filed is the primary indicator of workload for that part of the staff servicing the Board of Control. 1967 legislation (Chapter 1546) added a new workload area for the board consisting of claims to aid victims of violence. This program, which is designed to indemnify needy citizens who are injured as the result of crimes, formerly was administered by the Department of Social Welfare. The amount of indemnification is limited to expenses incurred for medical care, loss of wages and other necessary expenses directly related to the injury, but in no event can any award exceed \$5,000. Potentially this is a large source of claims. The funds for these claims will be paid out of Item 264.

	Actual 1966-67	Estimated	
		1967-68	1968-69
Claims received -----	2,000	2,300	2,600
Man-years authorized -----	4.9	4.9	5.0*
Claims/man-year -----	408	469	520

* Includes requested position.

The 4.9 man-years estimated for 1967-68 includes all the time of the new Secretary of the Board of Control (former secretary of the Merit Award Board).

The new clerical position, which consists of the conversion of 0.9 man-year of temporary help to a permanent position, will be assigned to the claims program.

The increased efficiency of clerical personnel anticipated as part of the combination of staff has not occurred, because each section has retained the duties it had under the former boards.

We recommend approval of the requested clerical position. We also urge that the board be directed to integrate the clerical staff into one clerical pool, in an attempt to keep staff requirements for increasing claims workload within manageable limits.

2. Awards to State Employees

The staff duties relating to this program include the receipt, reference to agencies, review and recommendations on employee suggestions and the recognition of superior accomplishment and meritorious acts of employees. Recommendations of the staff are made to the Merit Award Board, and, whether approved or disapproved by the latter, are carried forward to the Board of Control for final decision. Awards approved by the Board of Control for more than \$150 can only be made by concurrent resolution of the Legislature. The Board of Control adopts rules and regulations for the operation of the employee award program and appoints the Merit Award Board, under the authority of Government Code, Section 13926.

Board of Control—Continued

The staff assigned to the Merit Award Board must rely heavily on the agencies for evaluation of the suggestions as it is not of sufficient size to make independent evaluations. Each agency is required to designate a management level employee to be responsible for its employee suggestion program and to work with the Merit Award Board staff. However, neither the Merit Award Board nor the Board of Control has authority to compel agencies to act promptly on requests for evaluation of suggestions and can only hope that the agencies maintain an interest in the priority of this program. The result is a lack of uniformity in the agency processing of employee suggestions.

Another defect is that some agencies are not complying with Board of Control Rule 829(f), which provides that agencies shall report their findings and recommendation on each suggestion within 30 days. This situation is illustrated by the following statistics:

Number of suggestions outstanding, November 30, 1967.....	945
Extension of time requested by agency, cases.....	342
Outstanding 30 days or less.....	201
Outstanding 31-60 days, without explanation.....	109
Outstanding more than 60 days, without explanation.....	293

We recommend that the Board of Control examine the problems of lack of uniformity and delay in the suggestion program, and make alternative proposals to the 1969 Legislature for their correction.

3. Rulemaking

The Board of Control adopts rules and regulations governing travel and meal expenses, merit awards, claims administration, and various other matters of general state interest. The staff supports this function.

4. Miscellaneous Fiscal Matters

The Board of Control also performs miscellaneous functions, including the processing of refunds and cancellations, discharge of accounts receivable of the state, the sale and disposal of unclaimed property, and the transfer of funds between certain state institutions. The staff provides support.

We recommend approval of the amount requested.

STATE CONTROLLER

ITEM 110 of the Budget Bill

Budget page 543

FOR SUPPORT OF STATE CONTROLLER
FROM THE GENERAL FUND

Amount requested	\$5,392,868
Estimated to be expended in 1967-68 fiscal year.....	5,076,757
Increase (6 percent)	\$316,111
Increase to improve level of service, \$71,116	
TOTAL RECOMMENDED REDUCTION.....	\$14,360

Summary of Recommended Reductions

	Amount	Budget Page	Budget Line
Associate research analyst, Administration Division.....	\$10,860	544	7
Equipment—automobile	3,500	544	27

State Controller—Continued

Summary of Recommendations

Eliminate the present inheritance tax appraiser system and substitute self-assessment.

Transfer tax collection function of Division of Tax Collection and Refund to State Board of Equalization.

GENERAL PROGRAM STATEMENT

The State Controller carries out his constitutional and statutory duties through an agency composed of eight divisions and by being a member of numerous boards and commissions. The constitution makes him the state's disbursing officer and a member of the State Board of Equalization and the Reapportionment Commission. All of his other duties are statutory in origin.

The major duties of the Controller's office consist of the following programs (together with subprograms).

1. Fiscal Control, including: (a) acting as the state's chief accounting officer, (b) making apportionments to local government, (c) collecting fiscal information and preparing financial statements, (d) pre-auditing expenditures from the State Treasury, (e) auditing subvention payments to local government, (f) maintaining records of outstanding warrants drawn on the Treasury, and (g) administering the Uniform State Payroll System.

2. Tax Administration, including: (a) administration of inheritance and gift taxes, (b) administration of the refund of gasoline taxes to nonhighway users, and (c) collection of miscellaneous taxes.

3. Fiscal Affairs of Local Government, including: (a) administering uniform accounting procedures for counties, (b) collection and publication of local government financial information, (c) assisting special districts in developing uniform auditing and accounting practices, and (d) administering laws relating to tax-deeded property.

4. Escheat to State of Unclaimed Property.

The growth of the agency as a whole, both in man-years and in expenditures, is demonstrated in Table 1.

The man-year request for the budget year generally is lower than the current year because (1) salary savings have been increased from an amount equivalent to 2 percent of the staff in 1967-68 to 3.15 percent in 1968-69, and (2) existing positions totaling 7.7 man years have been deleted from the proposed budget. This reduction occurred in the audits, tax collection and refund, and tax-deeded lands divisions.

The Controller's total expenditures have increased an average of 3.9 percent annually during the last four years.

Table 1
A. Man-Years by Division
1964-65 Through 1968-69

Division	1964-65	1965-66	1966-67	Estimated 1967-68	Proposed 1968-69	1968-69 over
						1964-65
Administration -----	32.1	33.2	33.2	32.9	32.7	0.6
Accounting -----	55.3	54.7	53.7	61.2	62.2	6.9
Disbursements -----	168	172	170.9	175	174.5	6.5
Inheritance and gift tax	110.2	118	119.3	122.1	119.5	9.3

State Controller—Continued

Table 1—Continued
A. Man-Years by Division
1964-65 Through 1968-69

<i>Division</i>	1964-65	1965-66	1966-67	<i>Estimated</i> 1967-68	<i>Proposed</i> 1968-69	<i>1968-69</i> <i>over</i> <i>1964-65</i>
Tax collection and refund -----	72.4	71.9	72.1	71.2	68.2	-4.2
Local government fiscal affairs -----	33	35.6	35.8	39.1	38.6	5.6
Tax-deeded land -----	19.2	18.2	17.7	8.7	8	-11.2
Total -----	561.5	574.8	577	586.8	577.8	16.3

B. Expenditures by Fund (in thousands)

<i>Fund</i>	1964-65	1965-66	1966-67	1967-68	1968-69	1968-69 over 1964-65
General -----	\$4,720.7	\$4,790.1	\$4,930.6	\$5,076.8	\$5,833.5	\$662.8
Motor vehicle fuel -----	793.2	835.3	900.5	981.8	956.8	163.6
Motor vehicle transportation -----	136.5	126.4	122.2	156.1	161.3	24.8
School building aid -----	169.1	177.3	179.4	203	160.2	-8.9
Aeronautics -----	--	13.6	42.2	58.3	58.6	58.6
Cigarette tax -----	--	--	--	150	--	--
Total -----	\$5,819.5	\$5,942.5	\$6,174.9	\$6,626	\$6,720.4	\$900.9

ANALYSIS AND RECOMMENDATIONS

Administrative Division

<i>Function</i>	<i>Actual</i> 1966-67	<i>Positions</i> <i>Authorized</i> 1967-68	<i>Proposed</i> 1968-69
1. General administration -----	11.5	11	12
2. Legal and management analysis -----	4	4	4
3. Accounting and personnel -----	10	11	11
4. Service and supply -----	7.7	7.7	7.7
Totals -----	33.2	33.7	34.7

This division supplies legal, research, personnel, accounting services and general administrative direction to the agency, as well as assistance to the State Controller in his capacity as a member of various boards and commissions.

The budget proposes to restore an associate research analyst position which was deleted by the 1967 Legislature. This new position is submitted on the basis that it will be used to: (1) assist the Controller in his responsibilities as a member of various boards and commissions and (2) provide analysis regarding governmental financing. In our 1967-68 Analysis (Page 445), we pointed out that the Controller has two exempt deputy positions which are capable of providing the necessary staff support for his board and commission workload. The task of analyzing governmental finances has been assigned to a newly established 5.5 man unit in the Controller's Division of Accounting. This position, therefore, would duplicate the new unit's area of responsibility.

We recommend deletion of the proposed research analyst position, \$10,860, Budget page 544, line 7.

The equipment allowance for the division includes \$3,500 for the replacement of the State Controller's official automobile. This automobile, a 1965 Lincoln Continental, cost \$5,073 new and as of January

State Controller—Continued

1, 1968 had been driven only 30,260 miles. The following table shows the average mileage on automobiles most recently turned in by six other constitutional officers.

Mileage of Automobiles Turned in by Constitutional Officers		
<i>Title</i>		<i>Mileage</i>
Secretary of State -----		55,000
Former State Controller -----		81,000
Board of Equalization member -----		47,000
Board of Equalization member -----		83,000
Board of Equalization member -----		69,000
Board of Equalization member -----		54,000
Average -----		64,833

We know of no mechanical difficulties or major defects which would make an automobile of such recent vintage and low mileage unserviceable. Nor has it been demonstrated that replacement is justified on the basis of economy. Therefore we recommend a \$3,500 reduction in the equipment item, Budget page 544, line 27.

<i>Unit</i>	Accounting Division		
	<i>Actual 1966-67</i>	<i>Authorized 1967-68</i>	<i>Proposed 1968-69</i>
1. Control accounts -----	36	37	37
2. Financial analysis -----	7	8	8
3. Fiscal audit -----	--	5.5	5.5
4. Unclaimed property -----	6.7	8.2	10.2
Administrative—unallocated -----	4	4	4
Totals -----	53.7	62.7	64.7

1. Control Accounts

The Controller maintains control accounts on all funds in the State Treasury. The workload is relatively stable and consists of processing deposits into and claims upon approximately 160 funds in the State Treasury.

2. Financial Analysis

This unit prepares annual, semiannual, quarterly, and monthly reports of the state's financial affairs. It compiles data to guide the apportionment to local agencies of revenues from both state and federal sources. It administers the Judges' Retirement System and plans future transactions under the Pooled Money Investment Program.

3. Fiscal Audit

Chapter 963, Statutes of 1967 added Section 12427 to the Government Code, requiring the Controller to "audit all records of the Department of Finance for the preceding fiscal year" and to report the results to the Legislature on the first day of the following legislative session. Based upon this directive and upon an August 3, 1967 letter from the Assembly Committee on Revenue and Taxation interpreting the statutory language, the agency sees its function as including an audit review of the amount and timing of expenditure and allocation programs, the methods of accruing revenues and expenditures, cash

State Controller—Continued

flow and borrowing capacity, accuracy of past Department of Finance revenue forecasts, a post-audit determination of whether expenditures were made within the intent of the Legislature, and examination of the sources of miscellaneous General Fund income.

A professional staff of five, including a supervising auditor, a senior administrative analyst, three auditors, plus 0.5 man-years of temporary clerical help, was created during the current fiscal year at an estimated cost of \$75,000. In addition, the Controller is authorized, and has hired, a private consultant to examine the revenue estimating techniques of the Department of Finance.

It is too early to examine the accomplishments of the new unit. In January 1968, this unit delivered a preliminary report on the scope of its activities to the Assembly Revenue and Taxation Committee. However, its first official report required by statute has not yet been submitted to the Legislature. We understand that it is scheduled for release in March 1968.

4. Unclaimed Property

The escheat of property to the state is administered under two statutory provisions: (1) unclaimed estates of deceased persons, and (2) abandoned property.

The activities of this section may be viewed as constituting a unique program of the agency. Table 2 gives the net receipts and costs (including divisional and agency overhead) for the past, current, and budget years. The receipts are transferred to the General Fund.

Table 2
Net Receipts and Costs of Controller's Unclaimed Property Program

Receipts	Actual	Estimated	
	1966-67	1967-68	1968-69
Estates of deceased persons -----	\$548,638	\$565,000	\$417,550
Abandoned property -----	1,130,165	3,344,000	940,000
Total Net Receipts -----	\$1,677,803	\$3,909,000	\$1,357,000
Costs -----	\$106,663	\$115,581	\$147,526

The sizeable increase in unclaimed and abandoned property in 1967-68 resulted from a favorable judicial decision as to the state's escheat rights to unclaimed bank and corporation dividends, stocks, travelers' checks and other miscellaneous assets. Since these assets will be claimed by the state on a continuing basis, two positions are requested in order to insure proper reporting by banks and corporations. We have always supported the addition of these positions in the event the state won the litigation. *Therefore we recommend approval of the two auditor compliance positions, Budget page 545, lines 53 and 54.*

State Controller—Continued

Unit	Division of Audits		
	Actual 1966-67	Positions Authorized 1967-68	Proposed 1968-69
Claim audits -----	36.3	37	37
Field audits -----	33	35.9	33.9
Administrative—unallocated -----	5	5	5
Totals -----	74.3	77.9	75.9

1. Claim Audits

This bureau insures, prior to payment, that warrants drawn upon the State Treasury are legally valid and that an appropriation exists from which the claims may be paid.

In 1966-67 there was a total of 182,716 claim schedules. Disallowances amounted to \$613,564. An estimated 192,902 claim schedules will be received in 1968-69 and processed by the same number of positions as in both the past and current years.

2. Field Audits

Funds distributed by the State Controller to local agencies under subvention programs are post audited for proper accounting and disbursements by local officials.

Two positions were added in 1967-68 to audit two new subvention programs created by the Junior College Construction Acts of 1963 and 1965 and the Legal Assistance to Indigents Act of 1965. The major audit programs together with a measure of their costs and benefits are presented in Table 3. Exceptions taken to local operations amounted to \$578,000 in state money and \$541,000 in federal money.

Table 3
Field Audits, State Controller
Man-Years and Recovery per Dollar of Cost
by Audit Program, 1966-67

Program Audited	Man-Years	Recovery Per Dollar Cost
State:		
State school building aid -----	8.49	\$2.14
Emergency flood relief -----	1.52	1.95
Airport assistance -----	1.05	4.10
Local flood control projects -----	3.32	2.19
Local water projects -----	.82	N/A
Community mental health services -----	3.25	1.97
Public health -----	.84	.93
Social welfare -----	1.33	N/A
Federal:		
Civil defense -----	1.55	\$1.63
Federal disaster assistance -----	2.60	9.23
Other -----	5.31	N/A

In 1965-66 three auditor positions were administratively established to audit flood relief programs adopted as a result of flood damage during 1964-65. These positions were limited in duration through the last day of the 1967-68 fiscal year. Because of continuing activity in flood control and flood relief programs the agency is asking that one

State Controller—Continued

of the three positions be retained on a permanent basis. *We recommend approval of the one flood control auditor position, Budget page 546, line 44.*

Disbursements Division

The three sections of this division contain the following number of authorized positions:

Section	Actual 1966-67	Positions Authorized 1967-68	Proposed 1968-69
1. General disbursements -----	30.2	32.5	35
2. Payroll -----	120.8	126	125
3. Automatic data processing -----	16.8	14.5	15.5
Administrative—unallocated -----	3.1	4	4
Totals -----	170.9	177	179.5

1. General Disbursements

Master controls are maintained on all state disbursements. Bank reconciliations, agency trust accounts and fund accounting transactions are subject to daily controls. The issuance of warrants is performed by computer operation in Sacramento.

Starting January 1, 1968, both the federal and state income tax agencies are requiring the state to furnish information on certain nonsalary payments to individuals and partnerships. These reports will cover such items as commissions, fees, rents and royalties, pensions and annuities. The Controller is requesting 2.5 keypunch operators to handle this new workload, and *we recommend approval of these positions.*

2. Payroll

The State Controller will issue salary and wage payments totaling over \$1 billion in 1967-68. This section maintains state employee rosters for payroll preparation, accounts for and applies nearly 6 million payroll deductions and issues approximately 250,000 U.S. savings bonds annually. The workload of this section has stabilized since the beginning of 1967 due to the statewide hiring freeze and 1967-68 budgetary restrictions.

3. Automatic Data Processing

This section, which covers only a portion of the Disbursements Division's total ADP costs, provides assistance to other units within the agency and to other state agencies. All its services are charged back to the originating source, as shown in Table 4.

State Controller—Continued

Table 4
Reimbursements for ADP Services

Source	Originally estimated 1967-68	Revised 1967-68	Proposed 1968-69
Controller's office:			
Division of Accounting -----	\$73,510	\$80,907	\$96,604
Division of Inheritance and Gift Tax ..	30,000	38,600	33,027
Division of Local Government Fiscal Affairs -----	46,000	40,331	33,063
Division of Tax Collection and Refund	9,061	4,955	5,202
Subtotal, Controller -----	\$158,571	\$164,793	\$167,896
Other state agencies -----	85,848	95,018	99,772
Total Reimbursements -----	\$244,419	\$259,811	\$267,668

The charges for the Division of Accounting reflect mechanization in the printing of the Controller's *Annual Report*. The increase of \$15,697 for 1968-69 is principally a one-time programming cost. Benefits from these expenditures are measured by the release of the report a month earlier than the present January date, and a gradual reduction of the contract service expense of approximately \$9,000 paid annually to the Department of Finance.

Division of Inheritance and Gift Tax

	Actual 1966-67	Positions Authorized 1967-68	Proposed 1968-69
1. Inheritance tax -----	102.8	105	105
2. Gift tax -----	14.5	15.5	15.5
Administrative—unallocated -----	2	3	3
Total -----	119.3	123.5	123.5

Despite steadily increasing workloads in both inheritance and gift tax reports, the agency seeks to maintain its present level of service through improvements in the division's internal processes rather than through an increase in manpower.

Two tax counsel II positions, one in Los Angeles and the other in San Francisco, are being used to develop statewide rules and guidelines for the conduct of legal and audit reviews of closely held businesses, trusts and powers of appointment.

When the agency fills the vacant assistant chief position in Sacramento (it has been vacant over a year), the position will be assigned the task of installing a uniform system for reviewing work of the inheritance tax attorneys in the three district offices. This review would supplement the post audit currently being made of the examiner (accountant) workload in the district offices.

Inheritance Tax Appraisers

Inheritance tax appraisers are appointed by the State Controller, serve at his pleasure, and act as officers of the probate courts. They are required to appraise all property included in estates to determine the inheritance tax, and to submit their reports to the Inheritance and Gift Tax Division.

State Controller—Continued

On November 4, 1967 the State Personnel Board conducted an Inheritance Tax Appraiser Qualifying Examination for 939 applicants, including 132 incumbent appraisers. The test was the first of its kind given in the half century of the existing appraiser system. A passing score consisted of answering 65 out of the 135 questions correctly, or 48 percent. The general results of that test are given in Table 5.

Table 5
Results of Inheritance Tax Appraiser Qualifying Examination

	<i>Applicants taking test</i>	<i>Number qualifying</i>	<i>No. failing to qualify</i>	<i>Percent of applicants qualifying</i>
Incumbent appraisers:				
Appointed prior to January 1, 1967	99	51	48	51.5%
Appointed January 1, 1967 and after	33	23	10	69.7
Others -----	807	387	420	48.0
Totals -----	939	461	478	49.1%

We segregated the incumbent appraisers into two classes to distinguish between those who generally had many years experience on the panel versus those with only a few months experience. Presumably a higher proportion of the experienced appraisers would be expected to pass this examination. However, the information in Table 5 clearly demonstrates that this was not the case. Approximately half of the experienced appraisers failed to pass the examination despite the fact that the passing score was only 48 percent. These experienced appraisers achieved a passing proportion which was only slightly better than the 807 nonincumbents who took the examination. The showing of the experienced appraisers in the five largest counties was only slightly better than the statewide results. In these counties, which provide the major share of inheritance tax receipts, only 28 out of the 47 experienced appraisers, or 59.6 percent, passed the examination.

The poor showing of the experienced appraisers confirms this office's long standing objection to the inadequacies of the present appraiser system. *Once again, we recommend that the existing inheritance tax appraiser system be abolished, and as a substitute legislation be enacted to provide that the inheritance tax be administered on a self-assessment basis.*

Tax Collection and Refund Division

<i>Function</i>	<i>Positions</i>		
	<i>Actual 1966-67</i>	<i>Authorized 1967-68</i>	<i>Proposed 1968-69</i>
1. Gasoline tax refunds -----	56.6	58.7	54.7
2. Tax collection -----	13.5	13.5	12.5
Administrative-unallocated -----	2	2	2
Totals -----	72.1	74.2	69.2

1. Gasoline Tax Refunds

The Controller refunds a portion of gasoline taxes paid by nonhighway users after first deducting state and local sales taxes.

Improved procedures and a decrease in workload resulting from statutory reduction in refunds to boat and certain airplane owners

State Controller—Continued

have allowed a reduction in clerical support. One position was administratively eliminated in the current year and four positions are to be removed in the 1968-69 Budget. The workload has decreased from 69,902 claims received and processed in 1965-66 to 57,834 in 1967-68, or 17 percent.

2. Tax Collection

The Controller maintains certain types of delinquent taxpayer accounts and attempts to collect these taxes. Delinquent motor vehicle transportation license (truck) taxes take 89 percent of the manpower (equivalent to 11.1 man-years) available in this section. As the result of a decrease in workload, the agency is proposing to eliminate one clerical position in the budget year.

Recommendation

Last year we recommended that the delinquent tax collection function be transferred to the State Board of Equalization. The latter administers, on a statewide basis, the collection of sales, use-fuel, cigarette, and alcoholic beverage taxes and assesses the truck tax. Approximately 200 man-years are used in the collection of these taxes and about 85 man-years are devoted to the registration, auditing and assessment of truck taxes. Because of the board's geographic diversity and experience in administering the assessment of truck taxes and collection of delinquent taxes generally, *the transfer of the truck tax collection function to the State Board of Equalization would lead to greater administrative efficiency. Therefore, we recommend that appropriate legislation to accomplish this objective be adopted.*

Division of Local Government Fiscal Affairs

Function	Actual 1966-67	Positions	
		Authorized 1967-68	Proposed 1968-69
1. Financial reports -----	10.4	10.4	10.4
2. Streets and roads -----	20.2	23.9	23.9
3. Uniform accounting and budgeting--	3.2	4.8	4.8
Administrative—unallocated -----	2	2	2
Totals -----	35.8	41.1	41.1

1. Financial Reports

The Controller collects, compiles, publishes and distributes without charge the consolidated reports of the financial transactions of cities, counties, special districts, irrigation districts and school districts. The division claims that the Advisory Committee to the State Controller on Financial Reports is enjoying considerable success in increasing uniformity in reporting procedures, especially with respect to special districts. Recent legislation (Chapter 1138, Statutes of 1967) requires for the first time the filing of material relating to the bonded indebtedness of the above reporting jurisdictions. The new act will place an unknown additional workload on the Controller's office.

State Controller—Continued**2. Streets and Roads**

The Controller audits the expenditure of state gas tax money apportioned to cities and counties under the provisions of the Collier-Burns Highway Act of 1947 and the Collier-Unruh Local Transportation Development Act of 1963. Also included under this function is the compilation and publication of a consolidated report of city and county financial transactions relating to streets and roads.

Prior to November 8, 1967, the Controller and the Division of Highways shared administrative responsibility under the Collier-Burns and Collier-Unruh acts. The Controller's workload was dependent upon the number of street and road projects upon which Division of Highways personnel had completed an engineering inspection and report. On the above date the provisions of Chapter 1621, Statutes of 1967, became effective, under which the Division of Highways ceased to conduct these inspections. Thus, the Controller is now responsible for determining whether construction on streets and roads meets with prescribed standards. As this is largely an engineering task the agency recognizes a need to acquire the services of engineers to make inspections prior to completion of street and road projects. The cost of acquiring these services is not included in the budget but mention is made of the possibility of augmenting the budget at a later date to provide funds for reimbursing the Division of Highways under an informal agreement for the performance of engineering inspections by the latter.

3. Uniform Accounting and Budgeting

The Controller is required to: (a) devise and supervise the installation of uniform budgeting and accounting procedures for all counties and (b) prescribe uniform accounting and reporting procedures for special districts other than school districts.

Legislation in 1967 added to the list of special districts, for purposes of mandatory reporting, both joint power agreements and redevelopment agencies. The division is now striving to measure the number and complexity of the new workload and a request for an increase in staff may be expected in the future.

Division of Tax-Deeded Lands

The 1967 Budget Act eliminated the five field offices of this division. As a result, the staff declined from 17.7 man-years in 1966-67 to 8.7 man-years in the current year. The amount budgeted for a portion of one man was used to pay accumulated vacation time of the severed employees. In the budget year this division will have eight positions.

This division assists local tax collectors in the administration of laws relating to the deeding of property to the state for the nonpayment of local property taxes. Specifically, it:

1. Receives from and maintains county tax collector lists of tax-delinquent properties prior to deeding (due to legislation enacted in 1967, many counties maintain their own lists),

2. Receives and maintains abstracts of deeds upon property delinquent for at least five years and deeded to the state,

Controller**Items 111-113****State Controller—Continued**

3. Advises county tax officials regarding procedures and the law pertaining to tax-delinquent and deeded property, also working jointly with them to obtain legislation improving administration, and

4. Authorizes the public sale of tax-deeded properties by counties.

STATE CONTROLLER**ITEM 111 of the Budget Bill****Budget page 543****FOR SUPPORT OF THE STATE CONTROLLER FROM THE
MOTOR VEHICLE TRANSPORTATION TAX FUND**

Amount requested	\$161,333
Estimated to be expended in 1967-68 fiscal year	156,075
Increase (3.4 percent)	\$5,258

TOTAL RECOMMENDED REDUCTION	None
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ANALYSIS AND RECOMMENDATIONS

This appropriation is for the cost of collecting the Motor Vehicle Transportation (truck) Tax. We recommend in our discussion in Item 110 that the function of collecting this tax be transferred to the State Board of Equalization.

We recommend approval.

STATE CONTROLLER**ITEM 112 of the Budget Bill****Budget page 543****FOR SUPPORT OF THE STATE CONTROLLER
FROM THE MOTOR VEHICLE FUEL FUND**

Amount requested	\$956,787
Estimated to be expended in 1967-68 fiscal year	981,803
Decrease (2.5 percent)	\$25,016

TOTAL RECOMMENDED REDUCTION	None
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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 110.

We recommend approval.

STATE CONTROLLER**ITEM 113 of the Budget Bill****Budget page 543****FOR SUPPORT OF THE STATE CONTROLLER
FROM THE SCHOOL BUILDING AID FUND**

Amount requested	\$160,238
Estimated to be expended in 1967-68 fiscal year	203,006
Decrease (21.1 percent)	\$42,768

TOTAL RECOMMENDED REDUCTION	None
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Items 114-115**Controller****State Controller—Continued****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 110.

We recommend approval.

STATE CONTROLLER**ITEM 114 of the Budget Bill****Budget page 543****FOR SUPPORT OF THE STATE CONTROLLER
FROM THE AERONAUTICS FUND**

Amount requested	\$58,580
Estimated to be expended in 1967-68 fiscal year	58,355
Increase (0.4 percent)	\$225

TOTAL RECOMMENDED REDUCTION	None
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ANALYSIS AND RECOMMENDATIONS

This appropriation covers the auditing and accounting activities for the airport assistance program, which are included under Item 110.

We recommend approval.

BOARD OF EQUALIZATION**ITEM 115 of the Budget Bill****Budget page 553****FOR SUPPORT OF THE BOARD OF EQUALIZATION
FROM THE GENERAL FUND**

Amount requested	\$21,650,791
Estimated to be expended in 1967-68 fiscal year	20,196,872
Increase (7.2 percent)	\$1,453,919

TOTAL RECOMMENDED REDUCTION	\$80,000
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Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget</i>	<i>Page</i>	<i>Line</i>
Establish fee schedule for valuation division mapping service	\$80,000	556	29	
Delete 1 senior tax representative	8,952	556	57	
Reduce reimbursements by like amount	—8,952	557	27	

GENERAL PROGRAM STATEMENT

The Board of Equalization is a five-member policy body elected by the people. Although the Controller, an ex officio member, is elected statewide, each of the other members is elected from an individual equalization district. Section 15623 of the Government Code charges each of the board members with the responsibility of investigating "the administration, enforcement and operation within the district from which he is elected of all laws, the administration and enforcement of which are vested in the board." The 2,300 employees of the board are responsible to the Executive Secretary who translates board policy into daily operations. Board meetings are generally held once each month to adopt rules and regulations for the administration or collection of

Board of Equalization—Continued

taxes, to decide individual tax appeals, to review current and proposed legislation affecting taxes, and to settle staff personnel matters.

The board's five areas of responsibility can be summarized as follows:

1. To equalize the assessment of property among the 58 counties.
2. To assess public utility and railroad property and to apportion this value to the counties for local tax purposes.
3. To aid and train the county assessors and to report on the administration of the property tax by the assessors.
4. To administer wholly or partially the retail sales, cigarette, alcoholic beverage, insurance, and private car taxes, and three motor vehicle levies.
5. To make decisions on income and franchise tax appeals from the Franchise Tax Board.

Table 1, which shows a five-year comparison of the board's staff and expenditures, indicates that the staffing level for the budget year, excluding tax legislation, will be almost identical to that of 1966-67. The

Table 1
Board of Equalization Budgets—A Five-Year
Comparison of Staff and Expenditures

Department or Division	1964-65	1965-66	Man-years			1968-69
			1966-67	1967-68	1968-69	
Administration	280.2	305.4	303.8	323.2	322.7	
Business taxes	1,830.0	1,859.9	1,854.0	1,828.1	1,819.2	
Property taxes	153.8	157.3	164.9	180.9	179.5	
Subtotal	2,264.0	2,322.6	2,322.7	2,332.2	2,321.4	
Tax legislation				58.1	20.3	
Total				2,390.3	2,342.7	
FUND						
			Expenditures (millions)			
General	\$16.5	\$18.3	\$19.4	\$20.2	\$21.7	
Motor Vehicle						
Transportation	1.0	1.1	1.0	1.1	1.1	
Motor Vehicle Fuel	1.0	1.0	1.0	1.2	1.2	
Cigarette Tax	--	--	--	1.6	--	
Total	\$18.5	\$20.4	\$21.4	\$24.1	\$24.0	

expenditures during the current year from the Cigarette Tax Fund are a one-time occurrence, necessary for the support of the tax changes made by Chapter 963, Statutes of 1967 (SB 556), which was enacted after the adoption of the budget.

Table 2 shows the allocation of new positions attributable to 1967 tax legislation. It indicates that during the current year 40.7 of the posi-

Board of Equalization—Continued

tions were assigned to sales tax workload, 12.7 to cigarette taxes, 3.7 to distilled spirits and 1 to the real estate transfer tax. The staff assigned to cigarette and distilled spirits taxes was used to determine the correct amount of "floor tax" on the dates of the rate changes. In the budget year all except one of the requested positions will be assigned to sales tax workload and all of these sales tax positions will be phased out by the end of the budget year. Thus, only one of the 20.3 tax legislation positions requested during 1968-69 is considered a permanent authorization.

	Positions	
	1967-68	1968-69
Chapter 963 (SB 556)		
Rate increase		
Sales tax -----	22.4	4.5
Cigarette -----	12.7	--
Distilled spirits ----	3.7	--
Total SB 556 -----	38.8	4.5
Chapter 964 (SB 1488)		
Contractors sales tax exemption-----	15.7	13.5
Chapter 1632 (AB 444)		
Extend sales tax prepayments to Bradley-Burns taxes --	2.6	1.3
Chapter 1332 (SB 837)		
Property transfer tax--	1.0	1.0
TOTAL-----	58.1	20.3

ANALYSIS AND RECOMMENDATIONS

The operations of the Board of Equalization are divided among three divisions: Administration, Business Taxes and Property Tax.

Administration Division

1. Executive. The executive section includes the board members, except the Controller, their deputies, the executive secretary and the clerical positions necessary to support them.

2. Staff Services. This section consists of those services reporting directly to the executive secretary, and includes: legal, administrative analyst, internal audit, personnel, and the tax service specialist units.

3. Administrative Services. The administrative services section has four separate units, each of which reports through the administrative services officer to the executive secretary. The section provides staff assistance to the other two major divisions—property tax and business taxes—through its budget development staff, statistical service, EDP unit, and general services. The administrative services section also prepares the board's assessment of the gross premiums and retaliatory taxes on insurance companies.

4. Office of Appraisal Appeals. Chapter 147, Statutes of 1966, (AB 80) established the Office of Appraisal Appeals (OAA) within the board as an appeals body for the county assessors. Periodically the counties' property tax assessed values are sampled by appraisers from the Division of Intercounty Equalization (DIE) to determine the actual assessment ratio being used by the county assessor. Just as homeowners often disagree with the assessor over values, so do assessors

Board of Equalization—Continued

disagree with the state's appraisers. The Office of Assessment Appeals is the arbiter of these differences and with its staff of appraisers it is equipped to resolve differences between the board's property tax division and the county assessor's opinions of full cash value. The as-

Table 3
Activities of the Division of Intercounty Equalization and the Office of Appraisal Appeals, October 1, 1967 to January 31, 1968

	Colusa	Fresno	Los Angeles	San Luis Obispo	Santa Clara	Ventura	Total
Total DIE appraisals -----	239	339	440	277	371	306	1,972
Number completed and appealable -----	239	42	56	277	346	305	1,265
Total appeals to OAA -----	17	2	15	31	15	28	108
Resolved by OAA -----	8	1	--	5	--	--	14
Findings contested—Appeals carried to board -----	2	1	--	--	--	--	3
In progress -----	7	--	15	26	15	28	91

essor may carry his appeal to the board if he is not satisfied at this intermediate step.

Since October, 1967, its first month of operation, the OAA has taken 108 appeals from assessors of six counties and resolved 14. Three others on which OAA had concluded its work will be carried to the Board of Equalization. The number of DIE appraisals that have been completed and are "appealable" is a better indicator of potential workload than the total number of appraisals that will be made in a county. For example, 440 sample appraisals will be made in Los Angeles County during the current year, but only 56 were completed by January 31,

Table 4
Distribution of Staff and Expenditures
in the Administration Division

Units	Man-Years		
	1966-67	1967-68	1968-69
1. Executive -----	26.8	27.0	27.1
2. Staff Services			
Legal -----	33.1	35.9	36.1
Administrative analyst -----	9.2	9.7	9.7
Internal audit -----	5.1	4.3	4.3
Personnel -----	11.0	11.7	11.8
Tax service specialist -----	2.0	2.0	2.0
3. Administrative Services			
Fiscal office -----	29.8	29.8	30.5
Statistics -----	8.6	8.8	8.9
EDP -----	107.3	110.6	111.0
General Services -----	78.4	83.2	81.5
4. Office of Appraisal Appeals -----	--	7.7	7.8
Total -----	311.3	330.7	330.7
Fund	Expenditures (Thousands)		
General -----	\$3,226	\$3,645	\$3,691
Motor Vehicle Transportation Tax -----	137	146	146
Motor Vehicle Fuel -----	159	170	170
Total -----	\$3,522	\$3,961	\$4,007

Board of Equalization—Continued

1968. The 15 appeals already filed by the assessor means that he may dispute one of every four appraisals being made.

No change in budgetary levels is recommended for OAA in 1968-69 even though only three of its five authorized positions for appraiser have been filled. OAA is currently recruiting for these vacant positions and we believe one year of experience should be observed before adjustments in staffing levels are made.

Table 4 shows the distribution of staff and expenditures in the Administration Division. These man-year figures and those in subsequent tables will differ slightly from budgetary totals because the staff has been 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).

Business Taxes Division

This division has the sole responsibility for the administration of the state and local retail sales tax, the state and local cigarette tax, alcoholic beverage taxes, and the motor vehicle use fuel (diesel) tax. The board shares administration of the motor vehicle fuel (gasoline) and motor vehicle transportation (truck) taxes with the State Controller's office. Table 5 shows that about 90 percent of the division's manpower is devoted to the administration of the sales tax. Although the staffing level for most of the taxes has remained constant, additional manpower has been transferred from sales tax to cigarette tax enforcement during the current and budget years because of the 1967 cigarette tax rate increases.

1. Sales and Use Taxes. Three measures enacted at the 1967 Session had a major impact on the administration of the sales and use tax. Chapter 963 (SB 556) increased the state tax rate from 3 percent to 4 percent, obviously increasing the revenue from this source, but also increasing the state's share of the administrative costs. Since local governments' 1 percent rate was formerly one-fourth of the total rate, they shared one-fourth of the total cost of administering the sales tax. Now that the total rate is 5 percent, their share is one-fifth and they bear only one-fifth the cost of administration. For this reason the state's share of the administrative costs will increase by approximately \$1 million during the budget year.

Authorized staffing was augmented by 22.4 positions in the current year to handle the increased workload resulting from a rate change which was effective in midquarter. Since most large taxpayers report on a quarterly basis, during the third quarter of 1967 some of their sales were taxed at one rate, while others were taxed at the higher rate. Most of the workload phased out in the first few months of operation under the new rate so that in the budget year only 4.5 of the 22.4 positions are being requested. All will be assigned to sales tax collections and all will phase out during the budget year.

In 1965 the state shifted to a prepayment of sales tax from certain large taxpayers. The legislation was designed to solve a revenue prob-

Board of Equalization—Continued

Table 5
Distribution of Staff and Expenditures in the Business Tax Division

<i>By tax</i>	<i>Man-years</i>		
	<i>1966-67</i>	<i>1967-68</i>	<i>1968-69</i>
Sales -----	1,630.2	1,598.6	1,587.8
Cigarette -----	9.3	15.9	19.3
Alcoholic beverage -----	20.0	20.0	20.0
Use fuel -----	75.8	75.8	75.8
Gasoline -----	16.3	16.3	16.3
Truck -----	89.1	89.1	89.1
Total -----	1,840.7	1,815.7	1,808.3
<i>By fund</i>	<i>Expenditures (thousands)</i>		
	<i>1966-67</i>	<i>1967-68</i>	<i>1968-69</i>
General -----	\$18,737	\$19,249	\$19,511
Motor Vehicle Transportation Tax -----	934	996	996
Motor Vehicle Fuel -----	975	1,042	1,042
Total -----	\$20,646	\$21,287	\$21,549

lem at the state level, and, therefore, affected only the state's share of the sales tax. To simplify administration of the combined state and local sales tax, Chapter 1632, Statutes of 1967 directed that the 1 percent local share of the sales tax be included in the prepayment plan. Even though this change will result in a uniform collection procedure, additional personnel were required during the transition stage. In the current year, 2.6 new positions were added to handle workload in this area and 1.3 of these positions, budgeted at \$11,529, will be continued in the budget year although they will be phased out during the year. The overall result of the bill will be a slight decrease in continuing costs for the board and a substantial one-time revenue windfall for cities and counties in the current fiscal year.

The third significant legislative change was Chapter 964, Statutes of 1967. Under this measure materials and fixtures obligated by an engineering or building construction contract entered into for a fixed price prior to August 1, 1967 were exempted from the 1-percent rate increase. The purpose of the exemption was to relieve contractors from the increase in the sales and use tax for materials they were to purchase in the course of completing contracts made prior to the date of the rate change. Board staff was increased by 15.7 positions in the current year to handle the increased workload and 13.5 of these positions will be continued during 1968-69 to process 220,000 tax returns which contain entries for the 50,000 contractors entitled to the exemption. All of these 13.5 positions will terminate before the end of the budget year but they will cost \$28,272 during that year. Among the board's special duties under this bill will be the separate calculation of state and local shares of the revenue. Where sales tax funds are now split 80-20, these 220,000 special accounts must be shared 75-25 with the cities and counties, requiring two separate accounting systems for sales tax collection.

Board of Equalization—Continued

1a. Sales Tax Field Audits. During 1966-67 the board's sales tax field audit program cost \$10.7 million and netted \$19.1 million for the state, cities, and counties. The recovery per dollar expended on audits was \$1.78, bolstered considerably by the \$4.33 figure from out-of-state auditing. In-state auditing produced \$1.49 in net revenue per dollar of cost (see table 6).

Although audits of firms with headquarters in the western states are directed from Sacramento, the board maintains an office in Chicago and another in New York City to audit the major firms which keep their books and records outside California and within convenient distance of these eastern cities. The board has approximately 100 employees serving in these two offices and their value is demonstrated by Table 6. The higher return attributed to these two offices reflects the size of the accounts they audit rather than any pronounced attempts at avoidance or evasion by eastern-based firms.

Table 6
Net Revenue per Dollar of Cost From the Sales Tax Field Audit Program

District	1962-63	1963-64	1964-65	1965-66	1966-67
Los Angeles	\$1.82	\$1.50	\$1.74	\$1.56	\$1.71
San Bernardino	1.77	1.61	1.99	2.06	1.80
Marysville	1.71	1.61	2.04	1.90	1.56
San Francisco	1.39	1.05	.75	1.33	1.20
San Jose	1.26	1.27	.87	1.31	1.31
Oakland	1.22	1.40	1.42	1.35	1.36
Santa Rosa	1.16	.98	1.14	1.41	1.22
Sacramento	1.15	1.27	1.39	1.07	1.13
San Diego	.95	.56	1.15	1.06	1.32
Fresno	.95	1.13	1.21	1.23	.99
Total in-state	\$1.53	\$1.35	\$1.49	\$1.47	\$1.49
Out-of-state	2.80	4.62	5.53	3.19	4.33
Total	\$1.65	\$1.65	\$1.86	\$1.67	\$1.78

2. Cigarette Tax. Both the state and local cigarette tax are collected through the sale of tax stamps or meter impressions to cigarette distributors (i.e., wholesalers). The actual sales of these tax indicia are made by branch offices of the Bank of America acting as the state's agent, and distributors place these tax indicia on the bottom of each package of cigarettes to indicate payment of the taxes. The state allows the distributors a discount of 0.85 percent of the 10-cent-per-pack tax liability to compensate them for the cost of affixing the indicia. During the budget year, these discounts will total about \$2,041,000. The \$409,843 cost of printing the tax stamps in the budget year is a state expense. Due to the tax rate increases contained in Chapter 963, Statutes of 1967, the board's cigarette tax staff was augmented by 12.7 man-years (Table 2) during the current year. These positions were used to check the tax liability on inventories held by retailers (floor-tax) on the dates of the rate changes. All of these positions will be phased out during the current year.

Thirty percent of the revenue derived from this tax is apportioned to cities and counties on the same basis as they share in Bradley-Burns sales tax collections. Although the state is reimbursed by local govern-

Board of Equalization—Continued

ment for a portion of the total cost of administering the sales tax, similar provisions are not contained in the Cigarette Tax Law. While the Department of Finance will sponsor legislation in the 1968 session to establish a reimbursement schedule for cigarette tax collections, the budget document assumes that such legislation will be enacted since it includes a new item of \$202,569 as cigarette tax reimbursements. If this proposal is not successful the \$202,569 local share of the administration must be borne by the state and no provision is made for that contingency.

During the current year, the board received permission from the Department of Finance to allocate an additional 11 man-years to a new cigarette tax compliance program. No new positions were authorized so the new compliance staff was transferred from existing positions in the sales tax program. The compliance program will emphasize:

- (1) Spot checks of vending machines to locate untaxed cigarettes,
- (2) Inspection of indicia machines to determine if their operations comply with law,
- (3) Increased volume of distributor audits, and
- (4) The inspection of cigarette warehouse security and spot checks at border inspection stations.

This compliance program is an experiment and the actual usage of manpower in the budget year will depend upon the results obtained during the last few months of the current year. If the board determines that 11 man-years are not needed for this program in the budget year, then the staff will be reassigned to the sales tax program.

3. **Alcoholic Beverage Taxes.** The Board of Equalization administers taxes on six different classes of alcoholic beverages. These taxes are imposed on beer (four cents per gallon), distilled spirits (\$2 per gallon), dry wine (one cent per gallon), sweet wine (two cents per gallon), sparkling wine (30 cents per gallon), and sparkling hard cider (two cents per gallon). The distilled spirits tax rate was increased in 1967 and 3.7 positions were added in the current year to process the "floor tax" returns. These additional positions will be phased out during the current year.

4. **Motor Vehicle Use Fuel (diesel) Tax.** This fuel levy on diesel and liquefied petroleum gas corresponds to a similar tax on gasoline for use in motor vehicles. The rate is seven cents per gallon and the collection costs are borne by the Motor Vehicle Fuel Fund into which the receipts are deposited. Table 5 indicates the relative stability of this program.

5. **Motor Vehicle Fuel (gasoline) Tax.** The gasoline tax is the most common of the motor vehicle taxes. At a seven-cent-per-gallon rate it is imposed upon the manufacturer or importer of gasoline. Although there are 1,500 of these manufacturers and importers registered and paying the tax in the state, nine of them pay almost 90 percent of the tax. The State Controller shares responsibility for the administration of this tax by collecting delinquencies and making refunds for gasoline used for "nonhighway" purposes such as farm equipment,

Board of Equalization—Continued

boats, aircraft, and contractor's machinery. Receipts from the tax are deposited in the Motor Vehicle Fuel Fund which reimburses the board for its cost of collection.

6. Motor Vehicle Transportation License (truck) Tax. The truck tax is imposed upon the gross receipts from vehicles transporting persons or property for hire on the highways of the state. Administration of this levy is shared with the State Controller who collects delinquent accounts. Costs of collection are reimbursed to the board from the Motor Vehicle Transportation Tax Fund.

Property Tax Division

Although property taxes were the reason for the board's creation in 1870, this program now accounts for only 7.5 percent of the board's total employees and 10.6 percent of its proposed budget. Distribution of staff and budget requirements are shown in Table 7. The Property Tax Division has four basic responsibilities:

1. To advise and assist the county assessor.
2. To make sample appraisals which test intercounty equalization.
3. To assess public utility and railroad properties.
4. To assess and to collect the tax on private railroad cars.

To accomplish these objectives the Property Tax Division is broken into three subunits:

Valuation Division**Assessment Standards Division****Intercounty Equalization Division**

1. The Valuation Division. It is the responsibility of the valuation division to locate and assess all private railroad cars which enter or leave California during the year. The time each car spends in the state is apportioned against its value and the resulting figure becomes the basis for a property tax known as the private car tax. This levy is the only revenue the state derives from the property tax. During fiscal 1967-68 the state will receive \$2,931,000 from the private car tax and the revenues will be deposited in the General Fund.

The major responsibility of this division is the valuation of public utility and railroad property. This activity has three distinct phases. First is the computation of indicators of value for unitary property which results in over 70 different cost indexes, each of which is applicable to a different class or type of utility or railroad property. Then begins the period of field and office appraisal, especially for nonunitary property (property owned by a railroad or utility which is not part of its operating system, e.g., oil wells owned by a railroad). Next comes the allocation of the utility value to the more than 20,000 tax code areas within the counties. This allocation function requires 30.3 man-years, 15 of which are used to update tax code area maps.

Board of Equalization—Continued

Table 7
Distribution of Staff, Property Tax Division

Program	Man-Years		
	1966-67	1967-68	1968-69
Assessment Standards			
Surveys -----	3.7	12.2	12.2
Property tax forms -----	1.0	.4	.4
Technical services -----	7.5	8.3	8.3
Publications -----	6.2	9.2	9.2
Instructions -----	3.0	6.0	6.0
Appraiser certification -----	.9	1.1	1.2
Exemptions -----	2.3	1.6	1.9
Rules and regulations -----	--	.5	1.0
Contractual auditing -----	--	.8	.8
Administration and support -----	10.1	11.4	9.8
Subtotal -----	34.7	51.5	50.8
Intercounty Equalization			
Sample selection -----	.8	.8	.8
Property appraisal -----	56.8	58.5	58.5
Administration and support -----	8.3	9.3	9.3
Subtotal -----	65.9	68.6	68.6
Valuation			
Preparation of tax rate area maps -----	15.6	15.2	15.0
Field and office appraisals -----	18.0	17.5	17.2
Allocation of assessed values -----	15.9	15.5	15.3
Derivation of unit value indicators -----	1.5	1.5	1.5
Administration and support -----	6.0	6.9	6.9
Subtotal -----	57.0	56.6	55.9
Private Car Tax Operation			
Valuing, assessing, billing -----	3.8	3.7	3.7
Administration and support -----	.5	.5	.5
Subtotal -----	4.3	4.2	4.2
TOTALS -----	161.9	180.9	179.5

The borders of all taxing districts, be they county, city, school, or one of the many special districts, must be recorded accurately and completely so that tax bills for individual parcels will reflect the levies of districts serving them. As these districts overlap and stack upon one another, they create thousands of "tax code areas" which are islands of property subject to the same tax rate. Some cities are divided into hundreds of separate code areas and the major counties into thousands. Each county identifies its parcels by tax code area so that tax bills can be made up properly, and the state maintains maps of the code areas in all 58 counties in order to allocate utility assessments. In 1967 there were 5,295 taxing districts in the state whose overlapping boundaries created 20,659 tax code areas. The board spent 15 man-years maintaining these maps and recording 2,610 changes in district boundaries during the current year. The updated maps are furnished—free of charge—to the counties as quickly as the changes are recorded. Similar map service is available at a nominal *one-time charge* to the

Board of Equalization—Continued

utility companies which subscribe to the maps covering the counties they serve. The single payment entitles the companies to complete map revision service over an unlimited period of years. All counties except Los Angeles have seen the value of the state mapping service and are now dependent on the board for it.

Because the state derives no significant revenue from taxes on the property it assesses, the General Fund should not bear the entire cost of this mapping service.

Therefore we recommend that the board prepare a fee schedule which will cover at least half the cost of this mapping service. To implement this recommendation during 1968-69, we propose that the General Fund budget be reduced by \$80,000, budget page 556, line 29, and that revenues from these new fees be increased by a like amount.

2. The Assessment Standards Division. Assessment Standards publishes the Assessor's Handbook, a 2,100-page document, covering all phases of assessment work. The handbook is continually updated as administrative rulings, legislation, or practice may dictate. The division also surveys all county assessors' offices under provisions set forth in Chapter 147, Statutes of 1966 (AB 80). These surveys are in the nature of audits of the county's work and practice in the assessing field. They are mandatory and will be conducted in a regular cycle whereas in the past they were made only at the assessor's request. The first of these new surveys, released in December 1967, is a 228-page study of the assessor's operations in San Diego County. It will be followed shortly by the report on Sonoma County.

This division provides special appraisal assistance to county assessors as well as training and certifying appraisers in the county assessor's offices. Each appraiser is required to receive 24 hours of training each year which is either conducted or approved by the board. During the 1967 session, our recommendation that these training activities be financed by the counties using the services was adopted and incorporated in the budget. However, Chapter 1167, Statutes of 1967 (SB 765) later increased the private car tax (a state General Fund source) and provided that this new revenue was to be in lieu of any charge on the counties for the training service.

In the budget year the board is requesting that six positions assigned to this training function be continued and made permanent. *We recommend approval of these six training positions.*

3. Intercounty Equalization Division. The Division of Intercounty Equalization makes appraisals of sample properties in one-third of the counties each year to determine the assessment ratios actually applied by the county assessors. Between surveys the assessment ratios are trended by use of a three-factor formula to reflect changing property values. Retail sales, wages covered by unemployment insurance and school attendance within the county are the three factors of the formula. Chapter 147, Statutes of 1966 (AB 80) established a procedure whereby county assessors may appeal the valuations made by this division's staff. The new Office of Appraisal Appeals in the Administration Division of the board makes independent appraisals of property values

Board of Equalization—Continued

when disputes arise between this division and the local assessor. The county assessor may carry his appeal to the full board if he is not satisfied by the decision of the OAA.

New Legislation

During the 1967 session a property transfer tax was authorized as a county and city tax levy. To indicate that the tax has been paid, a stamp is attached to deeds as they are recorded in the counties. The legislation authorizing the tax provided that the Board of Equalization would furnish the stamps to the taxing jurisdictions and one senior tax representative position was authorized for the current year and is requested in the budget year to administer the stamp sales through the board. This position has not been filled and the board has no plan to fill it. Since the board has authorized the counties to buy the stamps from a private printing firm, there is no purpose in maintaining a stock of stamps at the board or in hiring a senior tax representative to mail them.

We recommend that the senior tax representative position be deleted, \$8,952, budget page 556, line 57, and that reimbursements from the property transfer tax be reduced by a like amount.

BOARD OF EQUALIZATION

ITEM 116 of the Budget Bill

Budget page 553

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

Amount requested	\$1,142,516
Estimated to be expended in 1967-68 fiscal year	1,142,516

Increase	None
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TOTAL RECOMMENDED REDUCTION	None
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ANALYSIS AND RECOMMENDATIONS

The Board of Equalization assesses and the State Controller collects the 1.5 percent gross receipts motor vehicle transportation license tax 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 115.

We recommend approval as budgeted.

BOARD OF EQUALIZATION

ITEM 117 of the Budget Bill

Budget page 553

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

Amount requested	\$1,212,338
Estimated to be expended in 1967-68 fiscal year	1,212,338

Increase	None
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TOTAL RECOMMENDED REDUCTION	None
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Item 118

Finance

Board of Equalization—Continued

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 115.

We recommend approval as budgeted.

DEPARTMENT OF FINANCE

ITEM 118 of the Budget Bill

Budget page 560

FOR SUPPORT OF THE DEPARTMENT OF FINANCE FROM THE GENERAL FUND

Amount requested	\$3,929,116
Estimated to be expended in 1967-68 fiscal year.....	3,850,680

Increase (2 percent)	\$78,436
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Increase to improve level of service.....	\$40,000
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TOTAL RECOMMENDED REDUCTION.....	\$212,943
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Summary of Recommended Reductions

	Amount	Budget Page	Line
Special assistant, systems and ADP.....	\$23,712	561	28
3 charitable trust auditors.....	40,000	561	59
Agricultural advisor, 1 clerk.....	24,543	562	6
Decrease reimbursements.....	-6,843	562	57
Eliminate Economic Development Agency.....	103,899	563	19
Senior delineator.....	10,356	563	55
Planning office, 3 clerks.....	17,276	563	55

GENERAL PROGRAM STATEMENT

Under the Governor, the Department of Finance has general administrative responsibility for the state's fiscal affairs. In this regard, its broad authority is found in Section 13070 of the Government Code:

“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.”

On a continuing basis the preparation of the Governor's Budget and the general management of all funds appropriated for its purposes constitute the major activity of the department.

The department is organized into the six divisions shown in Table 1 and each will be discussed in that order in this analysis.

Department of Finance—Continued

Table 1
Department of Finance Divisions and Staff
1966-67 to 1968-69

<i>Organizational units</i>	<i>Positions</i>		
	<i>Actual 1966-67</i>	<i>Authorized 1967-68</i>	<i>Proposed 1968-69</i>
Executive Office-----	13.6	15	15
Audits Division-----	113.5	115.3	115.3
Budget Division-----	105.5	120.3	120.3
Economic Development Agency-----	4.6	6	6
Office of Planning-----	28.9	25	25
Program and Policy Office-----	9.3	9	9
Total-----	275.4	290.6	290.6

ANALYSIS AND RECOMMENDATIONS

Executive Office

The Executive Office provides administrative direction and coordination for the Department of Finance, which in turn exercises supervision over the financial matters of the state. In addition to the Director of Finance, the Executive Office is proposed to consist of the following for 1968-69:

<i>Class</i>	<i>Positions</i>	<i>Salary range</i>	<i>Total salaries</i>
Deputy director-----	3	\$1,979-2,129	\$75,708
Assistant director-----	1	1,793-2,082	24,984
Special assistant, systems and ADP-----	1	1,626-1,976	23,712
Legislative bill coordinator-----	1	1,100-1,337	14,696
Clerical and temporary help-----	8	395-764	57,647
Total-----	14		\$196,747

Two of the three deputy director positions are located in Sacramento to coordinate policy and supervise the activities of the department. The third is in Washington, D.C., serving as an advocate for California's interests in matters pending before Congress and as liaison between the Governor and members of the California delegation in Congress. The annual cost of this Washington office is approximately \$67,000.

The position of special assistant, systems and ADP (\$23,712) was created as a result of a recommendation contained in the "Management Study of Automatic Data Processing in State Government" report of November 30, 1964, compiled by a task force within the executive branch of the state government. The recommendation, as adopted by the Governor in January 1965, contemplated a high-level staff in the Department of Finance to develop ADP policies and long-range plans for the state. The implementation of ADP plans and the regular ADP operational functions were to be the responsibility of the systems analysis staff in the Department of General Services. In June 1966, the special assistant for ADP in the Department of Finance was hired and has served to the present time.

In October 1967, the Governor declared in a policy statement that "the administration has been greatly concerned with the organization and development of management information systems and automatic data processing functions within state government. . . . I have decided

Department of Finance—Continued

to establish an Office of Management Services under the Secretary of Business and Transportation, . . . The Office of Management Services for state government will have the following functions:

"1. To develop plans for overall consolidation and optimum utilization of automatic data processing systems for state government.

"2. To work closely with and coordinate with the recently established Intergovernmental Board on Automatic Data Processing.

"3. To serve as advisor to the state on matters pertaining to information systems and data processing."

This new office was established without legislative review and received its initial financing from the Emergency Fund.

Since November 1967, the Office of Management Services (OMS) has undertaken the task of preparing policy recommendations for the Intergovernmental Board on ADP and for a State Automatic Data Processing Policy Committee established by a November 1967 Executive Order. The Department of Finance's special assistant position has not been incorporated into OMS, but instead has been retained by the department to act as an ADP advisor to the director.

The job specifications defined this position as carrying responsibility for advising the Director of Finance on the overall development and coordination of the automatic data processing policy and plan for the State of California.

In response to SCR 63, 1967 General Session, which called attention to the lack of a definitive state ADP policy or master plan in California, the Departments of General Services and Finance replied with a report to the Legislature dated January 12, 1968. This report details the steps taken by the executive branch to remedy the problems enumerated in SCR 63. There is no mention of the functions of the special assistant to the Director of Finance, although relationships between OMS, the Department of General Services, the Budget Division of the Department of Finance and the state departments are enumerated in considerable detail.

Under the new organizational relationships

1. ADP policy is formulated by the State Automatic Data Processing Advisory Committee of which the Director of Finance is a member.
2. The Office of Management Services serves as the advisor to the state in matters pertaining to information systems and data processing, including development of short- and long-range plans.
3. The Department of General Services is responsible for operations and implementation of approved recommendations.
4. Regarding the control over the expenditure and release of funds which is centered in the Department of Finance, the report prepared in response to SCR 63 states that "The Department of Finance will henceforth require the approval of the Office of Management Services for conformance with policies and overall planning, and of Systems Analysis Office for technical compatibility with detailed planning relative to implementation and conformance with State Administrative Manual requirements prior to authorizing expenditures."

Department of Finance—Continued

Under these circumstances a continuation of the position of special assistant to the Director of Finance for systems and ADP would, in our judgment, lead to policy confusion and a duplication of effort and control.

We recommend elimination of the position of special assistant, systems and ADP, for a General Fund savings of \$23,712; budget page 561, line 28.

Audits Division

The Audits Division provides the executive branch of state government with a continuing audit of all agencies in accordance with the requirements of Government Code Section 13294 which states: "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."

Other activities of the division include auditing of district and county fairs (charged against the Fair and Exposition Fund), State Treasury cash and security counts, supervision of school district audits, and review of University of California accounts.

The auditing procedure adopted by this division includes the review of plans of organization, delegation and segregation of duties, adequacy of accounting and management reporting, and standards of performance. During the course of an audit review, individual findings and recommendations are transmitted to the agency head by letter. At the end of the audit review a brief formal report is issued which contains a summary of the interim letters.

A review of these reports over a number of years suggests that they are not an effective management tool. In most cases they consist of a few pages of extremely summarized financial details. Very little information is presented about the actual operations of the agencies. In order to make these reports more useful for management purposes in the operating agencies and in control agencies such as the budget division, we recommend a change in the style of the audit reports so that more emphasis will be placed on agency compliance with established policies, procedures and workload standards. Also, current problem areas should be identified and dealt with in a particular section of the audit reports.

During the current year, the Audits Division has 115.3 authorized positions. However, three of the auditors work (on a reimbursable basis) for the Department of Justice's charitable trust section. In the budget year, the contract with the Department of Justice will be canceled, but the division proposes to retain these three auditors and assign them to other workload areas. This change constitutes a staffing enrichment for the division.

It has been our position that the division has a considerable degree of flexibility in assignment of its staff, and that management devices such as greater use of random sampling techniques, decreasing the frequency of audits, and greater selectivity can be utilized to absorb

Department of Finance—Continued

normal workload increases. We feel that there is no justification to enrich the existing auditing staff by retaining the three positions formerly devoted to the charitable trust work. *We recommend that three auditor positions be deleted for a General Fund savings of \$40,000, budget page 561, line 59.*

This division receives an annual appropriation from the Fair and Exposition Fund to audit the State Fair, the Museum of Science and Industry and the various district, county and citrus fairs. Table 2 shows the workload supported by the Fair and Exposition Fund.

Table 2
Audits Division
Fair Audit Workload Proposed in 1968-69

	<i>State Fair and Museum of Science and Industry</i>	<i>District fairs</i>	<i>County fairs</i>	<i>Citrus fairs</i>	<i>Total</i>
Number -----	2	50	24	2	78
Audit hours -----	1,409	9,275	3,360	96	14,140
Audit cost -----	\$12,554	\$82,359	\$29,755	\$879	\$125,547
State subvention:					
Support -----	\$256,000	\$2,996,370	\$1,443,600	\$162,000	\$4,866,970
Capital outlay ---	--	\$1,489,500	\$682,000	\$78,500	\$2,250,000

These audits are conducted for the general purpose of insuring that the state's capital assets and subvention funds are properly used. Audits of county fairs are mainly concerned with the use of subvention funds since the assets are county property. We question for several reasons the necessity of the state spending \$29,755 annually to audit county fairs.

First, these county subventions are in effect block grants, with each fair receiving a fixed amount each year. Under these circumstances, we doubt the need for the state to audit such a program. Second, the fair assets are county property and their security is a matter of local concern. Third, the Department of Agriculture, through its Division of Fairs and Expositions, has the responsibility of providing advisory services to fairs relating to administration and accounting. *We recommend the deletion of two auditor positions related to County Fair workload for a Fair and Exposition Fund (Item 119) savings of \$29,755, budget page 561, line 59.*

Budget Division

The main responsibility of the Budget Division is the preparation and administration of the executive budget. The division is composed of a budget operations section with 94.3 employees and a financial and population research section with 26 employees.

The financial and population research section prepares an annual estimate of the state's revenues, drafts the Governor's Economic Report and compiles statistical information which is published each year in the California Statistical Abstract. This section also prepares population estimates for cities and counties which are the basis for the apportionment of certain state revenues, and makes long-range state population projections.

Department of Finance—Continued

The budget operations section receives the budget requests of the state government agencies, boards and commissions; analyzes these requests; conducts hearings with the various units and then, based on policies approved by the Governor, compiles the individual requests into a single budget document for presentation to the Legislature. The staff attends and testifies at legislative hearings on the budget and analyzes all other bills with fiscal impact for the Director of Finance. Upon final approval of the budget, the staff compiles the List of Changes to the Governor's Budget and thereafter is concerned with administrative control of the budget throughout the operating year.

For budget control this staff is divided into five units: (1) fiscal control, (2) health-welfare and corrections, (3) revenue and management, (4) resources and transportation, and (5) education. Control is exercised on the various state agencies through requirements that this division must give prior approval to such matters as:

- a. Personnel promotions, reclassifications and transfers,
- b. Transfers of funds between operating expense allotments,
- c. Contracts,
- d. Purchases,
- e. Out-of-state travel,
- f. Changes in administrative procedures, and
- g. Reorganizations.

Because of these control procedures, certain problems have resulted:

1. A great quantity of paper, much of which is unnecessary for control purposes, flows through the division. In many cases too much of the analysts' attention is occupied by such matters as what size chair employees have, where funds are shifted within defined categories, who is promoted and how many square feet offices should have. These matters are more properly the concern of the operating agencies and other control agencies such as the Personnel Board and the Department of General Services. The central budget agency should be mostly involved in program and performance analysis to control the direction that programs are taking in light of available resources.

2. There is a small program budget unit in the division which is attempting to implement a performance evaluation and budgeting system. However, because of the great involvement in detail control by the analysts in the operating units this program budget staff has received little support from within the division. Efforts to create a program budget for the state should and could be strengthened by the existing staff of the division if less emphasis were placed on detailed control of the agency's daily activities.

3. There is a need for a closer working relationship with the audits division. Better coordination is needed since the budget division personnel frequently raise questions about an agency's compliance with existing plans and standards, however, due to the size of their workload and conservative restrictions on travel, the budget staff has not developed the close agency contact that the audits staff has and is thus limited in making evaluations. Coordination would also aid the audits staff in

Department of Finance—Continued

understanding the budget process and the types of information useful to it. A better information exchange system should be implemented between the audit and budget divisions.

4. Another problem with the current system is that as the budget increases in amount and complexity it becomes increasingly difficult to maintain an advance approval budget control system. As a result, the division's staff has been increased considerably as shown in Table 3.

Table 3
Growth of Budget Division

	1964-65	1965-66	1966-67	Estimated 1967-68	Proposed 1968-69
Authorized positions --	99	102	116.1	120.3	120.3
Salaries -----	\$965,004	\$1,030,418	\$1,233,273	\$1,350,898	\$1,393,391
Overtime -----	\$25,859	\$35,054	\$34,557	\$31,470	\$31,470

Since 1964-65 the staff of the division has increased by some 21.3 positions (21.5 percent). During the current year, 5.2 positions (four to establish a cash management unit as required by Chapter 963, Statutes of 1967; one to provide budgetary support on a reimbursable basis to the Office of Health Care Services and 0.2 for increased overtime) have been administratively established and are proposed for continuation in the budget year. We feel that this new workload is justified, however, we do not agree that the only alternative for handling this new workload is to increase the total staff.

We recommend that an independent study be made of the desirability and savings from adopting in whole or in part the following alternative to the current control system. The division would delegate approval powers to (1) allow the agencies to handle their own personnel matters in coordination with the Personnel Board, (2) allow the agencies to transfer funds within budget categories, (3) eliminate the requirement that monthly budget reports and balance sheets be submitted to the division, (4) delegate approval powers on certain contracts unless they are policy exceptions, (5) make approval procedures on out-of-state travel more flexible, (6) allow the Facilities Planning Division of the Department of General Services to handle all normal rentals and rent renewals, and (7) let agency personnel prepare the Salary Supplement. Budget control would be exercised through category control, audits, the annual preparation of the Governor's Budget and through the evaluation of programs and performance.

We believe that more workload could be absorbed by the existing staff if the division shifts away from its orientation toward detail control and delegates more responsibility to the fiscal offices of the various state agencies.

It will be noted from Table 3 that the division consumes approximately \$30,000 per year in overtime. Almost all of this amount is spent in the four-month period between October 1 and January 31 which corresponds with the preparation of the Governor's Budget. A review of the division's personnel reports for 1966-67 shows that a total of 14,143 hours (7 man-years) of overtime was recorded. Some of the reasons for the large volume of overtime are that considerable time is spent on

Department of Finance—Continued

budgetary control of the current budget while the staff attempts to prepare the next budget, many analysts do their own adding of figures instead of using clerks, and agency analysts are not fully utilized.

While we agree that the preparation of a document as complicated as the Governor's Budget will require overtime work, we feel that the current level is unduly high, and could be reduced if the division implements our recommendation (above) on changing the method of budgetary control.

In order to provide a technical review of agricultural matters and to maintain the "Schedule of Maximum Allowances of Medical and Related Services," an agricultural advisor (\$17,700 per year) and a clerk are employed by this division. This advisor position was created in 1945 and placed in the Department of Finance in order to coordinate the extensive agricultural farm activities of the Department of Mental Hygiene and the Department of Corrections. Since 1945 the farm programs of these two departments have diminished due to the realization that they were not justified on a cost basis or on a therapeutic-rehabilitative basis. The Department of Mental Hygiene has only 135 patients assigned to farming and may soon terminate this program.

The remaining agricultural activities of this advisor have been directed toward the Department of Corrections' dairy program. The advisor performs the role of a consultant to the corrections staff and to the budget division analysts. The line responsibility for operating and planning the dairy program rests with the Department of Corrections' staff headed by an agricultural advisor position which was created in 1964.

With the decrease in the farm program workload, a medical fees duty was assigned to this position in 1966 despite the fact that the agricultural advisor had no experience in this field. The advisor with the assistance of medical fee committees has compiled a schedule of standard medical service and equipment costs in order to insure uniformity in medical charges to the various state departments. In 1968-69 these new duties will be transferred to the Office of Health Care Services as discussed on page 588 of the Governor's Budget:

"An amount of \$115,969 has been budgeted in contractual services for performance of the rate determination function, which includes analyzing, monitoring and updating the medical vendor fee schedules to meet the specific needs of Medical Assistance Program management as well as servicing the rate analysis needs of other state agencies."

In light of the facts that there are few agricultural activities in the Department of Mental Hygiene, that the Department of Corrections has its own agricultural advisor and staff, that the updating of the medical fees schedule will be transferred to the Office of Health Care Services, and that the budget and construction analysts in this division can provide the necessary review of the remaining agricultural program, the department's agricultural advisor is no longer justified.

We recommend the deletion of the agricultural advisor and related clerk for a savings of \$24,543, budget page 562, line 6, and the deletion

Department of Finance—Continued

of \$6,843 in reimbursements, budget page 562, line 57, used to fund the clerical position.

Economic Development Agency

The Economic Development Agency (EDA) was created by Chapter 1911, Statutes of 1959, in order to stimulate industrial and commercial expansion in California.

The agency is headed by a commissioner who is appointed by the Governor, subject to Senate confirmation. The Governor may also appoint one or more technical advisory committees to advise the commissioner in carrying out his functions. Committee membership shall not exceed 20 members and the members are nominated by the commissioner.

The program originated as a research and forecasting function, but later shifted to a public relations function. In 1965 the agency was unable to demonstrate the effectiveness of past programs and as a result the Legislature denied its 1965-66 budget request.

The agency received a new appropriation of \$190,000 for 1966-67 based on a program designed "to help business cut governmental red tape, to assist the growth and expansion of industry and to help assure that new governmental programs do not retard growth and expansion."

This program was never implemented. The commissioner, appointed in October 1966, resigned two months later and the position remained vacant until December 1967. Without a commissioner to provide direction and policy guidance the small EDA staff of three professionals and two clerks concentrated their activities on searching for and compiling data to answer requests for information and setting up a library of reference source materials.

The 1968-69 Budget document states that the new EDA program will be to "serve as a voice of business and industry in conveying their views and problems relating to our economic climate for growth and development to appropriate administrative and legislative groups in state government." To accomplish this, as explained by the commissioner appointed in December 1967, EDA will coordinate the Governor's reorganization proposal to combine with the Office of Tourism, the World Trade Authorities, the Museum of Science and Industry and the San Francisco Port Authority into a new state Department of Commerce.

Based upon past performance and shifting program emphasis, we have serious reservations about the ability of EDA to define its own role, let alone the role for the proposed California Department of Commerce. We also fail to see the justification for the state to spend approximately \$100,000 a year in General Fund revenues to support a "voice of business and industry" in state government. *Therefore, we recommend that the entire support for EDA be eliminated, for a General Fund savings of \$103,899, budget page 563, line 19.*

Program and Policy Office

The Program and Policy Office analyzes and makes staff recommendations to the Director of Finance on program, policy and general

Department of Finance—Continued

administrative issues. This office was created in 1963 when the Division of Organization and Cost Control (OCC) of the Department of Finance was abolished in conjunction with the creation of the Department of General Services. Most of the OCC staff went to the Department of General Services, although some positions remained in the Department of Finance to form the Program and Policy Office.

The legal basis of this office is Section 13877 of the Government Code which places a 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 . . ."

The actual duties of this office, however, have centered on assisting with development and implementation of the Governor's legislative program, with policy position studies on such subjects as crime, tax sharing and social welfare, with program effectiveness analysis of existing state functions, and with improving state management techniques. The office emphasizes employment of career specialists who are knowledgeable of state operations in order to successfully integrate policy with operations. Seven civil service consultants and two clerks are budgeted for this office. Currently six of the consultant positions are filled while the funds for the seventh are being used to pay for an exempt State Office of Planning position on assignment in the program and policy office.

The State Office of Planning

In response to the Federal Housing Act of 1954, the State of California established a planning function within the Department of Finance by passing Chapter 33, Statutes of 1956, First Extraordinary Session. This was a limited function designed to administer federal grant funds. Chapter 1641, Statutes of 1959 created the State Office of Planning within the Department of Finance. It was the stated legislative intent that this office would provide a method of encouraging the formation and functioning of local and regional planning commissions through research, discussions and financial assistance. The Legislature also intended that the office be used as an advisory agency to the legislative and executive branches of government having the particular responsibility for the development, maintenance and revision of a comprehensive state development plan with the desired objective that the physical development of the state would proceed in an orderly fashion.

The office is headed by a Planning Officer who is appointed by the Governor at an annual salary of \$20,000. In order to establish policies and provide advice and guidance, the Planning Advisory Committee was established consisting of 11 members appointed by the Governor and serving at his pleasure. The members must be selected so that five represent the counties, two being county supervisors, two being members of county planning commissions, and one a county planning director; five represent cities, two being city councilmen, two city planning commission members, and one a city planning director; and one must

Department of Finance—Continued

be a representative of the schools having the position of a county superintendent of schools.

The planning office has 25 authorized positions during 1967-68 and this level is proposed for continuance in 1968-69. The authorized positions are organized into a state planning section and a local planning section as detailed in Table 4.

Table 4
Authorized Positions 1967-68 and Vacancies as of January 10, 1968
(Salaries are as projected for 1968-69)

<i>Position</i>	<i>Budgeted salary</i>	<i>Authorized 1967-68</i>	<i>Vacant on 1-10-68 Number</i>	<i>Salary</i>
State Planning Section:				
Planning officer -----	\$20,000	1	—	—
Assistant chief -----	37,152	2	1	\$18,576
Senior planner -----	30,632	2	1	15,316
Associate planner -----	38,340	3	1	12,780
Associate economist -----	11,688	1	—	—
Assistant planner -----	10,776	1	1	10,776
Senior delineator -----	10,356	1	—	—
Clerical -----	41,556	7	3	17,276
Total—State Planning -----	\$200,500	18	7	\$74,724
Local Planning Section:				
Senior planner -----	\$15,316	1	—	—
Associate planner -----	12,780	1	—	—
Assistant planner -----	32,328	3	1	\$10,776
Clerical -----	13,116	2	—	—
Total—Local Planning -----	\$73,540	7	1	\$10,776
GRAND TOTAL -----	\$274,040	25	8	\$85,500

State Planning Section

The workload of this section has been the preparation of a state development plan which was accomplished in two phases. The first phase was basic economic research and reconnaissance designed to define the magnitude of the state planning problem, and took place between 1961 and 1964 at a cost of approximately \$700,000, half of which was funded by the federal government. The second phase has been the preparation of a state development plan and took place from 1964 to the current fiscal year, but the plan is not finalized. The cost of this second phase has been approximately \$2.5 million, \$1.5 million of which has been funded by the federal government.

The matching formula for state comprehensive planning was originally budgeted at two-thirds federal and one-third state contribution, however, the state's share of this funding has exceeded the amount originally budgeted for phase 1 and phase 2 by some \$437,000.

Since phase 2 ends when the development plan is a public document, the cost of this phase continues daily until the Governor issues the plan to the Legislature. We understand that the state development plan was completed by the State Office of Planning and transmitted to the Director of Finance in November of 1967. The planning law states in Section 65015.8 of the Government Code that, "Upon completion, the

Department of Finance—Continued

state development plan shall be printed by the State Printer as a public document.

"The planning office shall first transmit a copy of the plan to the Director of Finance. The Director of Finance shall transmit the plan together with his comments and recommendations to the Governor. The Governor shall review and, upon his approval, shall transmit the plan together with his comments and recommendations to the President pro Tempore of the Senate and the Speaker of the Assembly, and shall file a copy of the plan together with his comments and recommendations with the Secretary of State."

From this it appears that the Governor has a mandate to submit to the Legislature a complete written plan pointing out future development problems of the state and recommending specific courses of action in order to meet the problems as opposed to a static plan without specific recommendations. Despite the sizable public investment (\$3.2 million) in this plan, there have been recurrent delays in publication. The most recent statement is that the plan will be issued during the 1968 Regular Session of the Legislature.

Since the major effort of preparing the state plan is over, there has been a corresponding decrease in the state planning section from 35 authorized positions in 1966-67 to 18 in 1968-69. We believe that this staff decrease is appropriate because the emphasis of the work will now be on implementation instead of preparation. Implementation should involve coordinating the state plan with agency plans, working with the budget division on capital outlay and program budgets, and updating. Such an implementation program can be handled with the existing state planning staff. However, we are concerned as to the need for a \$10,000 a year delineator. The delineator was originally authorized to draw graphs and charts for the development plan document, but, with the reduction in workload and the completion of the plan, this position has been diverted to performing delineating work for the Governor's Office and other divisions of the Department of Finance. Because the workload for which this position was created no longer exists, *we recommend that the senior delineator position be abolished for a General Fund savings of \$10,356, budget page 563, line 55.*

The remaining staffing ratio of 7 clerks to 10 professionals does not appear to be justified as indicated by the fact that the office has three clerical vacancies and still is able to handle its own workload plus the clerical workload of the Intergovernmental Council on Urban Growth. A more appropriate clerical level would be one clerk for the State Planning Officer and three for the nine staff positions. *We recommend the elimination of three vacant clerical positions for a General Fund savings of \$17,276, budget page 563, line 55.*

Local Planning Section

The local planning section administers federal funds provided through Section 701 of the 1954 Housing Act "... in order to assist state and local governments in solving planning programs resulting from the increasing concentration of population in metropolitan and other urban areas, including smaller communities; to facilitate compre-

Department of Finance—Continued

hensive planning for urban development, including coordinated transportation systems, on a continuing basis by such governments; and to encourage such governments to establish and improve planning staffs, . . .”

The program funds are administered by the federal Department of Housing and Urban Development (HUD) which receives an annual 701 appropriation from Congress and divides it into:

1. Redevelopment grants
2. State planning,
3. Local planning,
 - a. Regional-metropolitan planning.
 - b. Small (under 50,000) city and county planning.

HUD administers the first two categories directly. However, local planning grants are made through an appropriate state agency to eligible jurisdictions. The State Office of Planning through its local planning section has been the designated state agency for the administration of this program.

The role of the state government in the 701 Grant Program can be quite significant because the federal government is primarily concerned with studying grant policies and does not have a compliance function to insure how the grants are administered and implemented.

The state planning law, Government Code Sections 65000 to 65651, provides the guidelines for local planning assistance by the state office and is broad enough to encompass various alternatives in the administration of the local planning assistance program which include:

1. Direct state planning staff assistance, wherein the State Office of Planning would provide the prime staff services for local planning. This could be provided by state staffs operating out of regional planning offices (this method is used by some states), and supported by reimbursements from the local governments and the federal government's 701 grant funds.

2. A program for regional planning agencies which would be functions of area associations of governments such as the Association of Bay Area Governments and the Southern California Association of Governments to establish city planning sections. These city planning sections would derive most of their support from the federal 701 grant money since they would be doing the local planning for jurisdictions within their area.

This alternative has many of the advantages of the first alternative, but eliminates the concern over too much state involvement since the regional planning agencies are under the administration of large units of local government instead of the state.

3. A program of direct state grant aid. This aid would amount to paying all or part of the local matching share of the 701 funds. The state grants could be made outright or could be made on the basis that the funds must be returned after a reasonable time if the local plans are not implemented.

This alternative might provide as much as \$300,000 per year towards offsetting the costs of local government.

Department of Finance—Continued

4. A balanced approach, having the state or regional planning agencies do the small city plans on a contract basis and allowing private consultants to do some of the large-scale planning and more difficult technical assistance elements.

5. The final alternative is to rely primarily on private planners. Under this system 701 grants funds are directed through a subcontract to private consulting firms throughout the state which do the bulk of the planning for the local communities.

For the most part, the State Office of Planning has chosen the private planner alternative in developing the 701 program in California. This is demonstrated by the fact that of the \$372,470 provided through the 701 Grant Program for city planning in California during 1966, \$317,298, or nearly 85 percent, went to private planners with the remainder going to local government planners.

In the private planner approach, there has been a problem of low-quality and uncoordinated planning especially in the small city and small area studies. Since the planners are employed by a particular city, they tend to over extoll its particular future population and business growth potentials without recognizing regional activities and methods of interfacing the city plan with the region's plan.

A review of city plans done by private consultants reveals that they are quite often superficial in their research in that they stress historic population and economic growth with little basis besides trend analysis for arriving at future projections of growth and land use. There is an adherence to following a format centered around circulation and land use elements which is helpful in adopting zoning ordinances but is not of substantive value when identifying problems or deciding on future city goals and means of achieving them.

A major problem with the 701 program as it now exists in California is that local communities are not provided with many alternatives when seeking planning assistance. Either they are wealthy enough to hire their own staff, or they contract with private planners. It is recommended that the Office of Planning work on alternatives such as encouraging regional planning agencies such as exist in the Association of Bay Area Governments and the Southern California Association of Governments to provide local planning services to the smaller cities within their regions.

The administrative costs of the present program are funded from the state General Fund and are offset approximately \$10,000 annually by HUD. The total cost of this function as relates to the total 701 local, metropolitan and regional planning funds administered from 1963-64 through 1968-69 is reflected in the following table.

Department of Finance—Continued

Table 5

	<i>Cost of local planning section</i>	<i>Federal reimbursement</i>	<i>Local planning 701 funds ¹</i>	<i>Administration cost as percent of grant funds</i>
1963-64 -----	\$60,000	--	\$577,000	10.4
1964-65 -----	73,000	--	522,000	14.0
1965-66 -----	82,000	\$20,000	893,000	9.2
1966-67 -----	84,000	39,351	915,804	9.2
1967-68 (est.) --	73,000	10,000	990,000	7.4
1968-69 (est.) --	73,540	10,000	990,000	7.4

Source: California State Office of Planning and the Governor's Budget.

¹ Includes only those funds administered by the State Office of Planning.

DEPARTMENT OF FINANCE

ITEM 119 of the Budget Bill

Budget page 560

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

Amount requested ----- \$125,547

Estimated to be expended in 1967-68 fiscal year ----- 125,547

Increase ----- None

TOTAL RECOMMENDED REDUCTION ----- \$29,755

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget Page</i>	<i>Line</i>
Eliminate county fair audits -----	\$29,755	561	59

ANALYSIS AND RECOMMENDATIONS

This item is for the cost of auditing district and county fairs. It is discussed under Item 118.

Department of Finance
STATE LANDS DIVISION

Item 120 of the Budget Bill

Budget page 565

FOR SUPPORT OF THE STATE LANDS DIVISION
FROM THE GENERAL FUND

Amount requested ----- \$1,510,842

Estimated to be expended in 1967-68 fiscal year ----- 1,455,342

Increase (3.8 percent) ----- \$55,500

TOTAL RECOMMENDED REDUCTION ----- \$16,860

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget Page</i>	<i>Line</i>
Reduce support expenditures for Attorney			
General services by approximately -----	\$16,860	567	43

GENERAL PROGRAM STATEMENT

The State Lands Division of the Department of Finance provides staff support to the State Lands Commission. The commission, composed of the Lieutenant Governor, the Controller and the Director of Finance

State Lands Division—Continued

has the general responsibility for the administration of state school lands, tide and submerged lands, swamp and overflowed lands, and the beds of navigable rivers and lakes. The commission has the authority to sell, lease, dispose of or provide for the extraction of minerals, oil and gas from these lands.

The revenue potential of oil and gas leases and royalties along with the revenue potential from the state's profit sharing interest in the Wilmington oil field are the principal existing and future revenue sources from lands administered by the division. Recent data indicate declining state oil and gas revenues which may have significant effect on the financing of several important state programs. In addition serious problems appear to exist in both the state's offshore leasing program and in the development of the Wilmington oil field. Therefore, this office is preparing and will issue a special, more detailed report on these areas of the division's activity. This analysis will present a brief synopsis of the special report and its recommendations which generally pertain to budgetary considerations.

Total state revenues from the sale and leasing of state lands and royalties on oil and gas and other mineral leases are shown for a six-year period below:

Total Revenues, 1963-64 to 1968-69

	<i>Land sales and leases</i>	<i>Oil and gas</i>	<i>Other minerals</i>	<i>Total</i>
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 -----	579,933	43,349,458	283,383	44,212,774
1967-68 (est.) -----	610,000	43,510,000	435,000	44,555,000
1968-69 (est.) -----	625,000	43,634,000	415,000	44,674,000

The drop-off in oil and gas revenues in 1965-66, which results from a sharp reduction in bid bonuses on oil and gas leases, reflects the difficulties the state has been having in its offshore leasing activities since 1965. Further discussion of these difficulties is contained in our special report.

ANALYSIS AND RECOMMENDATIONS

The organization of the State Lands Division corresponds generally to three main programs:

1. The control of the use of state sovereign land and congressional grant lands (vacant school lands) and the identification and recording of the location of these lands.
2. The administration and supervision of oil and gas mineral leases.
3. The supervision of the state's net profit interest in the development of the Wilmington oil field.

The Governor's Budget proposes a total appropriation of \$1,510,842 which is an increase of \$55,000 or 3.8 percent over the estimated expenditure of \$1,455,342 for 1967-68. There is a proposed increase of five new positions, three of which have been administratively established during the current year. The division is requesting one associate counsel position, which was administratively established during the current

State Lands Division—Continued

year in order to handle legal matters for the division in northern California. This attorney would work out of the division's Sacramento office. The division has three attorneys in its Los Angeles office. In justifying the position the division argues that having a full-time attorney in Sacramento would more efficiently serve the division's legal needs than relying on assistance from the Attorney General's office. We agree that this position will enable the division to operate with closer and improved management control over the decision making on policy problems involving litigation. There is a continuing flow of land litigation matters which are within the purview of the division's land management activities over which the division needs to exercise tighter management. However, the division's proposed budget does not show any reduction from the current year for Attorney General services.

We recommend approval of one associate counsel position, budgeted at \$16,860 on the condition that Attorney General Services be correspondingly reduced.

The division is requesting a boundary determination officer and a civil engineering associate to continue work on offshore boundary determinations with the federal government. These two positions were deleted from the budget last year when the Legislature eliminated Item 115, the support expenditure for U.S. vs. California. The division contends that it needs the position in order for the state to protect its interest by cooperating with federal officials in delineating offshore boundaries. Our understanding is that the primary objective of the Legislature in deleting Item 115 was to eliminate further litigation on a dispute which had been essentially resolved by a Supreme Court decree issued in January 1966. The Department of Finance informed us last fall that these two positions were proposed to be reinstated administratively during the current year and submitted a Section 28 letter to this effect. We advised the chairman of the Joint Legislative Budget Committee that we believed it would be consistent with legislative intent if the division were to limit the use of these positions to cooperate in settling differences with federal officials rather than to accumulate material for further litigation. The chairman agreed and approved the position. The priority of this cooperative work has increased significantly at this time because the federal government is now proposing to begin immediate leasing of certain specific areas where boundary controversies exist. We also feel that the work on the offshore boundary determinations should proceed on a priority basis judged in relation to proposed federal leasing activity and therefore recognize the need for the division to have administrative flexibility in assigning other work items to these positions in order to fully utilize them.

We recommend approval of the positions as budgeted.

Long Beach Operations

The state's supervision of the development of the Wilmington oilfield is handled by the Long Beach Operations staff. The expenditures in support of the Long Beach Operations are identified in the budget document but these expenditures are funded from Wilmington oil reve-

State Lands Division—Continued

nues as reimbursements. Long Beach Operations has a total authorized staff of 45 positions in the current year and the Governor's Budget proposes to maintain the same level of staff for the budget year. The division is still in the process of staffing to this authorized level. This staff, for the most part, is made up of high level professional positions specialized in technical fields relating to oilfield operations.

The basic function of this staff is to protect and further the state's net profit interest in the Wilmington oilfield. This is accomplished through the state's review of a document containing plans of development and operation. This document is both a plan of activities and the itemized budget which governs the field contractor THUMS. The state attempts to effect cost savings, where possible, through the process of budget review and approval. In addition, the state's review of the plans of development and operation involves technical evaluations to insure that the plan conforms to efficient oilfield practices and achieves the maximum economic recovery of oil and gas.

In our previous analyses we recommended that the state improve its auditing activities of THUMS by placing greater stress on management auditing techniques. The division is currently in the process of doing this by filling a position of manager, petroleum economist (which is a reclassified unfilled position) to head a strengthened management information-audits unit. The division should use this position to work cooperatively with both the City of Long Beach and the field contractor to improve management information reporting. There is also a need to concentrate on specific problem areas in order to bring appropriately organized and timely information to the attention of the executive staff of the division.

The division's Long Beach staff has been revising projections of future production and future state revenues. The estimates previously used by the division were based on a consultant's study which predated field development at East Wilmington. The division's analysis of field development data to date reveals that the earlier estimates of production potential were far too optimistic. In essence the latest projected revenues from the Wilmington field show a large overall decline compared to earlier estimates. The latest figures (which are currently being revised) and an analysis of the state's net profits position will be presented in our special report.

Because of the need to improve the flow of information on Wilmington oilfield developments as well as other offshore activity, we recommend that the Legislature direct the commission to submit a special operations report to the Legislature on all oil and gas production and revenues. This report should be submitted each year no later than February 1 following the calendar year which will be the principal subject of the report. In particular this report should contain financial summaries of all costs and oil and gas production revenues including specifically the Wilmington field for the calendar year reported on; the latest long-range projection of state revenues identified by source and the derivation of these estimates (i.e. production estimates); and a discussion of actions taken in support of the state's overall objective of maximizing state revenues.

State Lands Division—Continued
Oil and Gas Leasing

The State Lands Division realizes significant state revenues on oil and gas production from the state's offshore leases other than Long Beach. The division estimates revenues of \$23.3 million in 1967-68 from oil and gas royalties on these leases.

In the past the division also realized sizeable revenues from offshore parcels leased on a "bid bonus" basis. The bid bonus is an initial cash payment which the prospective lessee pays the state for the leasing rights to a parcel. Bids are received on a competitive basis and the parcel is awarded to the company which offers the highest cash bid.

Since 1965 the division has had poor results from its offshore leasing activity judged either in terms of cash bonuses that were realized or the number of parcels that were leased and opened to development.

The division has a geological evaluation section which provides technical support for the division's leasing program. This staff makes economic and geologic evaluations of the oil-bearing potential of parcels offered for bid. From a technical standpoint the state usually has more information on parcels that are to be offered for bid than the oil company bidders since the division has access to all confidential exploration data developed by the oil companies under state issued geological permits. The significance and validity of the available information is not known to us. However, even with this added information the selection and timing of parcels offered for lease has resulted in a minimum level of leases awarded in the past two years. Simultaneously in the past two years the division has overestimated cash bonus estimates.

Our analysis of the disappointing result of the leasing program indicates it may be the consequence of the continued exclusive reliance on cash bonus leasing, at times and on parcels where the state cannot reasonably expect to receive large initial cash bonuses. The details of our analysis in arriving at this conclusion will be discussed in the special report.

For the reason briefly stated above, we recommend that the Legislature undertake a thorough study of the state's offshore oil and gas leasing program and the relative merits of alternative leasing methods. In other respects we recommend approval of the item as budgeted.

FRANCHISE TAX BOARD

ITEM 121 of the Budget Bill

Budget page 570

**FOR SUPPORT OF THE FRANCHISE TAX BOARD
 FROM THE GENERAL FUND**

Amount requested	\$16,074,829
Estimated to be expended in 1967-68 fiscal year	13,212,349
Increase (21.7 percent)	\$2,862,480
TOTAL RECOMMENDED REDUCTION	\$119,069

Franchise Tax Board—Continued

	Summary of Recommended Reductions		Budget	
	Amount	Page	Line	
Operations:				
Delete 8 existing intermediate clerk positions and 3.2 existing temporary help positions, franchise tax ledger unit	56,686	573	23	
Tax Legislation:				
Delete 9 temporary help positions -----	47,332	575	33	
Delete 1 temporary help position -----	5,655	575	42	
Delete 1 auditor II position -----	9,396	575	46	

Other Recommendations

Require Franchise Tax Board to report number of accounts receivable developed from 1967 personal income tax year returns to Ways and Means and Finance committees not later than June 1, 1968. Make appropriation for positions outlined in Table 11, \$601,690 contingent upon such report.

Reallocate new auditor and clerical positions between Los Angeles and San Francisco regional offices.

GENERAL PROGRAM STATEMENT

The Franchise Tax Board administers the state's Personal Income Tax and Bank and Corporation Tax laws, and the new Senior Citizen Property Tax Assistance Law. The first two laws will, combined, raise an estimated \$1,440 million in cash revenues during 1967-68, representing a 50-percent increase in this source of General Fund revenue. This increase is largely the result of revisions contained in Chapter 963, Statutes of 1967. The stated objective of the agency is to administer these laws in such a manner as to assure uniformity in the treatment of taxpayers and to maximize the state's revenue potential within the statutory framework. The Senior Citizen Property Tax Assistance Law was enacted by the 1967 Legislature as a part of Chapter 963 (SB 556). Its aim is to distribute a measure of property tax relief from the General Fund to older persons having limited income.

Growth of the agency in broad perspective may be seen by the data in Table 1.

Table 1
Indices of Growth, 1964-65 through 1968-69
(Rounded to nearest thousand)

Fiscal year	Returns filed		Expenditures
	PIT ¹	B & CT ²	
1964-65 -----	5,172,000	124,000	\$10,984,000
1965-66 -----	5,411,000	119,000	11,696,000
1966-67 -----	5,663,000	134,000	12,557,000
1967-68 (est.) -----	5,757,000	140,000	15,412,000*
1968-69 (est.) -----	6,006,000	145,000	16,075,000
Average annual percent increase -----	4.0	4.2	11.6

¹ Personal Income Tax

² Bank and Corporation Tax

* Includes \$2,200,000 from Cigarette Tax Fund which was a one-time expenditure used to support the new positions added in the current year to administer the tax changes contained in SB 556. These positions were financed from the Cigarette Tax Fund because the tax bill was enacted after the adoption of the 1967-68 Budget.

Programs. The agency groups its continuing activities into the three programs described below.

I. Personal Income Tax. The agency has the statutory obligation of administering and enforcing the Personal Income Tax Law. This

Franchise Tax Board—Continued

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 and also compliance and audit activities 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. Enacted in 1929, this law imposes a franchise tax on corporations doing business in California and a corporate 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.

The two most important developments affecting the agency in the current year are the substantial structural changes made in the personal income tax law by Chapter 963 (SB 556) and the impact of the work measurement and controls program (discussed in the Departmental Administration program).

Program expenditures and personnel man-years are presented in Table 2. Departmental administration program data are included for informational purposes only as the costs and man-years are allocated to the other two programs and to the staff added as a result of 1967 tax legislation. The substantial decreases in man-years indicated in Table 2 result primarily from the work measurement and controls program.

Table 2
Expenditures (to Nearest Thousand) and Man-Years by Program

Program	1966-67		1967-68		1968-69	
	Man-years	Expenditures	Man-years	Expenditures	Man-years	Expenditures
I. Personal income tax	1,044.5	\$9,089,000	988.9	\$9,660,000	938.7	\$9,591,000
II. Bank and corporation tax	340.1	3,517,000	322.7	3,759,000	306.3	3,732,000
III. Departmental administration	(233.8)	(2,396,000)	(353.8)	(3,940,000)	(349.2)	(4,147,000)
1967 tax legislation	--	--	187.7	1,993,000	268.6	2,752,000
Totals-----	1,384.6	\$12,556,000	1,499.3	\$15,412,000	1,513.6	\$16,075,000

The continuing programs contain no new positions based on workload increase, and only seven new positions are proposed to fund a new activity in the PIT compliance subprogram during the budget year. All positions proposed under 1967 tax legislation shall be analyzed as new positions.

Franchise Tax Board—Continued

ANALYSIS AND RECOMMENDATIONS

I. Personal Income Tax Program

Expenditures and manpower engaged in the personal income tax program are presented in Table 3.

Table 3
Personal Income Tax Program Expenditures and Personnel
Man-Years, by Subprogram and Function

Subprogram	Man-years			Expenditures (000 omitted)		
	1966-67	1967-68	1968-69	1966-67	1967-68	1968-69
A. Self-assessment	471.6	446.5	423.8	\$3,907	\$4,176	\$4,146
B. Compliance						
1. Filing enforcement	188.3	178.3	169.2	\$1,541	\$1,646	\$1,634
2. Resident identification	3.5	3.4	3.2	41	44	44
3. Investigations	10.3	9.8	9.3	145	156	154
4. Collecting delinquencies	133.2	126	119.7	1,050	1,122	1,114
Subtotal, compliance	335.3	317.5	301.4	\$2,777	\$2,968	\$2,946
C. Audit						
1. Desk audit	145.6	137.9	130.9	\$1,327	\$1,418	\$1,408
2. Field audit	81.9	77.5	73.6	892	953	947
3. Protests and appeals	10.1	9.5	9.0	136	145	144
Subtotal, audit	237.6	224.9	213.5	\$2,355	\$2,516	\$2,499
Totals	1,044.5	988.9	938.7	\$9,039	\$9,660	\$9,591

A. Self-assessment Activities

Program activities include form design, printing and distribution, publicity and public information service, receipt and processing of personal income tax returns and payments, accounting for over and underpayments of tax liability, and the processing of taxpayer-initiated claims for refund or credit.

B. Compliance Activities

These activities are designed to preserve the state's personal income tax base by insuring that taxpayers file their returns and pay their liabilities.

Filing Enforcement (599-FCP)

Personal income tax returns filed with the state are matched against (1) the federally supplied computer tape list of persons filing federal income tax returns in California (called the Federal Comparison Project), and (2) information returns filed by California employers (599 program). When a state income tax return cannot be matched against either the federal or employer return, then an assessment may be made against the taxpayer.

The agency used 188.3 man-years and expended \$1,541,000 in 1966-67 to produce assessments totaling \$8,067,000, a ratio of \$5.24 of assessments per dollar of cost. This ratio cannot be equated to revenue per dollar of cost, however, because (1) the assessed tax liability is usually substantially more than the actual liability, and (2) such assessments are frequently uncollectible. In last year's analysis, we indicated that the revenue per dollar of cost is about two-thirds of the assessed liability per dollar of cost.

Franchise Tax Board—Continued

In the 1968-69 budget, the agency requests 12 additional man-years of temporary help to extend the employer information (599) program to reach individuals who have more than one employer and who earn less than the amount creating a tax liability with each employer. Under existing administrative procedures these employer returns are not matched against state income tax returns. Since some of these employees have several employers during the year, their combined incomes may create a tax liability and therefore this is an area of potential tax evasion.

Although the program properly addresses itself to an existing compliance gap for which the agency has partial information, the revenue to be gained is virtually unknown, and therefore *we recommend that the program should proceed on an experimental basis for one cycle which would cover a two-year period. Before this program is made permanent, the agency should present information to the Legislature on its costs and results.*

We recommend that the positions budgeted for 1968-69, seven temporary help positions, budget page 572, line 13, and five temporary help positions, budget page 573, line 35, be approved on a temporary basis.

Identification of Residents

This activity functions in two ways: (1) Persons are identified as California residents and any back taxes and penalties are collected for nonfiling, and (2) the state requires employers to withhold on non-residents who earn substantial amounts within California (as, for example, visiting entertainers, racehorse owners and sports celebrities) and remit to the state an amount securing the nonresident's potential tax liability.

Both activities resulted in 361 investigations during 1966-67 with the establishment of \$455,000 in new assessments. However, administrative and judicial decisions abating prior years assessments amounted to \$1,075,000 during this same year. These abatements were unusually high and this activity usually produces an increase in net revenue.

Investigations

During 1966-67, the agency investigated and prepared for prosecution approximately 80 cases of aggravated abuse of nonfiling or fraudulent returns. This activity is budgeted to continue at the same level.

Collection of Delinquent Accounts

Tax delinquencies are collected by the agency through a coordinated headquarters and field effort. Electronic data processing is playing an increasingly more important role.

The most important development of 1967-68 has been the creation of an EDP "limbo" tape, which records data in cases where further active collection effort is unavailing or relatively costly. As new returns are filed each year and the social security numbers of all taxpayers keypunched, the limbo tape is compared with the new returns, and if a taxpayer with an old liability has filed a new return, an effort is made to collect the old liability. Previously, old and unpro-

Franchise Tax Board—Continued

ductive collection accounts were simply discarded, and the data lost for all time, making impossible the resurrection of the case in the event of a change in the circumstances of the taxpayer.

A sharp increase in the number of new accounts occurred in calendar year 1967, giving rise to a corresponding increase in the active collections inventory (see Table 4).

Table 4
Change in Collection Inventory
December 31, 1966 to December 31, 1967

	<i>December 31, 1966</i>	<i>December 31, 1967</i>	<i>Increase</i>
Number of accounts on hand --	133,765	155,538	20,326
Value of accounts on hand ----	\$16,696,000	\$20,326,000	\$3,630,000

C. Audit Activities

This subprogram is designed to determine the mathematical and legal accuracy of taxpayer self-assessed returns. Accomplishment is measured in terms of the assessment of additional tax liability, refunds and credits.

In 1966-67 the agency expended \$2,355,000 to audit personal income tax returns, resulting in the net assessment of \$12,087,000 or \$5.13 per dollar of cost. Percentage of collection of audit-produced assessments is high.

1. Desk audit

Personal income tax returns pass from the receiving point through alphabetization to the primary audit unit. For the first time in 1968-69, this unit will seek to mathematically verify all returns. All returns showing a selected high taxpayer gross income are professionally audited. Clerical personnel in the primary audit unit will select for audit lower and medium-income returns by application of criteria showing that the returns contain a high probability of other-than-mathematical taxpayer error. As a result of the new system, audit coverage of lower and medium-income returns will increase from 50 to 100 percent. Special groups audit estates and trusts, returns claiming credit for taxes paid other states, and returns for which federal audits have been performed.

2. Field audit

High income and other selected returns are audited by the Los Angeles and San Francisco regional offices, their 12 branch offices, and by the Sacramento field office. Worthy of comment is the fact that the Los Angeles region produced a net assessment of \$4.63 per dollar cost in 1966-67, compared to only \$2.84 for the San Francisco region.

3. Protests and appeals

Taxpayers may exercise their legal right to oppose the agency's audit-developed assessments by protest to the agency, and, if dissatisfied with the agency's decision, by appeal to the State Board of Equalization.

Franchise Tax Board—Continued

II. Bank and Corporation Tax Program

Expenditures and manpower devoted to the administration of the Bank and Corporation Tax are shown in Table 5.

Table 5
Bank and Corporation Tax Program Expenditures and Personnel
Man-Years, by Subprogram and Function

Subprogram	Man-years			Expenditures (000 omitted)		
	1966-67	1967-68	1968-69	1966-67	1967-68	1968-69
A. Self-assessment -----	117.5	111.2	105.6	\$991	\$1,059	\$1,052
B. Compliance						
1. Filing enforcement	1.8	1.8	1.8	\$16	\$17	\$17
2. Exempt organizations ---	9.7	9.2	8.7	95	102	101
3. Collections -----	19.9	18.8	17.8	167	178	177
Subtotal, Compliance ---	31.4	29.8	28.3	\$278	\$297	\$295
C. Audit						
1. Math verification	16.2	15.3	14.5	\$119	\$128	\$127
2. Nonallocating corporations ---	71.2	68.2	64.8	811	867	861
3. Allocating corporations ---	92.3	87.5	83.0	1,156	1,235	1,225
4. Protests and appeals -----	11.8	10.7	7.0	162	173	172
Subtotal, Audit	191.2	181.7	172.4	\$2,248	\$2,403	\$2,386
TOTALS -----	340.1	322.7	306.3	\$3,517	\$3,759	\$3,732

A. Self-assessment Activities

Program activities include form design, printing and distribution, publicity and public information service, receiving and processing of corporate returns and estimates, accounting for all banks and corporations through a master file and processing of taxpayer-initiated claims for refund or credit.

The accounting system is undergoing a transformation from a manual bookkeeping system to an automatic data processing system. The new system, to be operative by March, 1968, has been funded administratively pursuant to an appropriation contained in the 1967 tax bill, i.e., Chapter 963. However, this funding has not been offset by a reduction in the funding of the manual operation. The authorized staffing of the franchise tax ledger unit (the unit formerly handling the manual operation) now consists of 20 permanent positions and 3.2 equivalent positions of temporary help, a total of 23.2 positions. The agency plans to use 10 of these positions in a support capacity to data processing (accounting controls) and 2 to work in conditioning documents for entry into the computer. *We find no justification for the balance of present positions authorized and thus recommend that the following be deleted:*

Position	Budget		
	Salary	Page	Line
8 Intermediate clerks -----	\$43,880		
3.2 Temporary help -----	12,806		
11.2	\$56,686	573	23

Franchise Tax Board—Continued**B. Compliance Activities**

These activities are designed to preserve the state's bank and corporation tax base by insuring the legal obligation of subject banks and corporations to file returns and estimate prepayments and to pay their established tax liability.

Pursuant to our recommendation contained in the 1967-68 Analysis (page 526), the agency has completed a report for presentation to the Legislature on the subject of exempt organizations. Specifically, it is to include an analysis of the federal audit program in California, a discussion of the need for a state audit program, and a study of the dual roles of the Attorney General and the Franchise Tax Board with a view toward an economical integration of their functions.

C. Audit Activities

This subprogram is designed to determine the accuracy of bank and corporation tax returns. Accomplishment is measured in terms of the assessments of additional tax liability. In 1966-67, the subprogram expended \$2,248,000 resulting in the net assessment of \$33,091,000, or \$14.72 net assessed revenue per dollar of cost.

After a preliminary review for mathematical accuracy by the primary audit unit, all taxpayer returns are professionally audited, except for certain types of cases promising a low revenue yield. Corporations fall into two categories: (1) those which do business wholly within California—nonallocating—and (2) those which do business both within and without California and are required to report both total income and income allocable by the use of prescribed formulae to their California operations—allocating. Both types of corporations are desk audited in Sacramento. The more difficult and productive audits are performed in the field by regional and branch offices in California and by out-of-state offices in New York and Chicago. Historically, the allocating corporation audit is the most productive type of audit performed by the agency, producing \$20,341,000 in net assessments in 1966-67 (nearly all collectible) or \$17.60 of net assessed revenue per dollar of cost.

III. Departmental Administration Program

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.

Table 6 shows the expenditures of this program. Man-years and expenditures have been set out separately here although they have been allocated to other programs described in the preceding discussion and to the 1967 tax legislation program described hereinafter.

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Franchise Tax

Franchise Tax Board—Continued

Table 6
Departmental Administration Program Expenditures and Man-Years
Including 1967 Statutory (Chapter 963) Additions

Activity	Man-Years			Expenditures (000 omitted)		
	1966-67	1967-68	1968-69	Actual	Estimated	Proposed
Executive -----	6.3	8	8	\$120	\$159	\$164
Legal services -----	31.6	37.8	37.9	488	637	649
Data Processing -----	139.8	242.4	243.3	1,160	2,339	2,572
Program -----	46	48.8	50	455	632	665
Work measurement and controls -----	10.1	16.8	10	173	173	97
Total, Departmental						
Administration Program	233.8	353.8	349.2	\$2,396	\$3,940	\$4,147
(Allocated to Personal Income Tax Program) -----				(\$1,859)	(\$2,070)	(\$2,109)
(Allocated to Bank and Cor- poration Tax Program) --				(\$537)	(\$598)	(\$609)
(Attributable to 1967 tax legislation) -----					(\$1,272)	(\$1,429)

We recommend approval of the following positions on the basis of the estimated general administrative workload resulting from 1967 tax legislation (Chapter 963).

Position	Unit	Budget	
		Page	Line
1 Assistant tax service specialist	Executive -----	574	58
2 Junior Counsel	Legal -----	574	61
1 Intermediate stenographer	Legal -----	574	62
1 Associate personnel analyst	Program -----	574	64
1 Associate budget analyst	Program -----	574	65
1 Auditor III	Program -----	574	66
2 Intermediate stenographer	Program -----	574	67
1 Calculating machine operator	Work measurement and controls -----	574	22

The assistant tax service specialist will be needed to conduct a public informational and educational program to explain the 1967 tax legislation changes and assure reporting accuracy in future years. The two junior counsel positions and related intermediate stenographers are needed to draft regulations and to handle protests and appeals flowing from the new law, one in the personal and corporation tax areas and the other for the Senior Citizen Property Tax Assistance Law. The associate personnel analyst position appears justified on the basis of additional classification and training problems generated by the new law as well as by the work measurement and controls program. The associate budget analyst and an intermediate steno position are based upon the overall growth of the agency, program budgeting requirements, and the goal of the agency to gear budgeting procedures to the controls phase of the work measurement and controls program. An auditor III and one intermediate steno position in programs relate to forms needs generated by intra-agency procedural changes as well as new prepayment requirements and other technical changes in the law. The calcu-

Franchise Tax Board—Continued

lating machine operator position is needed for additional workload in the work measurements and controls unit related to the measurement of positions added by the tax legislation.

Data Processing

The agency's automatic data processing installation has doubled its 1966-67 funding largely due to administrative augmentation in the current fiscal year (Table 7). A second IBM third-generation computer has been received, doubling the processing capacity of the total system. The enlargement makes possible the meeting of the agency's substantially increased accounts receivable inventory and prepayment billings and accounting associated with new tax legislation. Because of the workload added by the new second corporation prepayment requirement and tax rate increase, the already overtaxed manual master control system for bank and corporation taxpayers was in danger of complete collapse, necessitating first a feasibility study and then the actual conversion of the system to a data processing base. The Senior Citizen Property Tax Assistance Law also has been applied to construct a master data processing control file upon claimants under that law.

Table 7
Data Processing Costs, Franchise Tax Board

	Actual 1966-67	Authorized 1967-68	Proposed 1968-69
Continuing expenditures -----	\$1,160,000	\$1,284,000	\$1,323,000
Added by 1967 tax legislation :			
Personnel services -----	--	\$592,000	\$731,000
Operating expenses -----	--	310,000	518,000
Equipment -----	--	50,000	--
* Contractual services -----	--	103,000	--
Subtotal, tax legislation ----	--	\$1,055,000	\$1,249,000
Total Cost -----	\$1,160,000	\$2,339,000	\$2,572,000

* Aerojet Corporation is being hired to perform (1) design and program work for Senior Citizen Law administration, and (2) program for conversion of bank and corporation tax accounting to EDP.

We understand that the current plan is to double the memory size of the two IBM computers in fiscal year 1968-69, thereby greatly improving the ability of the machines to handle the large variety of applications in an efficient manner. This modification is expected to complete the major upgrading of the installation for the immediate future. Actual experience in the next year will determine whether the volume estimates in such applications as accounts receivable are accurate and whether the installation is organized and equipped in the most efficient manner.

With the exception of the positions noted in Table 11, with their related costs, we recommend approval of all data processing expenditures proposed for 1968-69. The approval of the excepted costs is made contingent upon further information to be developed in accordance with our discussion below of structural changes in the 1967 tax legislation.

The administrative terminal system is a new data processing application to be funded out of savings in existing or future personnel and

Franchise Tax Board—Continued

equipment. Thirteen rental typewriter terminals will be linked to the central computer in headquarters in July 1968, allowing the semi-automatic preparation of correspondence in the executive office (one terminal), executive steno unit (one terminal), legal steno unit (one terminal), operation steno unit (three terminals), data processing section (one terminal for testing and one terminal for control), and senior citizen tax assistance division (five terminals). The cost of the first eight terminals are offset by a reduction of seven typist positions authorized in the current year. The cost of the five terminals in the senior citizen section is offset by the absence of a request for additional typist positions in 1968-69 and for new typewriters. This system could result in net savings in clerical-typist personnel costs in 1969-70.

Work Measurement and Controls Unit

The 1966-67 Budget authorized the Franchise Tax Board to initiate the work measurement and controls program. In its original justification to the Legislature, and in the budget submitted in 1967, the agency predicted program savings of \$403,200 in 1967-68. Based on performance thus far during the current fiscal year, this goal will be reached.

Savings, once identified, are not realized until attrition occurs either in the measured unit or in a unit to which the nonproductive positions are transferable. Table 8 shows the program over a three-year period in terms of cost, direct savings, and of cumulated savings per dollar of cumulated cost.

Table 8
Work Measurement and Controls Program, Costs and Savings

	1966-67	Estimated 1967-68	Proposed 1968-69
I. Costs:			
Consultant fee -----	\$68,681	\$38,081	--
Personal services -----	90,954	119,753	\$83,666
Operating expenses and equipment -----	13,116	15,364	13,500
Subtotal -----	\$172,751	\$173,198	\$97,166
Total Cumulative Costs -----	\$172,751	\$345,949	\$443,115
II. Cumulative Savings: (positions in parentheses)			
New savings -----	--	\$403,200 (120)	\$87,450 (30)
Full year effect of prior year's savings -----	--	--	701,330 (120)
Subtotal -----	--	\$403,200 (120)	\$788,780 (150)
Total Cumulative Savings -----	--	\$403,200	\$1,191,980
Cumulative savings per \$1 cumulative cost -----	--	\$1.17	\$2.69

Other savings, indirect and not as convenient to measure, are the following:

1. Foregoing normal budget increase to recognize workload. In 1968-69 there is no money requested to reflect increased workload aside from that workload added by the 1967 tax legislation.

Franchise Tax Board—Continued

2. Improvements in agency processes. Some work measurement savings, developed in the filing units in late 1966-67 but not realized in budgetary savings, were instead devoted to accelerating the filing of returns received in the spring of 1967. This, in turn, has accelerated revenue producing programs.

The program originally planned to measure and place under reporting controls 1,100 permanent positions. Table 9 demonstrates the progress of the program toward that goal. An additional 200 positions are now under measurement with the remaining 180 positions due to be measured beginning prior to the end of the current fiscal year.

Table 9
Status of Work Measurement and Controls Program,
December 31, 1967, by Type of Position

Type of position	Positions		
	Number subject to program	Under reporting controls	Number abolished
Clerical -----	715	618	58
Technical -----	105	30	8
Professional -----	280	72	10
Total Positions -----	1,100	720	76

The 1967 tax legislation has added many new permanent positions. Most of these new positions will be measured by the work measurement and controls unit. To achieve this additional measurement, the unit was given five additional positions in 1967-68 as part of the tax legislation support.

1967 Tax Legislation

Chapter 963, Statutes of 1967, added 196.7 positions and \$1,993,364 to the agency's 1967-68 budget. The 1968-69 Budget proposes the continuance of 189.6 of these positions plus 88 new positions, a total of 277.6 positions and \$2,752,027. Justification for these positions may be examined in the framework of the three substantive features of the new law: (1) structural changes in tax rates and brackets, and substitution of credits for exemption, (2) new personal income tax and franchise tax installment prepayment requirements, and (3) the Senior Citizens Property Tax Assistance Law. The distribution of 1968-69 positions by organizational subunits is given in Table 10.

Table 10
Distribution of Proposed Positions in 1968-69
Justified by 1967 Tax Legislation

	Structural	Prepayment	Senior citizens	Total
Administration:				
EDP -----	78	18.4	10.3	106.7
Executive -----	1	--	--	1
Legal -----	2.4	0.4	0.2	3
Program -----	4.4	1.6	--	6
	85.8	20.4	10.5	116.7

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Franchise Tax

Franchise Tax Board—Continued

Table 10—Continued

	Structural	Prepayment	Senior citizens	Total
Operations:				
Primary audit -----	40.8	0.4	--	41.2
Compliance -----	20	--	--	20
Administrative services -----	7.8	16.9	--	24.7
Audit -----	12	3	--	15
Claims and review -----	--	3	--	3
	80.6	23.3	--	103.9
Regions:				
Los Angeles -----	22	1	--	23
San Francisco -----	17	1	--	18
	39	2	--	41
Senior Citizens Division -----	--	--	16	16
	205.4	45.7	26.5	277.6

A. Structural Changes

The funds and positions administratively allotted for 1967-68 and as outlined in the proposed budget, are predicated upon the following assumptions:

1. Revenue increases of approximately 65 percent from the personal income tax and 25 percent from the franchise tax in 1967-68 and subsequent years,
2. A 100-percent increase in part-pay and no-pay personal income tax returns. In 1966-67, these accounts receivable totaled 276,000 cases.
3. 38,000 pieces of correspondence regarding the new law,
4. The verification of 500,000 new returns for which no tax will be owing, and
5. 18,000 new corporate payments.

No new organizational units were created to handle this workload increase, but the staffing of many existing units will be increased based upon their historical workload standards (the agency did not generally apply new work measurement standards for these added positions).

Assumptions (2) through (4) above are difficult to assess as they depend on factors outside the agency's control. However, based upon a low rate of letters received to date in 1967-68 and the logical assumption that those with questions will not constitute an equal workload burden in 1968-69, we believe that assumption number (3) is in error and that a better estimate would be 20,000 pieces of correspondence.

Therefore, we recommend that the following positions which are related to this assumption be abolished.

		Budget		
	Position and unit	Salary	Page	Line
0.5	Temporary help—Admin. Services (files) -----	\$2,630	575	33
3.0	Temporary help—Admin. Services (typist—pool) -----	15,777	575	33
1.0	Auditor II—General Audit -----	9,396	575	46
4.5	Total Recommended Reduction -----	\$27,803		

The assumption (2) that there will be an increase of 276,000 accounts receivable in the spring of 1968, has important budgetary implications.

Franchise Tax Board—Continued

A total of 96.4 positions representing \$601,690 in direct salary expense alone, is budgeted upon this estimate (see Table 11). The actual experience cannot possibly be predicted with any degree of accuracy. Greatly increased tax bills as the result of the law changes will confront the taxpayers for the first time, and the degree of surprise coupled with the unwillingness or inability to pay the bill is a matter of complete conjecture.

Since the actual number of accounts receivable will be known by the middle of May 1968, we recommend (1) that the Franchise Tax Board report the magnitude of these accounts receivable to the Assembly Ways and Means and Senate Finance Committees as soon as possible and not later than June 1, 1968, and (2) that the amounts budgeted be adjusted at that time to either augment or reduce the proposed appropriation for 1968-69.

Table 11
1968-69 Positions Budgeted on the Basis of 100 Percent
Increase in Accounts Receivable

Position	Salary	Budget Page Line	
A. Administration			
Data Processing:			
59.5 positions	\$391,574	574-5	Various
B. Operations			
Administrative Services:			
1 Accounting technician	5,760	575	28
Primary Audit:			
2.9 Temporary help	16,400	575	42
Compliance:			
3 Tax representative	22,104	576	8
12 Intermediate clerks	56,880	576	9
5 Intermediate typist-clerk	23,700	576	10
C. Los Angeles Region			
6 Tax representatives	44,208	576	22
2 Intermediate clerks	9,480	576	23
D. San Francisco Region			
3 Tax representatives	22,104	576	29
2 Intermediate clerks	9,480	576	30
96.4 Totals	\$601,690		

The projected increase in personal income and bank and corporation tax revenues will make their impact upon the personal income tax audit units beginning in the spring of 1969 and upon corporation audit units this summer.

The proposed additional staffing for the personal income tax audit unit is justified not only by the greater revenue per dollar of cost under the new rates, but also by the annual increase of more than 10 percent in the number of taxpayers that will move into income categories subject to audit. The proposed bank and corporation audit positions are justified both upon the increase in revenue, and, although there is no abnormal increase in the size of the taxpayer base, by the necessity of shifting the emphasis from a headquarters audit to a more searching field audit, particularly the audit of allocating corporations.

Franchise Tax Board—Continued

We recommend a redistribution of the audit positions going to the regional offices on the basis of the assessed revenue per dollar of cost statistics for 1966-67, in conformity with Table 12.

Table 12

Position	Net assessed revenue per \$1 cost PIT	Net assessed revenue per \$1 cost B & CT	1968-69		Budget	
			Agency proposal	Our recom- mendation	Page	Line
Los Angeles:						
Auditor I -----	\$4.63	\$8.66	12	17	576	20
Clerical -----			1	2	576	24
San Francisco:						
Auditor I -----	2.84	7.68	10	5	576	27
Clerical -----			1	0	576	31
Sacramento:						
Auditor I -----	3.93	7.81	1	1	576	17
New York:						
Auditor II -----		20.90	3	3	576	16
Clerical -----			1	1	576	18
Chicago:						
Auditor II -----		11.66	2	2	576	16
Clerical -----			1	1	576	18
Total -----			32	32		

The conversion of the bank and corporation master accounting system from a manual to a data processing basis is virtually complete. The 18.5 positions budgeted for the continuing operation of the data processing installation appear adequate, and we recommend approval.

B. Prepayment Provisions

Personal income taxpayers who were liable for \$200 or more in taxes on their 1966 income year returns were required by the new law to pay one-half of that liability to the agency in October of 1967 as a prepayment on their 1967 income year liability. The same law requires taxpayers who are liable for \$400 or more in taxes on the 1968 or subsequent year returns to pay one-half of that liability as prepayment on their returns due the following April.

In addition, corporate taxpayers, who already were making one installment prepayment estimated at 50 percent of their expected liability, are required by the new law to make a second prepayment equal to 25 percent of their expected liability.

Budgeting for these activities in 1968-69 took place prior to an evaluation of the October 1967 prepayment activity, and was based on the estimates for 1967-68 appearing in the left-hand column of Table 13. These estimates are compared with the actual count or revised estimates in the right-hand column.

Franchise Tax Board—Continued

Table 13

	Originally estimated	Actual or revised estimate
PIT prepayment billings	370,000	375,000 (act.)
PIT prepayment, underpayment or nonpayment	185,000	26,000 (act.)
Second corporate prepayment payments	85,000	85,000 (rev.)
Claims for refund, PIT	10,000	unknown

We recommend the elimination of the following position on the basis of the failure of the PIT nonpayment and underpayment workload to develop:

Position	Unit	Salary	Budget Page	Line
1.0 Temporary help	Primary audit	\$5,655	575	42

In budgeting for data processing support, the effect of delinquencies was not taken into account. Therefore there is no need to adjust downward from the 18.4 positions requested, and *we therefore recommend approval of 18.4 data processing positions linked to prepayment requirements.*

In 1967-68, 10.5 positions of temporary help were added administratively to conduct the October search of 5.5 million alphabetically filed personal income tax returns to select those subject to the prepayment requirement. The same amount is budgeted for 1968-69. To select the returns for prepayment billings in October, 1968, the agency will not have to search the files, but instead will identify such returns upon their receipt this spring. The board estimates not more than five positions of temporary help will be used in the current year to establish the October 1968 prepayment file. We expect that no more than five man-years will be required in 1968-69 to establish the October 1969 file. *We therefore recommend the deletion of 5.5 positions of temporary help in administrative services, \$28,925, budget page 575, line 33.*

C. Senior Citizens Property Tax Assistance Law

The agency expects approximately 200,000 claims from senior citizens for property tax relief to be filed between May 16 and August 15 of 1968. Administrative machinery has been created in the current year consisting of the Senior Citizens Division (15 positions) and data processing support (10.6 positions). This support will continue into 1968-69 (16 and 10.5 positions, respectively).

Projected workload is based partly on Wisconsin's experience with a similar law. It includes, besides 200,000 claims, 175,000 pieces of correspondence and 180,000 refunds.

Staffing appears to be less than adequate in clerical manpower. The 1968 experience should be reviewed closely in 1969 to determine the proper scope of budgeting for the 1969-70 year. *We recommend approval of these positions.*

Refunds are to be made out of funds appropriated in Item 309.

Item 122

Housing and Community Development

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ITEM 122 of the Budget Bill

Budget page 578

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

Amount requested	\$1,829,778
Estimated to be expended in 1967-68 fiscal year	1,795,697
Increase (1.8 percent)	\$34,801

TOTAL RECOMMENDED REDUCTION	\$74,982
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Summary of Recommended Reductions	Amount	Budget Page	Line
Division of Building and Housing Standards			
Delete 4.5 district representatives	\$50,000	578	78
Division of Housing and Community Development			
Delete 1 economist	12,302	578	78
Delete 1 administrative assistant II	12,680	578	78

Summary of Recommendations

Revise mobilehome accessory fees to make inspections self-supporting.

Consolidate Division of Housing and Community Development with Division of Building and Housing Standards.

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development was established by Chapter 1222, Statutes of 1965, to be headed by a director, appointed by the Governor at a salary of \$18,000 per year. This act provides for two divisions: the Division of Building and Housing Standards, consisting of the former Division of Housing in the Department of Industrial Relations; and the Division of Housing and Community Development, each to be headed by a chief, appointed by the Governor on recommendation of the director at a salary of \$15,500 per year.

The department has broadly defined responsibilities for providing assistance to local governmental agencies in the field of housing. In addition, the department assumed the responsibilities of the Division of Housing, Department of Industrial Relations, which include the inspection and consultative services with regard to the state housing and mobilehome laws and the inspection of labor camps.

Table 1 illustrates the staff of the Department of Housing and Community Development.

Table 1
Staff of the Department of Housing and Community Development

	Actual 1965-66	Actual 1966-67	Authorized 1967-68	Proposed 1968-69
Division of Administration				
Director	0.8	0.8	1	1
Technical	1.2	4.8	5	5
Clerical	2.9	4.8	5	5
Total	4.9	10.4	11	11

Department of Housing and Community Development—Continued

Table 1—Continued

Division of Housing and Community Development	<i>Actual</i> 1965-66	<i>Actual</i> 1966-67	<i>Authorized</i> 1967-68	<i>Proposed</i> 1968-69
Chief -----	—	0.9	1	1
Coordinator -----	1.1	3.0	3	3
Area representative and technician -----	1.0	4.9	6	6
Clerical -----	0.6	4.2	5	5
Total -----	2.7	13.0	15	15
Division of Building and Housing Standards				
Chief -----	1.1	1.0	1	1
Technical -----	10.0	15.0	12	12
District representative -----	51.6	61.2	63	63
Clerical -----	28.2	29.3	30.5	30.5
Total -----	90.9	103.5	106.5	106.5
Total -----	98.5	126.9	132.5	132.5

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.

Division of Building and Housing Standards

This division, which has a staff of 106.5, 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. Each enforcement program will be discussed separately.

State Housing Law

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 which encompasses the following major changes:

(a) The administrative agency was given the power to adopt rules and regulations in furtherance of certain standards set forth in the act. Under the former law, changes in rules had to be made by legislative action.

(b) 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 public health, safety and general welfare of the occupant. Such rules and regulations may include a schedule of fees to pay for the cost of enforcement.

Under the 1961 State Housing Law the primary enforcement agencies are city and county building departments or city and county health and fire departments if there is no housing department. The Building Standards Division has enforcement duties where local jurisdictions do not have the capabilities. In 1961 only 31 counties had enforcement agencies and the state provided approximately three man-years to cover

Item 122

Housing and Community Development

Department of Housing and Community Development—Continued

the remaining 27 counties. Today 53 counties have enforcement agencies. However, the state will provide 7.5 man-years in housing law enforcement during 1967-68 as shown in Table 2.

Table 2
District Representatives, By Activity

Activity	Man-years (actual)			Estimated
	1964-65	1965-66	1966-67	1967-68
State Housing Law-----	8.41	6.42	7.21	7.5
Employee Housing Act-----	7.24	8.14	9.70	8.0
Earthquake Protection Law----	0.66	1.54	1.41	1.5
Mobilehome parks-----	15.90	17.52	24.46	24.0
Mobilehomes-----	16.05	18.29	18.75	18.0
Labor Code (Sec. 1477)-----	0.91	1.19	1.66	1.5
Special projects, miscellaneous--	3.39	3.27	5.81	2.5
Total-----	52.56	56.37	69.00	63.0

Since the state has primary enforcement responsibility in only five counties (Trinity, Mariposa, Alpine, Sierra, and Tuolumne), we believe that 7.5 man years allocated to this service is excessive.

We recommend the deletion of 4.5 district representatives for a General Fund savings of \$50,000, budget page 578, line 71.

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 mobile-home and mobilehome parks (Health and Safety Code, Division 13, Part 2).

Employee Housing

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 1967 there were slightly more than four thousand registered labor camps throughout the state. It is the division's policy to inspect each camp annually. However, due to sheer volume this has not been possible.

Mobilehomes

The Standards Division has sole jurisdiction for inspecting mobile-home accessories and mobilehome 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 insignia affixed to all trailers (mobilehomes) manufactured in California since 1958 when the law went into effect. Custom trailers or mobilehomes must be individually inspected in order for them to bear the official insignia.

This program is supplemented by dealer lot inspections. Before a dealer can sell a used trailer which does not show the division's insignia, the dealer must contact the division and have the trailer inspected. Both the mobilehome manufacturer and dealer lot inspections are fee supported.

Department of Housing and Community Development—Continued
Mobilehome Parks

Under the Mobilehome and Mobilehome Parks Act (Health and Safety Code, Sections 18000–18700) the division shares enforcement responsibilities with local jurisdictions (e.g., city and county building departments or health and fire departments). The enforcement program consists of the physical inspection of the mobilehome park for compliance with the division's rules and regulations. 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 local ordinance assumed this responsibility. Local enforcement has assumed a large portion of this workload. Currently out of a total of 4,483 parks with 197,101 spaces (lots), local enforcement has responsibility for 60 percent of the parks and 66 percent of the spaces.

The mobilehome owner pays the annual fees established under the Mobilehome and Mobilehome Parks Act (see 18502, Health and Safety Code) to the agency (city, county or state) which conducts the enforcement. Construction and plan approval fees are also collected.

Section 18060 of the Health and Safety Code provides that for the accessory and manufacturer inspections the department may establish a schedule of fees to pay the costs of these inspections. As shown in Table 3, for 1966–67 only, the manufacturer inspection program is self-supporting while the accessory and park inspection programs are operating at a deficit which is supported by the General Fund.

Table 3
Revenue and Expenditures of Inspection Programs in 1966–67

Mobilehome Program:

Manufacturers:

Revenues -----	\$454,097	
Expenses -----	427,652	
Gain -----		+\$26,445

Accessories:

Revenues -----	\$56,264	
Expenses -----	131,688	
Deficit -----		-\$75,424

Parks:

Revenues -----	\$116,053	
Expenses -----	329,220	
Deficit -----		-\$213,167

Total deficit *		-\$262,146
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* Deficit is supported by the General Fund.

We recommend that the fee schedule for accessory inspections be adjusted to place this program on a self-supporting basis.

POLICY OPTION

Since the existing code sections relating to mobile park inspections are not clear as to whether this program should be self-supporting, we recommend that this matter be investigated by an appropriate legislative committee.

Item 122

Housing and Community Development

Department of Housing and Community Development—Continued

Division of Housing and Community Development

This division is staffed with 10 professional and 5 clerical positions in both the current and budget years. Table 4 shows the position classes and their geographic location.

Table 4
Staff of Division of Housing and Community Development, 1968-69

Positions	Office location		Total
	Sacramento	Santa Ana	
Chief of division	1	-	1
Coordinator	3	-	3
Administrative assistant II	-	1	1
Area representative	3	1	4
Economist	1	-	1
Clerks	4	1	5
Total	12	3	15

The division is engaged in a variety of activities designed to provide low-cost housing for Californians. Its areas of interest are: federal grant programs, technical advice on housing construction and rehabilitation, housing codes, rezoning, housing financing, planning and research. The primary methods utilized by the division to implement low-cost housing are: (1) acting as an information clearinghouse, (2) setting up conferences and fact-finding hearings, and (3) informing local governments of available federal aid programs and assisting them in the preparation of grant applications.

Many of the functions of this division tend to overlap activities being performed by other state, local and federal agencies. For example, the division claims to be effective in the area of rent subsidies (leased housing). This is a federal grant program, and the federal government has 12 field men assigned in California to assist cities and counties with these applications. The division has less than two field men assigned to this program. In addition, 94 percent of the counties and 80 percent of the cities in California have planning departments which are able to work in this area.

Another area of potential duplication is the Federal 701 Program which is the responsibility of the State Office of Planning in the Department of Finance. This program gives federal grants to cities and counties to encourage the development of local planning operations. The division's 1967 annual report lists activities in local planning as part of its accomplishments. Also, both this division and the State Office of Planning, during 1967, mailed a similar questionnaire to all California cities.

The division operates through three coordinators, who are staff specialists in the Sacramento office, plus the field support of four area representatives.

One of the coordinators specializes in the federal rent subsidy program (leased housing) and the study of building codes. The division does not attempt to formulate model building codes. Instead, it acts as a catalyst to encourage local governments to investigate this area and it also provides these governments research material.

Department of Housing and Community Development—Continued

The second coordinator specializes in qualifying various rural communities for the financial assistance available through the Farmers Home Administration.

The third coordinator specializes in the following activities:

1. Pedestrian mall planning and development.
2. Urban beautification.
3. Open space acquisition and development.
4. Historic preservation.
5. Urban renewal.
6. Model cities.
7. Local planning—the housing element.

The very nature of these activities makes any workload evaluation of this position very difficult. The sections in Chapter 1222 show a different housing emphasis than the activities listed above and it is our belief that by these activities the division is extending itself into areas best reserved for other agencies.

We have serious reservations about the contribution that this division can make in the housing field. Most of its activities duplicate, to some extent, those performed by other agencies. We also question the need for a separate 15-man division. A better organizational structure would be to transfer the three coordinators to the office of the department director, to serve him as staff specialists, and to transfer the four area representatives to the Division of Building and Housing Standards.

We recommend that legislation be adopted to combine the Division of Housing and Community Development with the Division of Building and Housing Standards.

During the current year, the agency established, without legislative review, an economist position for this division by reclassifying an area representative position. This economist position is not shown in the salary supplement to the budget because the reclassification occurred after the supplement was printed.

The economist was established to formulate a housing index for California and to perform other research projects. Since there are voluminous research studies by the federal government, universities, state colleges and private groups on housing, we doubt whether this position will be able to offer any research contribution which is not already covered in other studies.

We recommend abolishment of the economist position, for a General Fund savings of \$12,302, budget page 578, line 78.

The division also has an administrative assistant II position (exempt) located in the Santa Ana office along with one representative and one clerk. Since we have been unable to obtain meaningful workload information on the administrative assistant II position, *we recommend that it be abolished for a General Fund savings of \$12,680, budget page 578, line 78.*

STATE TREASURER

ITEM 123 of the Budget Bill

Budget page 579

FOR SUPPORT OF THE STATE TREASURER
FROM THE GENERAL FUND

Amount requested	\$633,690
Estimated to be expended in 1967-68 fiscal year	574,933
Increase (10.2 percent)	\$58,757
Increase to improve level of service	\$7,526
TOTAL RECOMMENDED REDUCTION	\$77,252

Summary of Recommended Reductions

	Amount	Budget Page	Line
Delete carpet item	\$2,200	580	74
Delete incremental cost for new official car	3,500	580	74
Delete intermediate typist-clerk	4,860	580	45
Delete one administrative trainee	6,842	580	44
Delete ADP equipment (i.e., computer, sorters, keypunch machines and IBM maintenance service)	55,604	580	69
Delete one data systems analyst	13,200	580	35
Delete three keypunch operators	17,949	580	31
Add ADP reimbursements	+26,903	580	72

GENERAL PROGRAM STATEMENT

The State Treasurer is a constitutional officer with 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
1964-65	50.4	\$435,233
1965-66	52.0	447,849
1966-67	51.4	448,810
1967-68 (est.)	54.1	574,933
1968-69 (proposed)	57.6	633,690

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, 1968-69

Program	Man-years
General administration	9.7
Debt service	10.8
Investment service	5.0
Trust service	16.4
Warrant redemption	15.7
Total	57.6

State Treasurer—Continued

ANALYSIS AND RECOMMENDATIONS

General Administration

Staff for this program consists of the State Treasurer, the Deputy State Treasurer (\$20,921) which is an exempt position, the Assistant State Treasurer (\$18,065), another exempt position, the administrative assistant (\$13,860) and supporting clerical positions.

The proposed budget contains a \$2,200 item to replace the carpeting in the Treasurer's office. This carpeting is being replaced during the current year as part of a remodeling project, with the costs presumably being absorbed by the Department of General Services. On this basis there is no justification for the inclusion of this item in the proposed budget for 1968-69. *Therefore we recommend that the equipment item for carpeting be reduced by \$2,200, budget page 580, line 74.*

This budget also contains \$3,500 as the incremental cost for the replacement of the Treasurer's official automobile. The present automobile, a 1965 Cadillac-Fleetwood, cost \$7,100 when new and on January 1, 1968, it had been driven only 31,000 miles. The following table shows the average mileage on automobiles most recently turned in by six other constitutional officers.

Mileage of Automobiles Turned in by Constitutional Officers

Title	Mileage
Secretary of State	55,000
Former State Controller	81,000
Board of Equalization member	47,000
Board of Equalization member	83,000
Board of Equalization member	69,000
Board of Equalization member	54,000
Average miles	64,833

We have no information indicating mechanical difficulties or defects. Neither has a case been offered for potential operating savings nor a reason advanced as to why a vehicle of such age and low mileage should be replaced.

Therefore, we recommend that the equipment item be reduced by \$3,500, budget page 580, line 74.

As a result of Chapter 1533, Statutes of 1967, this budget for the first time includes a \$5,000 personal expense allowance for the State Treasurer.

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 is estimated at \$122,529 in the budget year. Table 3 shows the actual and estimated workload of this activity.

State Treasurer—Continued

Table 3
Number of Bonds and Coupons Redeemed (In Thousands)

	<i>Veterans, harbor, water and recreation</i>	<i>All other</i>	<i>Total</i>
1965-66	2,882	2,837	5,719
1966-67	2,845	2,834	5,679
1967-68	2,805	2,793	5,598
1968-69 (est.)	2,789	2,776	5,565

The workload has been kept fairly constant by converting from 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 \$151,000 in the budget year, is financed from bond proceeds and these costs are not included in budgetary totals.

We recommend disapproval of the new intermediate typist-clerk, \$4,860, budget page 580, line 45.

This position would be assigned to the bond registration and check handling functions. We estimate that workload in these two areas will increase by 147 man days (0.6 man-years) during 1968-69. However, 96 man days of this workload is related to check handling, and this task can be converted into the new ADP system. The remaining workload can be absorbed by the pool of temporary help assigned to this office which is being augmented by 2.5 man years during 1968-69.

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 funds: 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 1966-67. This, however, was a reduction of \$25.5 million from the previous year. The reason for this reduction was that General Fund cash expenditures grew at a faster rate than General Fund cash revenues.

Table 4
Investments by the Pooled Money Investment Board (Millions)

	1965-66			1966-67		
<i>Investment Program</i>	<i>Average Daily Amount Invested</i>	<i>Earnings</i>	<i>Percent Yield</i>	<i>Average Daily Amount Invested</i>	<i>Earnings</i>	<i>Percent Yield</i>
Pooled money	\$680.5	\$29.9	4.39%	\$653.0	\$32.4	4.96%
Surplus money	358.0	15.9	4.44	359.8	17.9	4.98
Condemnation	48.8	2.0	4.41	45.0	2.3	5.08
Total	\$1,083.3	\$47.8		\$1,057.8	\$52.6	

Table 5 contains a breakdown of the funds in the Pooled Money Investment Account during 1966-67. This information indicates that not

State Treasurer—Continued

all of the funds were invested. Part (\$46 million) was left in non-interest bearing bank accounts to compensate on a formula basis ten banks for the banking services they perform for the state. These funds are called "compensating balances". Another part (\$0.2 million) was left in a non-interest-bearing account to compensate one bank for the bond and coupon collection services it performs for the state.

Table 5
Distribution of the Average Daily Amount of Temporary
Idle Funds in the Pooled Money Investment
Account During 1966-67 (Millions)

<i>Distribution</i>	<i>Average Daily Balances</i>	<i>Interest Earnings</i>
Compensation balances -----	\$46.0	None
Bond and coupon collection service -----	.2	None
Investment in securities -----	361.8	\$17.9
Investment in time (savings) deposits -----	200.0	9.9
Loans to General Fund -----	91.2	4.6
Total -----	\$699.2	\$32.4

We recommend the deletion of a new administrative trainee, \$6,842, budget page 580, line 44.

This same position was requested in 1967 and rejected by the Legislature. At that time we pointed out that the position was not justified on a workload basis, but was being requested primarily as a temporary replacement for the cashier and General Services officer during their vacations or other absences. We still believe this position is unwarranted.

Recommendation

The Treasurer's office has proposed that legislation be enacted which would permit it, under the direction of the Pooled Money Investment Board, to invest in the commercial paper of private corporations. These investments would be restricted to a select group of corporations such as: (1) Those with assets over one-half billion dollars, and (2) those granted a prime rating by the National Credit Office. Investments in commercial paper would be limited to those with a maturity of 90 days or less, and no more than ten percent of these investments could be made in the paper of any one corporation.

Other states which have been granted the authority to invest in commercial paper include: Massachusetts, Michigan, Minnesota, New Jersey, Pennsylvania and Wisconsin. California agencies which have the same authority include Public Employees' Retirement System, the University of California, and the Teachers' Retirement System.

The Treasurer's Office estimates that if such legislation is enacted, the state at current interest rate could gain between \$1 million and \$1.5 million per year in additional interest earnings without any additional administrative costs. Other advantages include a high degree of liquidity and greater flexibility as to amount of investment and maturity dates. Risk is so minimized by the restrictions on these investments that it is almost negligible.

State Treasurer—Continued

We concur with the Treasurer's recommendation that legislation be adopted which would authorize the state's investment in commercial paper under the above conditions.

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 \$56,067 in reimbursements for the current year and \$55,000 for the budget year for bond collection expenses.

Warrant Redemption

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	Deposit and		Total items (thousands)
	Warrants paid, (thousands)	deposit reports (thousands)	
1965-66	5,352	322	5,674
1966-67	5,799	333	6,132
1967-68 (est.)	6,281	345	6,626
1968-69 (est.)	6,802	358	7,160

Data Processing System

In 1967 the Legislature added \$48,000 to the Treasurer's budget for the study and installation of a data processing system. This system has not been installed. The budget requests \$61,104 for the financing of this system in 1968-69.

On December 18, 1967 the Department of General Services completed a preliminary systems study of the ADP needs of the Treasurer's office. The main focus of that study was on the warrant processing function which accounts for 80 percent of the workload to be automated. This study estimated that if the Treasurer's office installed its own ADP system, the total annual equipment rental cost including key punch and sorting machines would be \$51,324. However, if the computer services were provided by another state agency using leased equipment,

State Treasurer—Continued

then the annual equipment costs would be only \$18,058, or a savings of \$33,266 per year.

We have investigated a third alternative which is to have the State Controller's sophisticated state-owned computer, as well as two smaller satellite computer systems, process the Treasurer's workload. There is ample time available on these machines to handle this additional workload, and the annual cost of the actual computer time would be only \$8,207, or \$39,793 less than the cost of a computer system installed in the Treasurer's office.

Since the great majority of warrants are issued by the State Controller, an accurate historical record of all warrants by warrant number, date of issue, amount of warrant, and fund number already exists on magnetic tape within the Controller's system. If the State Treasurer's personnel involved in the reconciliation of these warrants were to perform their function on the premises of the State Controller—which would include delivery of the warrants to the Controller's ADP center, the manual editing and preparation for machine processing, and the examination of all reports prepared by the computer—this entire process could be performed in a much more efficient manner as well as result in substantial savings to the state.

Therefore, we recommend disapproval of the Treasurer's request to install an ADP system, and as a substitute suggest that the Treasurer contract with the State Controller's office to provide the necessary ADP services. The result of these actions will be a General Fund savings of \$59,850 in the Treasurer's 1968-69 budget, as detailed in Table 6.

Table 6
Summary of ADP Budget Reductions—Treasurer's Office

Deletions	Amount	Budget	
		Page	Line
Recurring annual costs:			
1. Computer equipment, sorters and keypunch machines and maintenance service	\$55,604	580	69
2. 1 data systems analyst	13,200	580	35
3. Three keypunch operators	17,949	580	31
Gross deletions	\$86,753	--	--
Additions			
ADP reimbursements to Controller			
Recurring annual costs:			
1. Computer service	\$8,027	--	--
2. Keypunch services	12,150	--	--
Nonrecurring costs, 1968-69 only:			
3. Computer programming cost for warrant processing	6,726	--	--
Total reimbursements	\$26,903	580	72
Net savings—State Treasurer's budget	\$59,850	--	--

Part of our recommendation includes the deletion of three existing keypunch operators in the Treasurer's office, and the transfer of this function along with the state-owned machines to the Controller's office. We also recommend deletion of the newly established system analyst position in the Treasurer's office, because the Controller's staff can

Item 124

Health and Welfare

State Treasurer—Continued

handle any workload in this area. The one-time programming cost indicated in Table 6 would be a required expense regardless of whether or not the consolidation takes effect. However, the Controller's office should start this programming operation immediately if the conversion is to be accomplished by July 1, 1968, because five man-months of staff effort are required.

The current separation of these two systems requires the Controller's office to expend 371 hours annually in computer time to punch certain identifying data into its warrants. If these systems were consolidated, this operation could be eliminated at an annual savings of \$5,742 in the Controller's budget which is over and above the \$59,850 indicated savings in the Treasurer's budget.

In addition to the advantages of General Fund savings and more efficient operation, this proposed ADP consolidation would establish a precedent that should be followed by other state agencies. In the past, the tendency has been for each agency to seek its own ADP system, and as a result there has been a proliferation of these systems throughout state government.

Health and Welfare Agency OFFICE OF HEALTH CARE SERVICES

ITEM 124 of the Budget Bill

Budget page 584

FOR SUPPORT OF OFFICE OF HEALTH CARE SERVICES FROM THE HEALTH CARE DEPOSIT FUND

Amount requested	\$6,863,557
Estimated to be expended in 1967-68 fiscal year	5,251,350
Increase (30.7 percent)	\$1,612,207
Increase to improve level of service	\$1,572,471

TOTAL RECOMMENDED REDUCTION..... None

GENERAL PROGRAM STATEMENT

The Office of Health Care Services was established during the 1965-66 fiscal year to administer the California Medical Assistance Program and coordinate the various state departments included within its scope of activities.

This appropriation covers the costs of administration of the Medical Assistance Program in the Office of Health Care Services as well as the costs of contractual services in three other state departments, the staff and expenditures of which for 1967-68 and 1968-69 are as follows:

	Staff		Expenditures	
	Authorized 1967-68	Proposed 1968-69	Estimated 1967-68	Proposed 1968-69
Office of Health Care Services	212.7	320.7	\$2,873,804	\$4,474,994
Contractual Services:				
Department of Social Welfare	123.1	117.6	1,586,538	1,606,427
Department of Public Health	22.0	22.0	500,190	439,866
Department of Mental Hygiene	52.0	36.5	290,818	342,270
Total	409.8	496.8	\$5,251,350	\$6,863,467